

## **Treatment of IP Licenses in Bankruptcy**

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## INTRODUCTION

Recent studies report a veritable explosion of intellectual property assets in the past quarter century, with intangible book value as a percentage of market capitalization for the S&P 500 increasing from 1.6% in 1975 to 15.5% in 2005, intangible book value as a percentage of total book value increasing from 1.9% in 1975 to 43.2% in 2005, and intangible market value as a percentage of market value increasing from 16.8% in 1975 to 79.7% in 2005. Former Fed Chairman, Alan Greenspan, summed up this trend in a speech in 2004 (when his word was still gospel), saying:

In recent decades, the fraction of total output of [the US] economy that is essentially conceptual rather than physical has been rising. The trend has, of necessity, shifted the emphasis in asset valuation from physical property to intellectual property and to the legal rights inherent in intellectual property.

With intellectual property comprising a sizable chunk of reported intangible value, and with vast segments of the world and US economy teetering on the brink of balance sheet or equitable insolvency, it is imperative that IP lawyers understand how bankruptcy law interfaces with intellectual property law for each of the varied types of IP assets and agreements.

This outline provides an overview of key bankruptcy terms of art, like “intellectual property” and “executory contracts.” It then looks at the rights of the debtor/trustee and nondebtor counterparties to IP licenses; first from the perspective of the debtor/trustee as IP licensee, and second, from the perspective of the debtor/trustee as IP licensor. It concludes with a review of various drafting and other strategic considerations that will assist both in upfront structuring of IP licensing transactions and in addressing the rights of the counterparties as the flames of bankruptcy torch the parties’ original understandings and intentions. Appendices at the back provide a handy “issue

spotting checklist” and a select bibliography of some of my favorite scholarly works addressing these issues in greater depth.

## **I. BANKRUPTCY CONCEPTS**

### **A. “*Intellectual Property*”**

1. Defined in Section 101(35A) of the Bankruptcy Code (11 U.S.C. § 101(35A)).
2. “Intellectual Property” includes:
  - a) Trade Secrets;
  - b) Title 35 Protected Inventions, Processes, Designs, or Plants (Patents);
  - c) Patent Applications;
  - d) Plant Variety;
  - e) Title 17 Protected Works of Authorship (Copyrights);
  - f) Mask Work Protected Under Title 17, Chapter 9.
3. “Intellectual Property” does *not* include:
  - a) Trademarks;
  - b) Trade Names;
  - c) Service Marks;
  - d) Foreign IP not covered by treaties between the US and the work’s country of origin providing for reciprocal protections or are otherwise protected under Titles 17 and 35.
  - e) Personal Services of Recording Artists. *See Cloyd v. GRP Records (In re Cloyd)*, 238 B.R. 328 (Bankr. E.D. Mich. 1999) (definition of IP doesn’t extend to a person).
4. Why Are Trademarks, Trade Names, and Service Marks Treated Differently from other IP?
  - a) Copyright Act and Patent Act share a common overriding goal of protecting authors and inventors

by creating a monopoly in favor of the owner in order to encourage innovation.

- b) Trademark law's primary purpose is to "prevent customer confusion and protect the value [of] identifying symbols [rather than] to encourage innovation by providing a period of exclusive rights." 1 J. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 6:3 (2009).
- c) Congress's rationale for not including these in its definition of IP is that they "depend to a large extent on control of the quality of the products or service," so it preferred "to allow the development of equitable treatment of this situation by bankruptcy courts" (*see* Sen. Rpt. 100-505, 100<sup>th</sup> Cong., 2d Sess. (1988) at [5]).
- d) Accordingly, in certain cases, where the protections similar to those provided copyright and patent owners (*i.e.*, to prevent unauthorized use of the mark and preserve the value of the business's name and/or products) are paramount, the trademark may well be treated like other IP licenses in bankruptcy. *Cf.*, *N.C.P. Marketing Group, Inc. v. BG Star Prods., Inc. (In re N.C.P. Marketing Group, Inc.)*, 337 B.R. 230, 235-36 (D. Nev. 2005) ("The grant of a non-exclusive license is an assignment in gross, that is one personal to the assignee and thus not freely assignable to a third party."); *compare In re Rooster, Inc.*, 100 B.R. 228, 229 (Bankr. E.D. Pa. 1989) (trademark license is freely assignable in bankruptcy).

#### **B. "Executory Contracts"**

- 1. This phrase is not defined in the Bankruptcy Code, so determination of what constitutes an executory contract has been established through case law.
- 2. The "Countryman" definition:
  - a) *The Test of Whether a Contract Is Executory*: An executory contract is "[a] contract under which

the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other.” Prof. Vern Countryman, *Executory Contracts in Bankruptcy: Part 1*, 57 Minn. L. Rev. 439, 460 (1973).

- b) Most courts have adopted Professor Countryman's "material breach" test. *See, e.g., Matter of Superior Toy & Mfg. Co., Inc.*, 78 F.3d 1169, 1172 n.3 (7th Cir. 1996); *In re Streets & Beard Farm P'ship*, 882 F.2d 233, 235 (7th Cir. 1989); *In re Bradlees Stores, Inc.*, 2001 WL 1112308, at \*6 (S.D.N.Y. Sept.20, 2001) (collecting cases).

3. The “*Functional*” Approach:

- a) A dwindling minority treats the Countryman definition as "helpful but not controlling" and holds that the determination of whether a contract is "executory" requires a more "functional" approach" that “further[s] the policies of the Bankruptcy Code."
- b) Under this approach, a contract is executory if the determination would permit the debtor to reject the contract because it is burdensome or unfavorable. *In re La Electronica, Inc.*, 995 F.2d 320, 322 n. 3 (1st Cir. 1993) (collecting cases); *see also In re Jolly*, 574 F.2d 349 (6th Cir. 1978), *cert. denied*, 439 U.S. 929 (1978). Under this approach, whether a contract is executory is decided according to the impact that the answer would have on the bankruptcy case. *Sipes v. Atl. Gulf Communs. Corp. (In re Gen. Dev. Corp.)*, 84 F.3d 1364, 1374 (11th Cir. 1996).

4. Are IP Licenses Executory Contracts?

- a) Substance over Form: Just because the document is called a license doesn't mean it's an “executory contract” for bankruptcy purposes. In practice, however, virtually every IP license will have



sufficient unperformed obligations on both sides to warrant treatment of the license as executory.

- b) However, generally speaking the mere obligation to pay royalties is insufficient, standing alone, to cause the contract to be deemed “executory.” *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043, 1045 (4th Cir. 1985).
- c) “Executory” provisions that seem more in the nature of conditions than affirmative duties of performance are generally interpreted as sufficiently material to establish the license as an executory contract.
  - (1) Sample Licensor Provisions that Have Been Held to Establish Executory Obligations on the Licensor’s Part:
    - (a) Covenant not to sue for infringement;
    - (b) Duty to maintain IP; and
    - (c) Duty to protect against infringement that would impair licensee’s rights.
  - (2) Sample Licensee Provisions that Have Been Held to Establish Executory Obligations on the Licensee’s Part:
    - (a) Agreement to use IP in a specified manner;
    - (b) Territorial restrictions; and
    - (c) Reporting obligations.
  - (3) Relevant Cases Addressing Whether Minimal Provisions Within IP Licenses Are Sufficient to Create Executory Contracts:
    - (a) Such Minimal Provisions Establish the IP License as an Executory Contract: *In re Golden Books Family Entm’t Inc.*, 269 B.R. 300, 309 (Bankr. D. Del. 2001); *In re Access Beyond Techs. Inc.*, 237 B.R. 32,

43 (Bankr. D. Del. 1999); *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir. 1996). The case law overwhelmingly supports the notion that virtually any obligation beyond the mere obligation to pay is sufficient to characterize the IP license as an executory contract for bankruptcy purposes.

(b) Such Minimal Provisions Do Not Establish License as Executory: *In re Gencor Indus., Inc.*, 298 B.R. 902, 907 (Bankr. M.D. Fla. 2003) (finding that Most Favored Nations Clause and Patent Defense Clause of licensing agreement were mere conditions of payment by the licensee, whose failure would excuse further payment, rather than material continuing obligations whose failure would breach the contract). *Gencor* is clearly the exception to the general trend, but does provide at least a solid hook to argue against a finding that the IP license is executory.

(4) Executory Contract or Outright Sale?

Exclusive Executory Contracts Considered:

(a) Exclusivity to an IP license often weighs in favor of a determining the license to be a “true sale,” especially where applicable non-bankruptcy law characterizes an exclusive license as the equivalent of an ownership interest.

(b) Still, many courts treat exclusive intellectual property licenses as executory contracts because the licensor continuing obligations to refrain from licensing the IP and the licensee has continuing obligations to pay royalties and account for its activities generally. See [\*Lewis Bros. Bakeries, Inc., v. Interstate Brands\*](#)

Corp. (In re Interstate Bakeries Corp.), No. 08-4239, 2010 WL 2332142 (Bankr. W.D. Mo. 6/4/10) (perpetual and exclusive royalty-free trademark license to certain brands of bread constituted an executory contract because there were numerous material, unperformed (or continuing) obligations such as the maintenance of the character and quality of all goods sold under the trademarks and notification of any actual, alleged or threatened infringement of the trademarks stipulated by the license); Encino Bus. Management, Inc. v. Prize Frize, Inc. (In re Prize Frize, Inc.), 32 F.3d 426, 428 (9th Cir. 1994); In re Select-A-Seat Corp., 625 F.2d 290 (9th Cir. 1980) (debtor in possession rejected exclusivity obligation only, not the license itself).

- (5) Most courts hold that non-exclusive technology licenses are executory contracts. In re Fieldstone Mortgage Co., 427 B.R. 364 (Bankr. D. Md. 2010) (software licensing agreements between software owner and chapter 11 debtor's corporate parent were executory contracts where software owner owed parent continuing duties of allowing it the use of software granted and providing maintenance and service to parent of the licensed equipment); In re Kmart Corp., 290 B.R. 614, 618 (Bankr. N.D. Ill. 2003); In re HQ Global Holdings, Inc. 290 B.R. 507 (Bankr. D. Del. 2003) (trademarks); In re Valley Media, 279 B.R. 105, 136 (Bankr. D. Del. 2002) (copyright); In re Novon Int'l, Inc., 2000 WL 432848, at \*4 (W.D.N.Y. March 31, 2000) (patent); Perlman v. Catapult Ent., Inc. (In re Catapult Ent., Inc.), 165 F.3d 747 (9<sup>th</sup> Cir. 1999), cert. den. 528 U.S. 924; In re Access Beyond Tech., Inc., 237 B.R. 32

(Bankr. D. Del. 1999) (patent; covenant not to sue for infringement created implied nonexclusive patent license); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1<sup>st</sup> Cir. 1997) (patent); *In re Patient Educ. Media, Inc.*, 210 B.R. 237 (Bankr. S.D.N.Y. 1997) (copyright); *Everex Sys., Inc. v. Cadtrak Corp (In re CFLC, Inc.)* 89 F.3d 673 (9<sup>th</sup> Cir. 1996) (trademark); *In re Superior Toy & Mfg. Co., Inc.*, 78 F.3d 1169, 1170 (7<sup>th</sup> Cir. 1996) (bankruptcy court, without a hearing, issued an order authorizing assumption of a trademark license); *Blackstone Potato Chip Co., Inc. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co., Inc.)*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990) (trademark); *In re Specialty Foods Pittsburgh, Inc.*, 91 B.R. 364 (Bankr. W.D. Pa. 1988) (trademark); *Richard Royce Coll. Ltd. v. NYC Shoes, Inc. (In re NYC Shoes, Inc.)*, 84 B.R. 947 (Bankr. E.D. Pa. 1988) (trademark); *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043 (4<sup>th</sup> Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986) (patent); *In re Chipwich, Inc.*, 54 B.R. 427, 430 (Bankr. S.D.N.Y. 1985) (trademark).

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~~(6)~~—Significantly, a Delaware Bankruptcy Court recently held that an exclusive trademark license entered into as part of an integrated sale of the debtor’s business line was an executory contract that could be rejected by the debtor/licensor because there were material, ongoing obligations under the license agreement. *In re Exide Technologies, Inc.*, 340 B.R. 222 (Bankr. D. Del. 2006), *aff’d*, *EnerSys Delaware, Inc., v. Exide Technologies, Inc. (In re Exide Technologies, Inc.)*, 2008 WL 522516 (D. Del. Feb. 27, 2008).

- (6) This decision, [however, was reversed in an important ruling from the Third Circuit Court of Appeals in \*In re Exide Technologies, Inc.\*, 607 F.3d 957 \(3d Cir. 2010\).](#)
  - (a) [The decision of the lower courts](#) shocked many in the M&A and IP community. The transaction between Exide and EnerSys closed ten years earlier as part of the sale of Exide's industrial battery division.
  - (b) As a result of [the lower court's this](#) decision, Exide was able to reclaim the industrial battery product and related marks and brands.
  - (c) In a comparable situation twenty years earlier, the bankruptcy court in *In re Petur U.S.A. Instr. Co.*, 35 B.R. 561 (Bankr W.D. Wash. 1983), would not permit rejection of the trademark license, but far less out of concern of the prejudice to the nondebtor licensee that because of doubts of the debtor's ability to reorganize and concern that rejection would lead the licensee to have an enormous and disproportionate claim that would displace other creditor recoveries.
  - (d) [The key to the \*Exide\* decision by the Third Circuit was the holding that the license was no longer executory. In so doing, the Third Circuit focused on the following potentially executory provisions:](#)
    - (i) [the licensee's obligation to use the trademark only in the licensed business was not a material obligation because a condition subsequent unrelated to the purpose of the agreement \(i.e., the transfer of the](#)

business generally in return for a \$135 million payment;

- (ii) a quality standards provision was immaterial because it related only to the standards of the mark for each battery produced and not to the purpose of the agreement;
  - (iii) an indemnity obligation had subsequently expired and was not executory;
  - (iv) a “further assurances” obligation in which no further cooperation could be identified was insufficient to overcome the factors supporting substantial performance of the contract.
- (e) Judge Ambro wrote an important concurring opinion in which he extensively reviews the history of Code section 365(n). He disagreed with the proposition that the exclusion of trademarks from the definition of “intellectual property” created a negative inference that rejection of a trademark license results in termination of the license. Rather, he concluded, courts should aim to prevent extinguishment of all trademark rights upon rejection of the license. He wrote:

Courts may use § 365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization. They should not—as occurred in this case—use it to let a licensor take back trademark rights it bargained away. This makes bankruptcy more a

sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve.

- (7) Another case addressing the integration of rights among disparate agreements, here for purposes of preventing rejection of an executory contract, was addressed in *In re Grede Foundries, Inc.*, No. 09-14337, 2010 WL 3306880 (Bankr. W.D. Wis. 8/20/10). In this case the debtor moved to reject a software maintenance contract with SAP America, which opposed rejection on the basis that the software maintenance agreement was inseparable from other, related agreements that had to be accepted or rejected *in toto*. The bankruptcy court agreed with SAP and denied the debtor's motion to reject. In so doing, the court looked to Pennsylvania law, which "strongly suggests that the agreement should be viewed as entire and not severable."
- (8) Cases holding IP contract rights are not executory: *In re Waste Systems*, 280 B.R. 824 (Bankr. D. Del. 2002) (royalty payments not executory); *Microsoft Corp. v. DAK Indus., Inc.* 66 F.3d 1091 (9<sup>th</sup> Cir. 1995) (MS non-exclusive license for installation of software in computers was outright sale).

5. Treatment of Executory Contracts in Bankruptcy:

a) *The Basics*:

- (1) Code section 365(a) sets forth the basic power of the debtor or trustee to assume or reject executory contracts, subject to court approval.
- (2) The entire contract must be assumed or rejected. *Stewart Title Guaranty Co. v. Old Rep. Nat'l Title Ins. Co.*, 83 F.3d 735, 741 (5<sup>th</sup> Cir. 1996).

- (3) The nondebtor counterparty to the contract must object if only a portion is proposed to be assumed or it may be bound by the result. *Tenet Healthcare Philadelphia, Inc. v. National Union of Hosp. Empls. (In re Allegheny Health, Educ. And Res. Found.)*, 383 F.3d 169 (3d Cir. 2004).
- (4) The decision to assume or reject is generally left to the debtor's or trustee's "business judgment." *Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.)*, 4 F.3d 1095 (2d Cir. 1993).
- (5) Key factors in determining the propriety of the decision include: the benefit to the estate; the potential dilution to other creditors from rejection; and the potential liability as an administrative claim if the assumed contract is subsequently rejected.
- (6) Timing Issues:
  - (a) Code section 365(d) fixes the time for the debtor or trustee to make a decision to assume or reject, which may only be extended for excusable neglect. *Magnolia Bluff Factory Shops Ltd. v. Federated Food Courts, Inc. (In re Federated Food Courts, Inc.)*, 222 B.R. 396 (Bankr. N.D. Ga. 1998).
  - (b) In chapter 11 cases, IP licenses generally can be assumed or rejected any time before confirmation. *See* Code section 365(d)(2). However, if the nondebtor counterparty could be prejudiced by the delay, it may request that the automatic stay be lifted to permit termination or that the decision to assume or reject be accelerated because of the significant prejudice to the nondebtor counterparty from having to wait.



- (c) In a chapter 7 case, the decision to assume or reject must be made within 60 days following the bankruptcy petition date. *See* Code section 365(d)(1).
- (7) Performance Before Assumption or Rejection: There is no express requirement in the Bankruptcy Code for payment of license royalties postpetition before the decision is made to assume or reject an IP license, but a nondebtor party entitled to royalties is entitled to an administrative claim to the extent the IP license benefits the estate. Often the measure of the benefit is the contract rate, though this rate is not necessarily determinative of the benefit.
- b) *Principles and Consequences of Rejection:*
  - (1) Code section 365(g) addresses the effects of rejection, which constitutes a breach immediately before the date of the filing of the petition for relief. This means that, unless the contract has already been assumed by the debtor or trustee, then any claim arising from rejection of the contract is treated as a prepetition claim, not a postpetition administrative claim. *See* Code section 502(g).
  - (2) Contract rejection, because it is only a deemed breach, does not affect the parties' substantive rights under the contract, such as the amount due, or the damages for breach, the enforceability of an arbitration clause. Nor does rejection waive defenses to the contract. 3 COLLIER ON BANKRUPTCY ¶ 365.09[1] (15<sup>th</sup> ed. 2006).
  - (3) REJECTION IS NOT EQUIVALENT TO TERMINATION.
    - (a) Most courts now agree that rejection of an unexpired lease does not effect a

termination of that lease, but only a breach. *See, e.g., In re Austin Dev. Corp.*, 19 F.3d 1077, 1083 (5<sup>th</sup> Cir. 1994) (deemed rejection of a lease coupled with surrender of the premises is not equivalent to termination of the lease); *Enterprise Energy Corp. v. United States (In re Columbia Gas Sys., Inc.)*, 50 F.3d 233, 239 n.8 (3d Cir.1995) (“Rejection ... is equivalent to a nonbankruptcy breach.”); *In re Drexel Burnham Lambert Group*, 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992) (“Rejection has absolutely no effect upon the contract’s continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated.”).

- (b) This distinction between a rejection that effects only a breach, not a termination, is critical to understand because such distinction leaves the door open for nondebtor third parties (such as mortgagees with security interests in the rejected contract, nondebtor sublessees and sublicense, or assignees of the lessee’s or licensee’s rights) to argue that rejection of the contract did not effect a termination of the underlying lease or license and that their rights have not been affected by the rejection of the contract. 3 COLLIER ON BANKRUPTCY ¶ 365.09[3] (15<sup>th</sup> ed. 2006).
- (c) Indeed, it is precisely because of concerns over the effects of termination on the rights of nondebtor parties that courts generally will not declare a contract terminated based solely upon the contract’s rejection by the debtor/trustee. *See, e.g., In re Bergt*, 241 B.R 17, 30 (Bankr. D. Alaska 1999) (while rejection as akin to termination “may have been a

somewhat accurate description of the debtor-in-possession's rights under the lease, it is not authority for situations where a nondebtor's property or contract rights in property of the estate are at issue.").

- (d) Regardless, one thing is clear, the extent to which a nondebtor third party's rights remain intact after the debtor's rejection/breach is a matter of state law, not federal bankruptcy law. *Syufy Enters., L.P. v. City of Oakland*, 128 Cal. Rptr. 2d 808, 818 (Cal. Ct. App. 2002) (holding that under California law, sublessee's right were terminated upon debtor/sublessor's rejection of underlying master lease with the landlord).
- (4) Rights of Sublicensees and Mortgagees Upon Rejection
- (a) Because rejection does not result in termination of the contract, rejection leaves open to the sublicense or mortgagee the opportunity to prove that under applicable nonbankruptcy law it is entitled to retain its interests in the sublicense even if the sublicensor breached the license. *See also*, Section IV.C, *infra*.
  - (b) When the debtor-licensor rejects the IP license, Code section 365(n) protects parties who derive their rights through the licensee by providing that, upon rejection, the licensee may retain not only its own IP rights but also under any agreement supplementary to such contract or to such IP for the duration of such contract and any period for which the contract may be extended under applicable nonbankruptcy law.

c) *Ride Through: What If the Chapter 11 Debtor Fails to Assume or Reject?*

- (1) “Ride through” is a concept that is an implicit alternative to assumption or rejection and means that the chapter 11 debtor hasn’t assumed or rejected the contract, yet it has emerged from bankruptcy with “property of the estate” vesting in the debtor post-confirmation.
- (2) No provision of the Bankruptcy Code requires a chapter 11 debtor to assume or reject an executory contract, so several courts have allowed executory contracts to “ride through” bankruptcy where they haven’t been addressed specifically in the bankruptcy case. *See e.g., Century Indem. Co. v. Nat’l Gypsum Co. Settlement Trust (In re Nat’l Gypsum Co.)*, 208 F.3d 498, 504 n. 1 (5<sup>th</sup> Cir. 2000); *In re JZ LLC*, 371 B.R. 412, 422 (9<sup>th</sup> Cir. BAP 2007).
- (3) The “ride through” doctrine has been recognized in the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, and 9<sup>th</sup> Circuits. *See e.g., In re O’Connor*, 258 F.3d 392, 405 (5<sup>th</sup> Cir. 2001). The 9<sup>th</sup> circuit in the pre-Code case of *Smith v. Hill*, 317 F.2d 539, 543 n.6 (9<sup>th</sup> Cir. 1963), recognized the “ride through” concept, and the *JZ LLC* case said this concept still holds in the 9<sup>th</sup> Circuit. *In re JZ, LLC*, 357 B.R. 816, 822 n.18 (Bankr. D. Idaho 2006).

**C. Automatic Stay**

1. Code section 362(a)(3) protects the bankruptcy estate from “any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate.”
2. Intangible rights such as patents, trademarks, and copyrights are “property of the estate” subject to the protections of the automatic stay.

3. Parties may seek to obtain stay relief to terminate IP license based on concerns over the debtor's ability to maintain quality control over the IP being licensed or that the debtor cannot cure defaults arising under the license and so cannot assume or assign the license. *See, e.g., Ford Motor Co. v. Claremont Acq. Corp., Inc. (In re Claremont Acq. Corp., Inc.)*, 186 B.R. 977 (C.D. Cal. 1995); *In re Indep. Mgmt. Assocs., Inc.* 108 B.R. 456 (Bankr. D.N.J. 1989).

## **II. THE DEBTOR AS LICENSEE**

### ***A. The Basic Law Regarding Rights of Assumption and Assignment***

1. Most executory contracts can be assumed and assigned in bankruptcy.
  - a) Bankruptcy Code section 365(a) generally authorizes a debtor to assume or reject any executory contract or unexpired lease of the debtor based on its "business judgment."
  - b) Bankruptcy Code section 365(f) generally authorizes a debtor to assign an executory contract "notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease." *See In re Adelfia Communications Corp.*, 359 B.R. 65, 73 (Bankr. S.D.N.Y. 2007) ("Code Section 365(f) implements a Congressional policy determination that executory contracts are valuable assets of the estate, and that except in those relatively rare cases where the realization of their value gives rise to a material prejudice to the contract counterparty other than the loss of a prospective windfall, the economic value in such contracts should go not to the contract counterparty, but rather to the debtor's community generally.").

2. The Inherent Conflict Between IP Law and Bankruptcy Law Examined
  - a) Concepts of monopoly and non-assignability are central to patent and copyright law.
  - b) Bankruptcy law is premised on maximizing value for all constituents.
  - c) The clash between IP and bankruptcy law is most apparent in cases involving a debtor licensee's attempt to assume and assign an IP executory contract under Code section 365.

**B. *Bankruptcy Code Section 365(b)'s Limitation on Assumption of Executory Contracts Generally***

1. As a condition to assumption, defaults must be cured and the party assuming the contract must provide adequate assurance of future performance. *See* Code section 365(b)(1).
2. Defaults based on "*ipso facto*," financial insolvency, or penalty clauses are generally unenforceable under Code section 365(b)(2) and provide no basis to object to assumption.
  - a) Code sections 541(c) and 365(e)(1) provide that any clause that terminates a contract because of the "insolvency" or "financial condition" of the debtor, or the filing of a bankruptcy case, will be unenforceable once a bankruptcy case has been filed.
  - b) HOWEVER, once the debtor rejects the license, the *ipso facto* clause remains an important factor in determining whether the rejected contract has been or can be terminated. In *One South, Inc. v. Hollowell*, 963 So. 2d 1156 (Miss. 2007), for example, the *ipso facto* clause in the lease was a significant factor in determining as between the nondebtor landlord and nondebtor guarantor in subsequent litigation whether the rejected lease was terminated, as a matter of contract law,

thereby resulting in a termination of the guarantor's continuing obligations under the lease.

**C. *Bankruptcy Code Section 365(c)'s Limitations on Assumption of IP Licenses***

1. Bankruptcy Code section 365(c) provides:

(c) 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....

2. IP laws, such as those governing patents, copyrights, and trademarks, are so-called "applicable laws" that may be invoked to preclude a debtor in possession not only from assigning its rights under an IP license but even of assuming those rights as part of its reorganization efforts.

a) How these laws apply depend on the nature of the IP at issue since the results are greatly dependent on what happens under "applicable non-bankruptcy laws."

b) One key issue in determining the applicability of Code section 365(c) is whether the license is exclusive or non-exclusive.

- (1) Nonexclusive licenses generally are not assignable over the licensor's objection (unless the license expressly permits assignment). See *Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9<sup>th</sup> cir. 1996); *In re The Travelot Co.*, 286 B.R. 447 (Bankr. S.D. Ga. 2002) (trademark); *In re Patient Educ. Media, Inc.*, 210 B.R. 237 (Bankr. S.D.N.Y. 1997); cf. *Cyrix Corp. v. Intel Corp.*, 803 F. Supp. 1200 (license expressly permitted assignment). A non-exclusive licensee ... has only a personal and not a property interest in the [IP], [which] cannot be assigned unless the [IP] owner authorizes the assignment." *In re Golden Books Family Ent., Inc.*, 269 B.R. 311, 314 (Bankr. D. Del. 2001) (citing 3 Melvin B. Nimmer & David Nimmer, *Nimmer on Copyright* § 10.02[A] at 10-23 (1996)).
- (2) Conversely, exclusive licenses generally are assignable over the objection of the licensor. See *Leicester v. Warner Bros. Corp.*, 232 F.3d 1212 (9<sup>th</sup> Cir. 2000) (copyright); *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 311 (Bankr. D. Del. 2001) (copyright); *In re Rooster, Inc.*, 100 B.R. 228 (Bankr. W.D. Pa. 1988) (trademark). Exclusive IP licenses are generally considered as a type of assignment. *Waterman v. MacKenzie*, 138 U.S. 252, 2556-56 (1891); *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 139-40) (1969). The rationale here is that an exclusive licensee acquires actual property rights and "may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else." *Golden Books*, 269 B.R. at 314.
- c) Another key issue is in ~~determining~~determining the applicability of Code section 365(c) is whether federal common law (such as would prevent a non-consensual assignment of a non-exclusive



patent licenses) constitutes “applicable non-bankruptcy law.”

- (1) State contract law, for its part, generally permits assignment unless the IP license provides otherwise.
- (2) Conversely, federal common law has long barred assignment of an IP license unless the license provides otherwise.
- (3) Under the *Erie* doctrine, whether federal common law applies to an IP license assignment outside of bankruptcy depends upon whether the use of state contract law to decide the question would pose a “significant conflict” with some federal policy.
  - (a) This issue arises only when the IP license is silent on assignability. Both state law and federal common law are consistent in situations where the contract expressly permits or prohibits assignability.
  - (b) A leading case in this area is *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir. 1996), which—in adopting federal common law over state law as the “applicable nonbankruptcy law”—concluded that the use of state law would significantly conflict with federal patent policy by permitting patent licensees to assign their licenses even in the face of non-assignment provisions, thus depriving the IP licensors of the value of their IP monopoly. *See also, Cargill, Inc. v. Nelson (In re LGX, LLC)*, 2006 WL 119147, \*3 (10th Cir. BAP 2006) (holding federal common law constitutes “applicable non-bankruptcy law” for purposes of Code section 365(c)(1)); David R. Kuney, *Restructuring Dilemmas for the High Technology Licensee: Will*

*“Plain Meaning” Bring Order to the Chaotic Bankruptcy Law for Assumption and Assignment of Technology Licenses?*, 44 GONZ. L. REV. 123, 130-34 (2009) (“It is safe to say that most bankruptcy courts have long accepted the notion that federal common law prohibits the assignment of a patent license without the consent of the licensor and that this federal common law pre-empts any state law or bankruptcy policy, which permits assignment despite the licensor’s opposition.... Nevertheless, despite being ‘well-settled,’ there is ample authority that doubts that federal common law does or should apply.... Still, the cases holding that the matter is governed by federal common law continue to be dominant ... [and] the prevailing rule is that federal common law does apply, that patents and copyright licenses are not freely assignable, and that this principle reflects a fundamental and important value protecting owners of technology.”).

3. Circuits are split over how to read ambiguities in the language of Codes Section 365(c) itself, with the primary tests being the so-called “hypothetical” and “actual” tests, and the emerging trend first articulated in the *Footstar* case.

a) *The “Hypothetical” test:*

- (1) The “hypothetical” test has been adopted by the 3<sup>rd</sup>, 4<sup>th</sup>, 9<sup>th</sup>, and 11<sup>th</sup> Circuits.
- (2) This test generally precludes a debtor from assume or assuming and assigning an IP license that cannot be assigned under applicable non-bankruptcy law without with consent of the licensor. *N.C.P. Marketing Group, Inc. v. BG Star Prods., Inc. (In re N.C.P. Marketing Group, Inc.)*, 279 Fed. Appx. 561 (9<sup>th</sup> Cir. 2008), *cert. denied*, 129 S.

Ct. 1577 (2009); *RCI Tech. Corp. v. Sunterra Corp.* (*In re Sunterra Corp.*), 361 F.3d 257, 260 (4<sup>th</sup> Cir. 2004); *Perlman v. Catapult Ent., Inc.* (*In re Catapult Ent., Inc.*), 165 F.3d 747 (9<sup>th</sup> Cir. 1999); *In re Access Beyond Technologies, Inc.*, 237 B.R. 32 (Bankr. D. Del. 1999); *City of Jamestown v. James Cable Partners, L.P.* (*In re James Cable Partners, L.P.*), 27 F.3d 534 (11<sup>th</sup> Cir. 1994) (franchise agreement); *In re West Electronics*, 852 F.2d 79 (3d Cir. 1988) (gov't contract).

- (3) Justice Kennedy summarized the problems with the “hypothetical” approach in his statement (joined by Justice Breyer) reluctantly denying the petition for *certiorari* in *N.C.P. Marketing*:

The hypothetical test is not, however, without its detractors. One arguable criticism of the hypothetical approach is that it purchases fidelity to the Bankruptcy Code's text by sacrificing sound bankruptcy policy. For one thing, the hypothetical test may prevent debtors-in-possession from continuing to exercise their rights under nonassignable contracts, such as patent and copyright licenses. Without these contracts, some debtors-in-possession may be unable to effect the successful reorganization that Chapter 11 was designed to promote. For another thing, the hypothetical test provides a windfall to nondebtor parties to valuable executory contracts: If the debtor is outside of bankruptcy, then the nondebtor does not have the option to renege on its agreement; but if the debtor seeks bankruptcy protection, then the nondebtor obtains the power

to reclaim-and resell at the prevailing, potentially higher market rate-the rights it sold to the debtor.

b) *The “Actual” Test:*

- (1) The “actual” test, which has only been expressly adopted by the 1<sup>st</sup> Circuit (and support from the 5<sup>th</sup> and 8<sup>th</sup> Circuits), provides that if the debtor in possession has no intent to assign the executory contract to a third party, then it can be assumed as long as it meets the other traditional requirements of Section 365 (*i.e.*, defaults are cured and adequate assurance of future performance is provided). *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1<sup>st</sup> Cir. 1997); *Summit Inv. & Dev. Corp. v. Leroux*, 69 F.3d 608 (1<sup>st</sup> Cir. 1995).
- (2) The Fifth Circuit adopted the “actual test” for purposes of construing Code section 365(e)(2)(A)’s exception to the prohibition against enforcement of *ipso facto* clauses. *Bonneville Power Admin. v. Mirant Corp. (In re Mirant Corp.)*, 440 F.3d 238, 248-249 (5th Cir.2006) (rejecting the Third Circuit’s hypothetical approach to Code section 365(c)(1) and holding that “*ipso facto*” clauses are saved and remain enforceable under Code section 365(c)(1) if the non-debtor party is excused from accepting performance from a trustee or assignee; court concerned that assignment might be barred by “applicable law” under the hypothetical test without any factual findings).
- (3) As noted by the bankruptcy court in *Footstar*, “the great majority of lower courts have taken the view that the courts should apply an ‘actual test’ in construing the statutory language so as to permit assumption where the debtor in possession in fact does not intend to

assign the contract.” *In re Footstar*, 323 B.R. 566 (Bankr. S.D.N.Y. 2005) (collecting cases at fn 2):

To prevent § 365(c) from engendering unwise policy, one Court of Appeals, and a number of Bankruptcy Courts, reject the hypothetical test in favor of an “actual test,” under which a Chapter 11 debtor-in-possession may assume an executory contract provided it has no actual intent to assign the contract to a third party. (*Citing Cambridge Biotech*). Of course, the actual test may present problems of its own. It may be argued, for instance, that the actual test aligns § 365(c) with sound bankruptcy policy only at the cost of departing from at least one interpretation of the plain text of the law. *Id.* at 569.

- (4) Justice Kennedy also referenced the “actual” test in his statement (with Justice Breyer) denying the petition for *certiorari* in *N.C.P. Marketing*, stating:

The division in the courts over the meaning of § 365(c)(1) is an important one to resolve for Bankruptcy Courts and for businesses that seek reorganization. This petition for *certiorari*, however, is not the most suitable case for our resolution of the conflict. Addressing the issue here might first require us to resolve issues that may turn on the correct interpretation of antecedent questions under state law and trademark-protection principles.

c) *The Footstar “Plain Meaning” Test: An Emerging, More Rational Trend*

- (1) The Bankruptcy Court in *In re Footstar, Inc.*, 323 B.R. 566, 574 (Bankr. S.D.N.Y. 2005) noted that prevailing bankruptcy law contains “perverse and anomalous consequences . . . under which a debtor may lose the benefit of a non-assignable contract vital to its economic future solely because it filed for bankruptcy.”
- (2) The *Footstar* court reasoned that the use of the term “trustee” in Code section 365(c)(1) should not automatically be read to substitute the term “debtor-in-possession” such that the prohibition against assignment and assumption under that Code section is limited to situations where the trustee, rather than the debtor-in-possession, seeks to assume an executory contract. *Footstar*, 323 B.R. at 573. Under *Footstar*, the debtor-in-possession would be precluded from *assignment*, since assignment would force the non-debtor party to the contract to accept performance from or render performance to an entity other than the debtor, but the debtor-in-possession would not be precluded from assumption because it is “not ‘an entity other than’ itself.” *Id.* at 575 (emphasis in original).
- (3) *Footstar* represents the emerging trend for courts that have long been searching for a way to avoid the draconian consequences to a debtor / licensee that files bankruptcy and wants to simply assume, but not assign, its IP licenses. *See also, In re Aerobox Composite Structures, LLC*, 373 B.R. 135 (Bankr. D.N.M. 2007); *In re Adelpia Communications Corp.*, 359 B.R. 65, 72 (Bankr. S.D.N.Y. 2007) (inability to assign cable operations over objection of local franchising authorities insufficient to block

debtor's attempt to assume operations); *but see, In re Wellington Vision, Inc.* 364 B.R. 129, 136-37 (S.D. Fla. 2007) (without citing to *Footstar*, court held that that Code section 365(c) applies to debtors in possession and thus franchise agreement that included a non-exclusive trademark license could not be assumed).

- d) *The Undecideds*: The 6<sup>th</sup>, 7<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup>, and D.C. Circuits have not decided which of the three tests, if any, should apply.
- (1) [In an unreported decision that was reversed by the district court on other grounds, a Bankruptcy Court in Chicago held that a trademark licensing agreement was not assignable without the licensor's consent. See \*Hartmarx Corp v. Western Glove Works\*, No. 09-2406, 2010 WL 2382248 \(N.D. Ill. 6/8/10\) \(discussing July 16, 2009 oral ruling of the Bankruptcy Court on the record\).](#)
  - (2) [Another decision from Illinois found the \*Footstar\* approach "persuasive," and held that "use of an actual rather than hypothetical test was required by the plain meaning of the statute." \*In re Shreyas Hospitality, Inc.\*, No. 09-70523, 2010 WL 2836751 \(Bankr. C.D. Ill. 7/15/10\) \(rejecting franchisor's argument it was entitled to immediate relief from stay as a matter of law on the basis that the franchise agreement was, on its face, non-assignable and, therefore, also non-assumable by the Debtor\).](#)

#### 4. Pre-Assumption / Pre-Rejection Risks

- a) Before assumption or rejection, the nondebtor licensor faces the risk of continued postpetition use of the IP by the debtor without payment.
- b) Normally, such use constitutes an expense of administration. But, if the estate becomes

administratively insolvent, there is no assurance even that will get paid in full, or at all.

- c) In *Microsoft Corp. v. DAK Indus., Inc.* 66 F.3d 1091 (9<sup>th</sup> Cir. 1995), for example, the court held that fixed installment payments due postpetition were not entitled to administrative priority because the non-exclusive license for installation of software in computers was an outright sale.

### **III. THE DEBTOR AS LICENSOR**

#### **A. *Special Protection for Non-Debtor Licensees of Bankruptcy-Defined IP***

1. Bankruptcy Code section 365(n) sets forth the rights of IP licensees when the trustee rejects an executory contract of IP under which the debtor is a licensor. In the event of rejection of the executory contract, the licensee has the option of treating the contract as terminated by reason of the rejection (and seeking rejection damages for the breach/termination) or of retaining its rights to the license provided under the contract, including any exclusivity provision, for the duration of the contract.
2. Section 365(n) only deals with rejection by the licensor and does not deal with the effect of rejection by the licensee or with whether the license contract may be assumed or assumed and assigned by the trustee. *See generally*, 3 COLLIER ON BANKRUPTCY ¶ 365.14 (15<sup>th</sup> ed. 2007).
3. Rights protected by Code section 365(n)(1)(B) include the rights to any embodiment of the IP to which the licensee is entitled under the applicable underlying contracts. *See S. REP. NO. 100-505*, at 9 (1988).
4. Code section 365(n) provides that the licensee may only retain such rights as existed immediately before the case commenced and it has no rights in intellectual property developed after the bankruptcy filing even if



the rejected license agreement would have provided it rights to use such improvements. *See, Szombathy v. Controlled Shredders, Inc.*, No. 97 C 481, 1997 WL 189314 (N.D. Ill. 1997) (postpetition improvements are not part of the bankruptcy estate).

5. Additionally, the protections of Section 365(n) may not protect an exclusive licensee if applicable nonbankruptcy law requires the exclusive license to be recorded, but it is not. Bankruptcy Code section 544 enables a trustee or one standing in its shoes to avoid transfers that must be recorded under applicable nonbankruptcy law to be valid against a judicial lien creditor, but were not.
6. Timing Issues:
  - a) An important question is when must a licensee to a rejected license exercise its election rights under Code section 365(n).
  - b) Code section 365(n)(1)(B), which allows the licensee the right to “elect to retain its rights” under the rejected license, has been interpreted by one court as arising only upon rejection of the executory contract and not before it. *Dynamic Changes Hypnosis Center, Inc. v. PCH Holding, LLC*, 306 B.R. 800, 809 (E.D. Va. 2004).

**B. 363 Sales of Assets: Potential Risks for Non-Debtor Licensees of Rejected Licenses**

1. 7<sup>th</sup> Circuit holds in *Precision Indus., Inc. v. Qualitech Steel SBQ, LLC (In re Qualitech Steel)*, 327 F.3d 537 (7<sup>th</sup> Cir 2003), that in a bankruptcy “363 sale,” a debtor can sell assets “free and clear” of leasehold possessory interests, *including those special rights possessory granted rights granted to a lessee to a rejected lease under Code section 365(h)*.
2. The *Precision Industries* case sent shockwaves through the real estate world, and has potential major implications to nondebtor IP licensees, because the rights of nondebtor licensees under Code section

365(n) are derived from the language protecting nondebtor lessees in Code section 365(h).

3. *Precision Industries* highlights the importance of a nondebtor licensee making sure that it files an appearance and objects to any 363 sale of the debtor's assets that does not specifically address the nondebtor licensee's rights in the event the debtor's IP is sold but the corresponding IP license agreement with the nondebtor is not assumed and assigned as part of the sale. Code section 363(e), the *Precision Industries* court noted, provides such protection for the nondebtor licensee because it requires the court to "prohibit or condition such ... sale... as is necessary to provide adequate protection of such interest."
4. In *Licensing by Paolo, Inc. v. Sinatra (In re Gucci)*, 126 F.3d 380 (2d Cir. 1997), the Second Circuit held that rights to a trademark can be sold in a 363 sale "free and clear" of all prior interests of licensees and sublicensees.
5. In *ITOFCA, Inc. v. MegTrans Logistics, Inc.*, 322 F.3d 928 (7<sup>th</sup> Cir. 2003), a nonexclusive software license held by the copyright owner's bankrupt subsidiary was sold in a 363 sale "free and clear" of all encumbrances. The copyright owner did not object to the sale. The copyright was not mentioned as an asset being transferred, but the Court construed the copyright as having been transferred based on the context of the sale and the clear intent of the parties. The buyer from the bankruptcy sale subsequently transferred its rights in the copyright and software license to a third party. The Court held that when a party to a bankruptcy sale doesn't object to the sale, *res judicata* will bar the party from asserting copyright infringement claims against the buyer.
6. [A variation on this theme is found in \*Schlumberger Resource Mgmt. Servs., Inc. v. Cellnet Data Systems, Inc. \(In re Cellnet Data Systems, Inc.\)\*, 327 F.3d 242 \(3d Cir. 2003\). In this case the debtor to an asset sale agreement rejected certain license agreements as part](#)

of the sale, but the licensee subsequently elected to retain its rights to the licensed property under Code section 365(n), subject to the royalty payments due under the original license. In a case of first impression, the Third Circuit held that this election operated to restore the rights of the contract as they existed prepetition and pre-rejection, thereby entitling the debtor, not the asset purchaser, to payment of the renewed royalties.

### ***C. Rights of Nondebtor Sublicensees in Bankruptcy***

1. One commentator best summarized the rights of an IP sublicensee in bankruptcy as follows in concluding that a sublicensee's rights expire upon the termination of the sublicensor's master license:

Outside of bankruptcy, a sublicensee's rights in licensed intellectual property generally are governed by the terms of the license and sublicense agreements and applicable state contract law. Unless some special protection is bargained for with the licensor, the sublicense is just a grant of some or all of the rights granted to the licensee under the prime license. Based on this general proposition, it would seem that §365(n) should protect a sublicensee's rights if the debtor sublicensor assumes the prime license and then attempts to reject the related sublicense in an effort to maximize the value of the debtor's intellectual property rights. By the same token, this proposition suggests that not even §365(n) can save a sublicensee's rights if the debtor sublicensor rejects, or is not permitted to assume, the prime license.

Unfortunately, it is impossible to give definitive guidance on a sublicensee's rights in either scenario because no court has yet analyzed a sublicensee's rights under §365(n). Several courts, however, have dealt with the

similar issue of interpreting a nondebtor sublessee's rights under §365(h) of the Code. Like §365(n), §365(h) generally permits a nondebtor lessee under an unexpired real property lease with the debtor lessor to elect to retain its rights under the lease upon any rejection by the debtor.

In a scenario parallel to what could happen under §365(n) to a nondebtor sublicensee, courts have considered what happens under §365(h) when a debtor sublets real property to a nondebtor and then attempts to reject the lease under which it originally came into possession of the property. Courts also have dealt with the question of whether §365(h) protects the sublessee when the underlying lease is deemed rejected under §365(d)(4) of the Code. Courts in both contexts have held that §365(h) does not create a right for the sublessee to stay in possession of the property after the rejection or termination of the lease under which the debtor acquired its interest in the real property. Instead, the question of whether the sublessee has any right to continue to stay in the leased premises after the rejection or termination of the underlying lease is a question of applicable nonbankruptcy law. Because, in the real property context, this is a dispute turning on state law between two nondebtors (*i.e.*, the sublessee and the original lessor), bankruptcy courts frequently abstain from determining what rights, if any, the sublessee has against the lessor after the rejection of the lease.

It appears logical that a court may use a similar analysis in construing the effects of §365(n) in a sublicense case. As with the real property sublease, the rights under a sublicense of intellectual property are

derivative of the rights originally obtained by the debtor under the prime license. Therefore, in determining the rights of the sublicensee after the rejection or termination of the prime license, a court may look at the sublicensee's rights under applicable nonbankruptcy law upon the debtor licensee/sublicensor's breach, or the termination, of the prime license. Furthermore, given the fact that the dispute concerning the relative rights of the licensor and the sublicensee is a dispute between nondebtors based entirely on nonbankruptcy law, a bankruptcy court may find it appropriate to abstain from resolving the dispute.

Although a detailed examination of the rights of sublicensees against licensors under nonbankruptcy law is outside of the scope of this article, it is worth noting that under applicable nonbankruptcy law, sublicensees usually will have no right to continue using the licensed intellectual property after termination of the prime license unless some sort of agreement exists between the licensor and the sublicensee to the contrary. As described above (and similar to the analysis for real property subleases), a sublicense of intellectual property rights basically is a grant of some or all of the licensee's rights under the prime license. Absent special contractual protections between the primary licensor and the sublicensee, if the licensee's rights under the prime license are terminated, there are likely no remaining rights for the sublicensee to exercise under the sublicense. Consequently, upon the rejection or termination of the prime license in the sublicensor's bankruptcy, a sublicensee will be left with nothing more than the ability to file a general unsecured damages claim against the

debtor's estate. Harner and Beck, *Sublicensing from a Distressed Company*, 25 Nov Am. Bankr. Inst. J. 42-43 (2006) (citations omitted).

2. Harner's and Beck's analysis is sound, but there as yet are no cases on point addressing the rights of an IP sublicensee in bankruptcy once the debtor/sublicensor rejects both the sublicense and the master license. Further, they correctly point out that the protections of nondebtor licensees under Bankruptcy Code section 365(n) are largely derived from the protections in Bankruptcy Code section 365(h) provided to nondebtor lessees of nonresidential real property. As such, a review of bankruptcy case law applicable to sublessors should assist in understanding the potential protections a court may provide a nondebtor sublicensee of a rejected IP sublicense. *See also, In re Dynamic Tooling Systems, Inc.*, 349 B.R. 847, 855 (Bankr. D. Kan. 2006) (cases interpreting § 365(h) are helpful, if not persuasive, in determining the rights of parties under § 365(n)).
3. Generally, in the real property context, a sublessee takes subject to the primary lease, or overlease between the landlord and the tenant. Upon breach of the lease by the tenant, the landlord can terminate the lease and thereby terminate both the tenant's and subtenant's rights, thereby dispossessing the subtenant from possession of the premises. *See Kaiser, Giving Up on Voluntary Surrender: The Rights of a Sublessee When the Tenant and Landlord Cancel the Main Lease*, 24 Cardozo Law Review 2149 (2003).
4. In bankruptcy, Code section 365(h)(1)(A)(ii) states that where the debtor/landlord rejects the lease, the lessee possesses the right to remain on the property for the duration of the lease to the extent permitted "by applicable nonbankruptcy law." Conversely, Code section 365(d)(4) requires a lessee to "immediately surrender" the premises to the lessor if the lease is rejected.

5. A number of bankruptcy courts have addressed the apparent conflict between the surrender provision and the “applicable nonbankruptcy law” provision in the context of non-residential real property leases.
  - a) Some courts have determined that, in enacting the surrender provision, Congress intended for property to revert immediately to the lessor upon rejection by the bankrupt sublessor, even in a subletting situation.
  - b) Other courts, relying on the applicable nonbankruptcy law provision, have held that the property rights of a sublessee are matters of nonbankruptcy law. These courts have found that once the bankrupt sublessor's actions result in the rejection of a leased premise, sublessees can assert applicable nonbankruptcy law in state courts.
    - (1) By applying the applicable nonbankruptcy law provision instead of the surrender provision, these jurisdictions hold that the rejection of a lease does not necessarily extinguish the rights of third-party sublessees to the lease. *See Sankaran, Rejection Versus Termination: A Sublessee’s Rights in a Lease Rejected in a Bankruptcy Proceeding Under 11 U.S.C. § 365(d)(4)*, 99 Mich. L. Rev. 853 (2001).
    - (2) This latter view appears to represent the developing majority view, and likely would apply to an analysis of the rights of a sublicensee when the debtor has rejected both the master license with the IP owner and the sublicense with the sublicensee.

**D. The Special Problem of Trademark Licenses**

1. Code section 365(n)’s protections do not apply to licenses of intellectual property that do not fall within the precise definition of “intellectual property” in Code section 101(35A), such as trademark licenses. *In re Exide Technologies, Inc.*, 340 B.R. 222 (Bankr. D. Del. 2006), *aff’d*, *EnerSys Delaware, Inc., v. Exide*

*Technologies, Inc. (In re Exide Technologies, Inc.)*, 2008 WL 522516 (D. Del. Feb. 27, 2008) (trademark licensees cannot elect to retain their rights under Code section 365(n) to use a mark after the debtor's rejection of the license).

2. Equitable considerations are relevant:
  - a) *In re Matusalem*, 158 B.R. 514, 521-22 (Bankr. S.D. Fla. 1993), suggests that Code section 365(n) can protect trademark licensees in circumstances in which the license is bundled with other licenses that fall within the Bankruptcy Code's definition of "intellectual property." The court noted that legislative history provides that congressional action on trademark licenses would be postponed to "allow the development of equitable treatment of this situation by bankruptcy courts."
  - b) *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660 (Bankr. N.D. Cal. 2002), distinguished *Matusalem* and refused to consider equitable considerations in determining the nondebtor's trademark rights post-rejection, but suggested it would have been able to consider such factors had the issue been brought to the court's attention before rejection.

**E. *Source Code Escrows and Their Effectiveness in Protecting the Non-Debtor Source-Code Licensee***

1. Code section 365(n)(1)(B) protects the licensee not only to the benefits under the IP license, but also "under any agreement supplementary to such contract...."
2. This provision covers ancillary agreements such as source code escrows.
3. "*Ipsa Facto*" clauses that purport to terminate source code escrows upon bankruptcy of insolvency of the debtor/licensor and release the source code for the benefit of the non-debtor/licensee have no impact



unless and until the contract is rejected by the debtor/trustee.

- a) The enforceability of such “*ipso facto*” clauses is doubtful and should not be relied upon because Code section 365(e) renders unenforceable any contract provision that is conditioned solely upon the insolvency or financial condition of the debtor or the commencement of the debtor’s bankruptcy case.
- b) Still, release of the source code might occur upon the debtor’s breach of the IP license, which if self-effectuating and occurring prepetition, may result in the release of the source code in advance of the filing (providing relief similar to that of a lease automatically terminated prepetition that can no longer be assumed or rejected by the debtor).
- c) Other conditions to release of the source code that don’t constitute explicit or implied “*ipso facto*” clauses can be as varied as the circumstances permit (*e.g.*, the licensee’s determination that a threat to the continued use of the source code exists or that the licensor’s staff is not available to support the software).
- d) Does source code have to be released if the debtor/licensor rejects the agreements? *See*, S. REP. NO. 100-505, at 10 (1988) (upon nonperformance by the trustee or upon rejection by the trustee—combined with the licensee’s election to retain its rights—the licensee may request turn over of the trustee/debtor’s IP and the trustee/debtor “shall not interfere with the licensee’s contractual rights to use the intellectual property or obtain it from a third party”).

**F. *Personal Service Contracts:*** Code section 365(n) does not apply to personal service contracts where the debtor is the licensor. Hence a recording artist can reject a contract in bankruptcy and the record label can’t retain the artist’s exclusive services under Section 365(n). *See Cloyd v.*

*GRP Records (In re Cloyd)*, 238 B.R. 328 (Bankr. E.D. Mich. 1999) (such a reading of Section 365(n) would implicate the 13<sup>th</sup> Amendment’s prohibition of involuntary servitude).

**G. *Future Improvement Clauses:*** According to Code section 365(n)(1)(B), the nondebtor licensee will be limited to the rights that “existed immediately before the case commenced.” This is supported by a comment in the legislative history stating that the licensee is only “entitled to use the underlying intellectual property in the state that it existed on the day of the bankruptcy filing.” *In re Szombathy*, 1996 WL 417121, at \*9 (Bankr. N.D. Ill. 1996), *rev'd in part on other grounds, Szombathy v. Controlled Shredders, Inc.*, 1997 WL 189314 (N.D. Ill. 1997) (court also notes that while debtor could be held to “certain obligations necessary” to implement the license agreement, such as a covenant not to reveal confidential information, the debtor was not obligated to perform any affirmative obligations post-rejection).

**H. *Dealing with “Bundled Rights”***

1. Is an IP right part of a discrete agreement or part of a bundled, integrated set of rights where rejection may lead to recovery of nonbankruptcy-defined IP but not of bankruptcy-defined IP?
2. Recall *In re Matusalem*, 158 B.R. 514, 521-22 (Bankr. S.D. Fla. 1993), described above, where the Court preserved the bundled IP, including trademarks, noting that legislative history provides that congressional action on trademark licenses would be postponed to “allow the development of equitable treatment of this situation by bankruptcy courts.” *But see, In re Exide Technologies, Inc.*, 340 B.R. 222 (Bankr. D. Del. 2006), *aff'd, EnerSys Delaware, Inc., v. Exide Technologies, Inc. (In re Exide Technologies, Inc.)*, 2008 WL 522516 (D. Del. Feb. 27, 2008) (trademark licensees cannot elect to retain their rights under Code section 365(n) to use a mark after the debtor’s rejection of the license).

3. [See also \*In re Grede Foundries, Inc.\*, No. 09-14337, 2010 WL 3306880 \(Bankr. W.D. Wis. 8/20/10\), which also addressed the integration of rights among disparate agreements, here for purposes of preventing rejection of an executory contract. Here, the debtor moved to reject a software maintenance contract with SAP America, which opposed rejection on the basis that the software maintenance agreement was inseparable from other, related agreements that had to be accepted or rejected \*in toto\*. The bankruptcy court agreed with SAP and denied the debtor's motion to reject. In so doing, the court looked to Pennsylvania law, which "strongly suggests that the agreement should be viewed as entire and not severable."](#)

**I. *The Impact of Lender Liens on the Debtor's IP***

1. While federal law generally governs the perfection of security interests in copyrights and patents, among other IP, Article 9 of the UCC governs the priority rights of the debtor's first lien creditor in general intangibles such as patents, copyrights, or trademarks
2. Section 9-321 of the UCC provides that a nonexclusive licensee of a general intangible in the ordinary course of business "takes its rights under a nonexclusive license free" of a security interest created by its immediate licensor.
  - a) Section 9-321 does not apply to exclusive licensees.
  - b) By virtue of this section, an ordinary course nonexclusive license will survive the secured creditor's foreclosure against the licensor.
  - c) However, for the nonexclusive licensee to maintain its rights, it must comply with all terms of the license and be sure that license fees are paid.
  - d) Defining when a license is "nonexclusive" depends upon industry practice and applicable nonbankruptcy law. For example, under the

Uniform Computer Information Transactions Act (UCITA), adopted in only a small minority of states, “nonexclusive licenses” are narrowly defined and do not include any license that precludes the licensor from entering into another license within another licensee in the same scope or field.

**J. *Effect of Debtor-Licensor’s Rejection on Arbitration Rights***

1. In *In re Quad Systems Corp.*, No. 00-35667F, 2001 WL 1843379 (E.D. Pa. March 20, 2001), the debtor argued that allowing the arbitration to proceed would conflict with Code section 365(n)’s requirement that disputes be adjudicated by the bankruptcy court. The court granted Samsung Techwin’s lift stay motion to permit a pending arbitration proceedings involving the debtor to proceed, but placed certain restrictions on the arbitrator’s determination of the movant’s rights under the software license, but gave the arbitrator discretion to determine royalties due before and after rejection, including assuming Samsung Techwin exercised its rights to retain the benefits of the license under Code section 365(n). The arbitrator was also permitted to determine the scope of the rights of Samsung Techwin post-rejection under Code section 365(n).
2. The interplay between Code section 365(n), the automatic stay, and contractual rights to arbitration require one to remember that one’s strategic objectives for one’s client are always the paramount consideration and thus may require adjustment based on the client’s strategic position within the context of the entire case.

**K. *Chapter 15 Proceedings of a Foreign Licensor***

1. Key Definitions and Statutory Provisions:
  - a) A “foreign proceeding” is “a collective judicial or administrative proceeding in a foreign country, including an interim proceeding, under a law

- relating to insolvency or adjustment of debts in which proceeding the assets and affairs of the debtor are subject to control or supervision by a foreign court, for the purpose of reorganization or liquidation.” 11 U.S.C. § 101(23).
- b) Under Chapter 15 of the Bankruptcy Code, a “debtor” is “an entity that is the subject of a foreign proceeding.” 11 U.S.C. § 1502(1).
  - c) A "foreign main proceeding" means a foreign proceeding pending in the country where the debtor has the center of its main interests which, in the absence of contrary evidence, is presumed to be the location of the debtor’s registered office. 11 U.S.C. §§ 1502(4) and 1516(c).
  - d) A case is commenced when a foreign representative files a petition for recognition of a foreign proceeding. 11 U.S.C. §§ 1504 and 1515(a). As long as recognition would not be manifestly contrary to the public policy of the United States, the court must enter an order recognizing the foreign proceeding. 11 U.S.C. §§ 1506 and 1517(a).
2. Effect of a Chapter 15 Filing: Recognition as a “foreign main proceeding” provides the debtor important protections and rights similar to those provided U.S.-based debtors, including the protections of the automatic stay provisions (11 U.S.C. § 1520(a)) and rights regarding the transfers of interests of the debtor in property within the United States (e.g., Section 363 on “free and clear” sales).
3. Application of Section 365(n) in *In re Qimonda AG* Foreign Proceeding
- a) Producer of DRAM chips filed for recognition of its pending German insolvency proceeding under Chapter 15 of the Bankruptcy Code. It obtained orders providing that the section of the Code governing executory contracts and unexpired leases would be applicable to this case.

- b) [Foreign representative of the debtor moved to modify the orders to exclude the protections for licensees under Code section 365\(n\) so that there would be no question that the section of the German Insolvency Code permitting administrators to elect nonperformance of executory contracts of intellectual property controlled in these circumstances.](#)
- c) [Semiconductor manufacturers with which foreign debtor had executed various joint venture and patent cross-licensing agreements objected. The Bankruptcy Court overruled the objections and granted the debtor's motion, holding that Code Section 365\(n\) does not apply in Chapter 15 foreign proceedings to provide US based licensees with greater rights than they could obtain in the foreign main proceeding. \*In re Qimonda AG\*, No. 09-14766-AGM, 2009 WL 4060083 \(Bankr. E.D. Va. 11/19/2009\).](#)
- d) [On appeal, the district court affirmed in part and remanded in part on this case of first impression. \*Micron Technology, Inc., v. Qimonda AG \(In re Qimonda Bankruptcy Litigation\)\*, 433 B.R. 547 \(E.D. Va. 2010\).](#)
  - (1) [The district court agreed that Code section 365\(n\) governing a debtor's treatment of executory contracts relating to intellectual property licenses does not apply automatically in Chapter 15 proceedings.](#)
  - (2) [However, the district court remanded the proceedings on the basis that in granting comity to German law, the bankruptcy court failed to address whether excluding the Code sections dealing with executory contracts under intellectual property licenses from the general orders providing that the Bankruptcy Code's provisions on executory contracts would be applicable to the case was](#)

[“manifestly contrary to the public policy of the United States.”](#)

#### **IV. DRAFTING AND OTHER STRATEGIC CONSIDERATIONS**

##### ***A. Structuring and Timing Considerations***

1. Consider what circuit court laws may apply in a bankruptcy of the counterparty to the license and the effect of whether the license is exclusive or non-exclusive
2. *Ipsa facto* clauses that terminate the license upon the bankruptcy of the counterparty to the license will not be enforceable but still have significant value to enable termination of the contract post-rejection.
3. Consider whether the license can be structured as a non-executory one where the only obligation due is the payment of money. Perhaps even make it fully paid, while placing continuing obligations for maintenance and upgrades in a separate executory contract could be assumed or rejected under Code section 365. *But see Thompson v. Lil' Joe Records, Inc.*, 476 F.3d 1294 (11<sup>th</sup> Cir. 2007) (chapter 11 debtor record label rejected prepetition contract with artist under which it acquired copyright and agreed to pay royalties was not liable for copyright infringement for postpetition use because the transfer of the copyright was completed and the copyright did not revert back to the artist upon rejection).
4. Structure the most favorable termination events possible to enable one to effect a termination if possible even before the debtor files for bankruptcy.

##### ***B. Payment Considerations***

1. Licensees who retain rights must continue paying royalties.

2. Be sure to carefully define at the time of rejection and retention of rights exactly what payments are due as royalties and what constitutes other consideration that is not part of the license but rather is part of maintenance, upgrade fees, and the like.
3. All things being equal, it's probably fair to assume that a debtor-licensor, always seeking to extract some value for payment of creditor claims, is less likely to assume a prepaid license than one that structures payments over time because the value of the license will have been consumed prepetition.

**C. Source Code Escrows**

1. Defining the specific triggering event for depositing the source code into escrow is critical because a true escrow or trust over which the debtor has no control will not constitute "property of the estate" and so will not be swept into the bankruptcy estate upon the debtor-licensor's filing for bankruptcy.

**D. Special Purpose Vehicles:** Similarly, bankruptcy remote entities to hold title to the IP provide even greater protection to the licensee.

**E. Security Interests**

1. Obtaining a security interest in the underlying IP as security for performance of the debtor's obligations under the license also significantly enhances the rights of the nondebtor counterparty.
2. [Remember that the sole way to perfect a security interest in a patent is through a proper UCC filing. Filings with the USPTO will not perfect the security interest, though it may protect against improper assignment of the patent. \*Braunstein v. Gateway Mgmt. Servs. Ltd. \(In re Coldwave Systems, LLC\)\*, 368 B.R. 91 \(Bankr. D. Mass. 2007\).](#)
3. Valid foreclosures completed before bankruptcy will not be unwound unless they constitute "fraudulent transfers" for "less than reasonably equivalent value."



4. Bankruptcy law also provides significant protections to secured creditors that are unavailable to unsecured creditors, including:
  - a) the right under Code section 362(d) to modify or lift the automatic stay to foreclose on collateral in which the debtor has no equity and which is not necessary for an effective reorganization; and
  - b) the right under Code section 363(e) to prohibit the debtor or trustee from using, selling, or leasing the IP without providing “adequate protection” to the holder of the security interest.

**F. *Vigilance in Protecting IP Rights in the Bankruptcy Case***

1. For a licensee to retain the benefits and use of the IP under a rejected IP license under Code section 365(n), the licensee must provide notice within the time period specified by the Court in the rejection notice. If no period is specified, the prudent course for the licensee is to provide clear and certain notice at the time of or soon after rejection.
2. As noted above, *Precision Indus., Inc. v. Qualitech Steel SBQ, LLC (In re Qualitech Steel)*, 327 F.3d 537 (7<sup>th</sup> Cir 2003), holds that in a bankruptcy “363 sale,” a debtor can sell assets “free and clear” of leasehold possessory interests. This case likely applies to the rights of a nondebtor licensee’s rights under Code section 365(n). A party that fails to obtain “adequate protection” of that interest by objecting to the “free and clear” sale could well lose its ability to use the IP after the sale closes.
3. [Standing to Sue: Federal Circuit denies a post-confirmation litigation trust established to pursue patent infringement claims because it was not also granted a license to the underlying patent. Here, two post-confirmation trusts were established, one to hold the patents \(AHLT\) and another to sue for infringement \(GUCLT\), which was not also granted a license to the patent.. The Federal Circuit ruled that](#)

because the right to exclude others had been separated from the right to sue for infringement, GUCLT lacked standing to sue for infringement. It appears based on this case that a party must be granted an exclusive license and full rights to litigate for infringement if it is to have standing to sue for patent infringement. The Federal Circuit wrote:

The problem for GUCLT and AHLT is that the exclusionary rights have been separated from the right to sue for infringement. The liquidation plan contractually separated the right to sue from the underlying legally protected interests created by the patent statutes—the right to exclude. For any suit that GUCLT brings, its grievance is that the exclusionary interests held by AHLT are being violated. GUCLT is not the party to which the statutes grant judicial relief. See *Warth*, 422 U.S. at 500. GUCLT suffers no legal injury in fact to the patent’s exclusionary rights. As the Supreme Court stated in *Independent Wireless*, the right to bring an infringement suit is “to obtain damages for the injury to his exclusive right by an infringer.” 269 U.S. at 469; see also *Sicom*, 222 F.3d at 1381 (“Standing to sue for infringement depends entirely on the putative plaintiff’s proprietary interest in the patent, not on any contractual arrangements among the parties regarding who may sue...”); *Ortho*, 52 F.3d at 1034 (“[A] right to sue clause cannot negate the requirement that, for co-plaintiff standing, a licensee must have beneficial ownership of some of the patentee’s proprietary rights.”).

Since GUCLT had the right to sue but not the right to exclude others from practicing the patent, and since AHLT had the right to exclude others but not the right to sue for

infringement, neither liquidating trust could sue for the infringement alleged in the GUCLT's underlying lawsuit. The Federal Circuit ruled that the problem could not be solved by the typical practice of joining the legal title holder, here AHLT, to the patent litigation as a party. Although such joinder solves prudential standing requirements, the court held that it does not solve the constitutional standing requirement of actual legal injury. GUCLT did not suffer legal injury because it had no right to exclude others from practicing the patent.

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## **IP LICENSING & BANKRUPTCY:**

### **AN ISSUE SPOTTING CHECKLIST**

**FIRST QUESTION: IS THE DEBTOR THE LICENSOR OR LICENSEE OF THE IP?**

**KEY FOLLOW-UP QUESTIONS (REGARDLESS OF WHETHER THE DEBTOR IS LICENSOR OR LICENSEE):**

**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)]?**

**IS THE CONTRACT EXECUTORY OR NOT?**

**WAS IT A SALE INSTEAD OF A LICENSE?**

**ARE THE SO-CALLED “EXECUTORY” PROVISIONS MORE IN THE NATURE OF CONDITIONS THAN IN THE NATURE OF AFFIRMATIVE DUTIES OF PERFORMANCE?**

**IS THE LICENSE EXCLUSIVE OR NON-EXCLUSIVE?**

**IS RECORDATION OF THE LICENSE REQUIRED WITH THE USPTO OR COPYRIGHT OFFICE TO PERFECT ONE’S IP RIGHTS?**

**DOES ANY PARTY HOLD A SECURITY INTEREST IN THE LICENSE, AND IS IT VALIDLY PERFECTED? ARE THERE VALUATION OR ADEQUATE PROTECTION ISSUES OF CONCERN?**

**IS THE IP “PROPERTY OF THE ESTATE” OR HAS IT BEEN PLACED IN A TRUST (*e.g.*, A “SPECIAL PURPOSE ENTITY”)?**

**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)?

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

**DOES THE LICENSE CONTAIN AN EXPRESS RESTRICTION ON ASSIGNMENT?**

**IS THERE AN *IPSO FACTO* CLAUSE THAT TERMINATES THE AGREEMENT UPON A BANKRUPTCY FILING?**

**IF THE DEBTOR SEEKS TO ASSUME A LICENSE WITHOUT THE LICENSOR'S CONSENT, WILL THE COURT ADOPT THE "HYPOTHETICAL" TEST (*I.E.*, LICENSE NOT ASSUMABLE IF APPLICABLE NON-BANKRUPTCY LAW PRECLUDES ASSIGNMENT), THE "ACTUAL" TEST (*I.E.*, LICENSE CAN BE ASSUMED IF NO ASSIGNMENT IS CONTEMPLATED), OR THE *FOOTSTAR* APPROACH (*I.E.*, RECONCILING THE CODE LANGUAGE TO PERMIT ASSUMPTION BY THE DEBTOR EVEN IF ASSIGNMENT IS PRECLUDED)? CONSIDER IN THIS ANALYSIS WHETHER THE LICENSE IS EXCLUSIVE OR NON-EXCLUSIVE.**

**IF THE DEBTOR CAN ASSUME THE LICENSE UNDER APPLICABLE NON-BANKRUPTCY LAW AND FURTHER SEEKS TO ASSIGN IT:**

**DOES APPLICABLE FEDERAL OR STATE NON-BANKRUPTCY LAW PERMIT SUCH ASSIGNMENT?**

**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)?**

**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?**

**WHAT’S THE TIMING OF THE DECISION TO ASSUME OR REJECT THE LICENSE, AND CAN OR SHOULD THAT DECISION BE ACCELERATED?**

**IS THE DEBTOR CONTINUING TO USE (AND PAY FOR) THE IP DURING THE POSTPETITION PERIOD?**

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

**IS THE IP COVERED BY THE SPECIAL PROVISIONS OF BANKRUPTCY CODE SECTION 365(N) (e.g., PATENTS ARE COVERED; TRADEMARKS AREN’T)?**

**WHAT IS THE NATURE AND SCOPE OF THE EXISTING LICENSED IP RIGHTS AS OF THE CASE FILING?**

**WHAT IMPROVEMENTS, IF ANY, ARE CONTEMPLATED IN RESPECT OF THE IP, AND WHAT’S THE LICENSE WORTH IF THOSE IMPROVEMENTS AREN’T AVAILABLE?**

**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?**

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