
IS SILENCE REALLY GOLDEN? ASSUMPTION AND ASSIGNMENT OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY*

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I. INTRODUCTION

In the world of bankruptcy, traditional rules of contract interpretation and the intentions of one or both of the contracting parties are sometimes ignored and often displaced because the interests of the debtor are generally considered to be of primary importance. One area of bankruptcy in which this phenomenon occurs frequently involves the assumption and assignment of executory contracts.¹ Bankruptcy law is clear that many executory contracts can be assumed and assigned by a debtor² without the consent of the non-debtor party even if the agreement expressly prohibits

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1. Treatment of executory contracts in bankruptcy is governed by § 365 of the United States Bankruptcy Code, "Executory Contracts and Unexpired Leases." 11 U.S.C. § 365 (2000). Although § 365 does not define the term "executory contract," courts have generally defined such a contract as one under 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. *See, e.g., In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996). This definition is known as the Countryman definition. *See Vern Countryman, Executory Contracts in Bankruptcy*, 57 Minn. L. Rev. 439, 460 (1973).

2. A debtor-in-possession, with a few exceptions not applicable here, generally has the same rights and duties as a trustee. 11 U.S.C. §1107(a) (2000). Thus, for convenience, the term "debtor" as used in this article shall refer to both a debtor-in-possession and a trustee in bankruptcy.

assignment or is silent on the issue of assignment. Examples of such contracts may include equipment leases, real property leases, and a variety of customer, dealer, and other arrangements. Less clear is whether executory contracts involving the licensing of intellectual property can be assumed and assigned by the debtor without consent of the non-debtor party if the agreements expressly prohibit assignment or are silent on the issue. Examples of intellectual property include patents, copyrights, trademarks, software, and know-how.

A debtor-licensee often desires to assume or assume and assign intellectual property licenses to which it is a party—an action to which the non-debtor licensor may object. This article examines a debtor-licensee's ability to assume and assign such licenses in the context of bankruptcy.³ As discussed more fully below, courts that have considered the issue have held that, notwithstanding the general authority granted under 11 U.S.C. § 365, consent is likely required before a debtor-licensee can assume and assign a non-exclusive patent license, copyright license, or a trademark license if any such license contains an express restriction on assignment or is silent on the issue. But it remains unsettled whether consent is needed to assume and assign an *exclusive* patent license, copyright license, or trademark license that either restricts assignment or is silent on the issue. With respect to software licenses, at least one case has applied the rules governing assumption and assignment of copyright licenses noted above.⁴ And at least one court has analyzed the assignability of know-how licenses under case law concerning assignability of patent licenses.⁵ This Article provides a review and analysis of the current state of the relevant case law and further attempts to predict how courts might decide the unsettled issues in a matter consistent with intellectual property law principles.

The discussion of these rules and other relevant non-bankruptcy rules concerning assignment of intellectual property licenses are set forth in this article as follows: Part II presents the general non-bankruptcy law rules regarding assignment of intellectual property licenses, focusing largely on patent, copyright, trademark, software, and know-how licenses; and Part III considers the issue of assignment of such licenses in bankruptcy, the determination of which turns largely on the general non-bankruptcy law rules discussed in Part II.

3. Different rules may apply where the licensor, as opposed to the licensee, seeks to assume or assume and assign an intellectual property license in bankruptcy; discussion of such rules is beyond the scope of this article.

4. *See In re Sunterra Corp.*, 361 F.3d 257 (4th Cir. 2004). *See also* discussion *infra* Part II.D.

5. To the extent a debtor-licensee seeks only to assume rather than assume and assign an intellectual property license, different rules may apply depending upon the jurisdiction. *See* discussion *infra* Part III.B.

II. GENERAL NON-BANKRUPTCY RULES REGARDING ASSIGNABILITY

The assignability of intellectual property licenses in bankruptcy proceedings turns largely on general non-bankruptcy law rules that govern such assignments. When analyzing the assignability of an intellectual property license under such rules, three questions must be addressed. First, what type of intellectual property is the subject of the license (e.g., patent, copyright, trademark, software, know-how)? Second, is the license exclusive or non-exclusive?⁶ And third, what does the license say about the licensee's ability to assign the agreement? Is it silent? Does it expressly restrict assignment? Does it expressly permit it?⁷ The answers to these questions, as set forth in the discussion of the relevant case law below, will help determine whether an assignment by the licensee may require the consent of the licensor.⁸

A. COPYRIGHT LICENSES

1. Exclusive Copyright Licenses

General non-bankruptcy law on the assignment of exclusive copyright licenses is a patchwork of conflicting authority. One school of thought is that exclusive copyright licenses are freely assignable.⁹ *In re Patient Education Media, Inc.* considered the transferability of a non-exclusive copyright license that included an express prohibition on assignment in certain invoices signed by the parties.¹⁰ The court noted in dicta the distinction copyright law makes between exclusive and non-exclusive licenses and why an exclusive licensee does not need consent to transfer a copyright license:

The holder of the exclusive license is entitled to all the rights and

6. An exclusive license grants the licensee the right to use the subject intellectual property to the exclusion of any third party, including the licensor itself. A non-exclusive license grants the licensee a non-exclusive right to use the subject intellectual property. Thus, the licensor is free to use such intellectual property itself and/or license it to other parties.

7. Whether a particular transaction affects an "assignment" will depend on the particular language in the agreement and applicable state law. Thus, it is important to consider the specific language of the assignment provision at issue in the context of the applicable law.

8. If a license agreement expressly permits the licensee to assign its rights under the license without the licensor's consent, there is very little, if anything, a licensor can do to either prevent such an assignment or terminate the license. This article will discuss only those situations in which a license expressly prohibits assignment or is silent on the issue. However, note that a non-debtor licensor in bankruptcy may have grounds to prevent a debtor-licensee's assumption and assignment of a license agreement that expressly permits assignment if the debtor-licensee cannot cure all past defaults under the agreement and the debtor-licensee (or the assignee) cannot provide adequate assurances of continued performance. See §§ 365(b)(1) and (f)(2) and discussion *infra* Part III.E.

9. See *id.* at 240. See also *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 318-19 (Bankr. D. Del. 2001) (holding exclusive copyright license with express restriction on assignment was freely assignable under *Patient Education Media*).

10. 210 B.R. at 239-40.

protections of the copyright owner to the extent of the license. Accordingly, the licensee under an exclusive license may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else. By contrast, the nonexclusive license does not transfer any rights of ownership; ownership remains in the licensor. Thus, the nonexclusive licensee does not acquire a property interest in the licensed rights, and unlike the exclusive licensee, lacks standing to sue for its infringement. Accordingly, the nonexclusive license is personal to the transferee and the licensee cannot assign it to a third party without the consent of the copyright owner.¹¹

But the opinion has several limitations. First, the opinion fails to address whether an exclusive copyright license is freely assignable even when the license expressly prohibits assignment. Second, not only is the language quoted above dicta, as discussed below, but subsequent authority has called this language into question.¹² Thus, *Patient Education Media* is likely of limited precedential value for the proposition that exclusive copyright licenses that restrict assignment are freely assignable.

The leading authority in the copyright domain, *Nimmer on Copyright*, also distinguishes between the rights of an exclusive and non-exclusive copyright licensee.¹³ But unlike *Patient Education Media*, *Nimmer* states that a copyright licensor may restrict assignment of even an exclusive copyright license by express contractual restrictions.¹⁴ *Nimmer* seems to draw a distinction between exclusive copyright licenses that are silent on assignment and those that expressly restrict assignment, the former being freely assignable and the latter being assignable only upon consent of the licensor. Since *Patient Education Media* was silent on the distinction, one could read that case to stand for the same proposition, thus making it possible to reconcile the apparent conflict between the two authorities.

In *Gardner v. Nike, Inc.*, a California district court, affirmed by the Ninth Circuit, took a different position from *Patient Education Media* and *Nimmer* (insofar as those authorities conclude that exclusive copyright licenses are freely assignable absent express prohibitions against assignment), requiring an exclusive copyright licensee to obtain consent

11. *Id.* at 240 (citations omitted).

12. See *Morris v. Bus. Concepts, Inc.*, 259 F.3d 65, 69 (2d Cir. 2001); *Gardner v. Nike, Inc.*, 110 F. Supp. 2d 1282, 1287 n.4 (C.D. Cal. 2000), *aff'd*, 279 F.3d 774 (9th Cir. 2002).

13. MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT*, §§10.02[A], [B][4] (Matthew Bender & Co. 2001) (1963).

14. See *id.* § 10.02[B][4]. One might think that since an exclusive copyright license is treated as an assignment under the copyright laws, the licensee thus has full title to the licensed copyright, including the right to assign such copyright. However, *Nimmer* contemplates that the assignment of an exclusive copyright license is a transfer of ownership for certain limited purposes only (e.g., standing to sue) and not a complete alienation of rights. *Id.* Thus, according to *Nimmer*, a licensor may grant an exclusive copyright license and, at the same time, restrict the licensee's ability to assign that exclusive copyright license by virtue of express contractual restrictions. *Id.* Put another way, the express contractual restrictions on assignment do not make an otherwise exclusive copyright license non-exclusive.

before assigning an exclusive license that was silent on assignability.¹⁵ Interpreting section 201 of the Copyright Act of 1976, the court in *Gardner v. Nike, Inc.* held that Congress did not grant exclusive licensees the right to freely transfer the license, but rather only the protections and remedies the Copyright Act gives to the copyright owner with respect to the particular rights that are licensed.¹⁶ Such protections and remedies include the right of the licensee to sue and defend suits in its own name, but not the right to assign the license.¹⁷

The Ninth Circuit was also influenced by the general policy consideration that reading into the Copyright Act the right of a licensee to freely transfer an exclusive license would be inconsistent with the copyright owner's ability to monitor the use of its copyright.¹⁸

Gardner expressly rejected *Patient Education Media* as authority for the proposition that an exclusive copyright license may be assigned without the licensor's consent, largely because the relevant language in *Patient Education Media* was dicta.¹⁹ Moreover, *Gardner* correctly observed that *Patient Education Media* misquoted section 201 when it stated that an exclusive licensee receives all the "rights and protections" of the copyright owner (which could be read to include the right to assign), rather than the narrower terms "protection and remedies" (which seems to be limited to the right of the licensee to sue and defend suits in its own name).²⁰

Gardner is buoyed by the Second Circuit's holding in *Morris v. Business Concepts, Inc.* that an exclusive licensee of certain rights under a copyright cannot be considered a "copyright owner" under the Copyright Act.²¹ Although assignability was not at issue in the case, *Morris* involved a journalist who granted a magazine publisher the exclusive right to include the journalist's columns in several monthly issues of the publisher's magazine.²² The Second Circuit concluded that the magazine publisher was not the owner of the underlying copyright by virtue of the exclusive

15. *Gardner*, 110 F. Supp. 2d at 1286-87 ("[A]n exclusive licensee has the burden of obtaining the licensor's consent before it may assign its rights, absent explicit contractual language to the contrary.").

16. *Id.*

17. *Id.*

18. *See id.* at 1281 ("Placing the burden on the licensee assures that the licensor will be able to monitor the use of the copyright.").

19. *See id.* at 1287 n.4

20. *Id.* *But see* Traicoff v. Digital Media, Inc., 439 F. Supp. 2d 872, 879 (D. Ind. 2006) (holding exclusive copyright license freely assignable under *Patient Education Media*, stating that the court's interpretation in *Gardner* of "protection and remedies" inconsistently encompasses some but not all owner's rights under the Copyright Act); *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 318-19 (Bankr. D. Del. 2001) (holding exclusive copyright license freely assignable under *Patient Education Media* and *Nimmer* and declining to follow *Gardner* because "protections and remedies" includes all of the rights of an owner that are transferred, including the right to assign).

21. *Morris v. Bus. Concepts, Inc.*, 259 F.3d 65, 69 (2d Cir. 2001).

22. *Id.* at 67.

license; rather the license granted the publisher only the right to publish the columns in its magazines.²³ The *Morris* court held that an exclusive copyright licensee is the owner only with respect to the particular rights that are licensed.²⁴ As *Gardner* holds, such a licensee receives only the protections and remedies under the Copyright Act with respect to such rights but not the right to freely transfer the license. A court following *Gardner* and *Morris* would likely find that an exclusive copyright license that is silent on the issue of assignment is not assignable without the express consent of the licensor.

2. Non-Exclusive Copyright Licenses

In the non-bankruptcy context, courts have held that consent is required to assign a non-exclusive copyright license if: (1) the license explicitly restricts assignment—that is, the license contains provisions restricting assignment or requiring consent, or a grant clause with language that indicates the license is not assignable (e.g., “non-assignable,” “non-transferable,” or “personal”); or (2) the license is silent concerning assignment.²⁵ It is likely the personal nature of these intellectual property licenses that courts rely upon in finding them non-assignable by the licensee without consent. Copyright licenses are made personal to the licensee by federal copyright law.²⁶ Section 106 of the Copyright Act of 1976 grants a limited monopoly for a copyright holder that gives the holder the right to determine how the copyright is exploited.²⁷ Such a monopoly “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.”²⁸

23. *Id.* at 70-71.

24. *Id.*

25. *See id.* at 240-41 (citing *SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at *5 (N.D. Cal. Dec. 18, 1991)). *See also In re Sunterra Corp.*, 361 F.3d 257, 267(4th Cir. 2004) (holding consent required to assign non-exclusive copyright/software license); *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 319 (Bankr. D. Del. 2001) (holding non-exclusive copyright license that restricts assignment to be non-assignable); *Ariel (U.K.) Ltd. v. Reuters Group PLC et al.*, No. 05 Civ. 9646(JFK), 2006 WL 3161467, at *6 (S.D.N.Y. Oct. 31, 2006) (same); *In re Buildnet, Inc.*, No. 01-82293, 01-82294, 01-82295, 01-82296, 01-82297, 01-82298, 01-82299, 2002 WL 31103235, at *6 (Bankr. M.D.N.C. Sept. 20, 2002) (same).

26. *See Patient Educ. Media*, 210 B.R. at 240.

27. 17 U.S.C. § 106 (2000 & Supp. 2002).

28. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). *See also Patient Educ. Media*, 210 B.R. at 242.

B. PATENT LICENSES

1. Exclusive Patent Licenses

We have located only two cases that specifically address the assignability of exclusive patent licenses as directly as *Gardner v. Nike, Inc.* addresses copyright licenses.²⁹ In *In re Hernandez*, the court concluded that federal patent law requires the consent of the licensor in order for the licensee to assign an exclusive patent license that expressly restricted assignment to unrelated third parties.³⁰ In reaching this conclusion, the court rejected the licensee's claim "that the grant of an exclusive license creates an equitable ownership interest that is freely assignable under federal patent law."³¹ The court cited only three instances under which a patent may be transferred, noting that "[a]nything else is a license": (1) transfer of the whole patent; (2) transfer of an undivided part of the patent; or (3) an exclusive territorial grant to use the patent in a defined region of the United States.³² Since none of those instances were applicable to the debtor-licensee in *Hernandez*, the court determined that the license was non-assignable.³³ According to the court, allowing any exclusive license to be assignable would cause the patent holder to lose control over the identity of its licensees whenever a patent license agreement grants an exclusive right to a licensee.³⁴ The court added that such a result fails to maintain the distinction in the federal case law between the grant of an exclusive license and an outright assignment of a patent.³⁵ The court further noted that, although the license allowed the debtor-licensee to assign his rights under limited circumstances, it expressly restricted the debtor-licensee from assigning its rights to *any* third party, regardless of its identity.³⁶

The court in *Superbrace, Inc. v. Tidwell*, applying California state contract law, held that an exclusive patent license that was silent on

29. See generally *In re Hernandez*, 285 B.R. 435 (Bankr. D. Ariz. 2002) (holding pre-consent requirement in the exclusive patent license agreement did not make § 365(c)(1) inapplicable); *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388 (2004) (exclusive patent license that was silent on assignability was not personal and thus was assignable by the licensee).

30. 285 B.R. at 439-40. The license at issue in *Hernandez* did allow the licensee to assign his rights to a wholly owned subsidiary of licensee or to an entity that licensee controlled. *Id.* at 437.

31. *Id.* at 439.

32. *Id.* at 439 (citing *Waterman v. MacKenzie*, 138 U.S. 252, 255 (1891)).

33. *Id.* at 440.

34. *Id.* at 439-40.

35. *Id.* (citing *Etherington v. Hardee*, 290 F.2d 28 (5th Cir. 1961)). Although *Hernandez* did not explicitly identify what distinguishes a grant of exclusive license from an assignment, *Hernandez* and the cases cited suggest that any grant of a right to use a patent that does not fall within the previously cited three circumstances under which a patent is considered "transferred," is a license. For example, in *Etherington*, the Fifth Circuit concluded that an exclusive patent licensee in an industry-specific field of use was a licensee, not an assignee for the purpose of deciding whether the licensee has standing to bring a suit for patent infringement in its own name. 290 F.2d at 29-30.

36. *In re Hernandez*, 285 B.R. at 440-41.

assignability was not personal and thus was assignable by the licensee.³⁷ Following California Supreme Court precedent,³⁸ the court first held that “state law, not federal common law, should be applied when deciding whether a patent license is assignable.”³⁹ Although *Superbrace* acknowledged post-*Farmland Irrigation Co. v. Dopplmaier* federal case law holding such licenses to be non-assignable based upon federal patent law and its underlying policies,⁴⁰ the court ultimately disagreed with the reasoning of such cases and declined to reverse the long-standing California Supreme Court precedent.

Freed from any duty to consider federal patent law and policy, the *Superbrace* court then applied California state law to determine whether the exclusive patent license at issue was non-assignable; in particular, whether such license was *personal* in nature.⁴¹ The court relied on several factors in concluding that the license at issue was *not* personal and thus, was assignable, including the following: (1) the licensor made no claims that only the licensee was capable of making and selling the patented inventions or that he was relying on the licensee’s personal experience in the relevant fields—in fact, the licensee required extensive training and assistance from licensor in order to practice the licensed patents; (2) the licensor sold the patent rights to the licensee for a lump sum payment (payable in installments) and retained title to the patents only as security for the unpaid debt; thus, licensor did not rely on continuing royalties and had no stake in how many licensed products were sold—licensor’s sole interest was to receive the balance of the purchase price; and (3) there were no express restrictions on the licensee’s ability to assign its rights.⁴²

In different contexts, cases have held that, depending upon the specific language of the agreement and the rights granted, an exclusive patent license can be considered a transfer of ownership, or at least a transfer of “all substantial rights” in the subject patent, even if the license contains an

37. 124 Cal. App. 4th 388, 405 (2004).

38. In *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208, 217 (1957), the court initially noted that “every action that involves, no matter how incidentally, a United States patent is not for that reason governed exclusively by federal law.” The court then concluded that the enforcement or interpretation of licenses do not arise under any act of Congress or depend upon the construction of any law in relation to patents and thus have no statutory basis. *Id.* Thus, rights under such licenses “arise from contract rather than from the fact that patent rights are involved.” *Id.* Based on the foregoing, the Court concluded that there was “no policy underlying the federal patent statutes that requires a uniform federal rule of construction of license contracts to determine assignability.” *Id.*

39. *Superbrace*, 124 Cal. App. 4th at 394 (citing *Dopplmaier*, 48 Cal. 2d at 227).

40. See discussion *infra* Part II.B.2.

41. The *Superbrace* court asked whether the exclusive patent license at issue “imposed duties of such a personal nature that their performance by someone else would in effect deprive the other party of that for which he bargained,” noting that “[t]he duties in such a situation cannot be delegated.” *Superbrace*, 124 Cal. App. 4th at 414 (citing *Dopplmaier*, 48 Cal. 2d at 221-23).

42. *Id.* at 415-16.

express prohibition on the licensee's ability to assign.⁴³ However, characterizing an exclusive license as an "assignment," or a "grant of all substantial rights" or a transfer of ownership, when such license contains an express prohibition on assignment, may be inconsistent with one of the fundamental indices of ownership of property, which is the owner's ability to freely assign such property to third parties.⁴⁴ Moreover, there are at least two reasons why these cases should not be directly relied upon for the proposition that an exclusive patent license that contains an express prohibition on assignment can be freely assigned. First, these cases do not decide whether the license at issue is actually assignable by the licensee. Second, use of the terms "assignment" or "grant of all substantial rights" or "transfer of ownership" by these courts is somewhat confusing because title to the subject patents is probably not actually transferred in an exclusive license. Rather, these courts are analyzing the substantive language of the contracts to determine only whether an exclusive license is sufficient to allow the licensee standing to sue in its own name or whether an exclusive license is a sale for tax treatment purposes, as the case may be.⁴⁵

43. See, e.g., *Aluminum Co. of Am. v. Norton Co., Inc.*, No. 91-547, 1993 WL 330628, at *2 (W.D. Pa. May 21, 1993) (holding that express prohibition on assignment of exclusive patent license does not prevent a finding of a grant of "all substantial rights" in the subject patent, thus allowing licensee to sue infringers). As a general rule, only assignees of patents have standing to sue for infringement. *Refac Int'l, Ltd. v. Visa USA, Inc. et al.*, No. C-89-2198-DLJ (ENE), 1990 WL 130032, at *3 (N.D. Cal. June 26, 1990). As the following cases discuss, an exclusive patent licensee *may* also have the right to sue infringers in its own name if the license effectively transfers all substantial rights in the subject patent to the exclusive licensee. See *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 874-75 (Fed. Cir. 1991) (same); *Ciba-Geigy Corp. v. Alza Corp.*, 804 F. Supp. 614, 633-34 (D.N.J. 1992) (same). See also *Conde Nast Publ'n Inc. v. United States*, 575 F.2d 400, 404 (2nd Cir. 1978) (holding that exclusive trademark and trade name license were a "sale" for tax treatment purposes and restriction on assignability was not inconsistent with a completed sale). *But see Pfizer Inc. v. Elan Pharm. Research Corp.*, 812 F. Supp. 1352, 1373 (D. Del. 1993) (holding that express prohibition on assignment of patent license without patent holder's consent, among other factors, precluded finding that agreement was an "assignment" rather than a license and thus party, as mere licensee, has no standing to sue alone); *Joint Mktg. Int'l, Inc. v. L&N Sales & Mktg., Inc.*, No. 05-CV-4818 (DLI)(VVP), 2006 WL 1995130, at *4-5 (E.D.N.Y. July 14, 2006) (holding that exclusive licensee's inability to assign its rights without prior written consent suggests licensee was granted less than "all substantial rights"); *Raber v. Pittway Corp.*, No. C-91-2399-JPV, 1992 WL 219016, at *3 (N.D. Cal. May 4, 1992) (same).

44. See *Ciba-Geigy*, 804 F. Supp. at 630-33.

45. See, e.g., *In re Hernandez*, 285 B.R. 435, 439 (Bankr. D. Ariz. 2002) ("[R]ecognition that an exclusive licensee has a sufficient property interest to give her standing to sue to protect her licensed patent from infringement does not mean she can freely assign her exclusive license.") Although *Hernandez* makes this logical distinction, it is important to note that *Hernandez's* holding was based on case law that determined the assignment issue in the context of deciding whether a patent licensee had standing to sue. See discussion *supra* note 35. See also *McNeilab, Inc. v. Scandipharm, Inc.*, No. 94-1508, 1996 WL 431352, at *5 (Fed. Cir. July 31, 1996) (noting that courts have "recognized that there is no substantive difference between the property interests of the exclusive licensee and the assignee of the patent, and thus have sometimes used the terms interchangeably, subordinating the purity of the distinction to the reality of legal rights"); *Calgon Corp. v. Nalco Chem. Co.*, 726 F. Supp. 983, 986 (D. Del. 1989) ("Just as the right to alienate personal property is an essential incident of

In re Hernandez leaves open the question of whether an exclusive patent license that is silent on assignability may be assigned. Based upon *Hernandez's* narrow interpretation of the circumstances under which a patent is deemed assigned, one might conclude that even an exclusive license that is silent is non-assignable without the licensor's consent. However, arguably, assuming important indices of ownership or "all substantial rights" in a patent have been transferred to a licensee—for example, the right of exclusivity and the right to sue infringers—it is possible that a court may determine such license to be assignable absent the licensor's express consent because such license would not be considered a license but rather an assignment, and the owner of a patent has an unrestricted right to assign. Finally, parties subject to California state law should be aware of established state court precedent that general California contract law principles will likely apply to the determination of whether such a license is assignable.

2. Non-Exclusive Patent Licenses

Courts that have considered the assignment of non-exclusive patent licenses in the non-bankruptcy context recognize the same rule applicable to non-exclusive copyright licenses—a non-exclusive patent license is personal and non-assignable unless assignment is expressly authorized.⁴⁶ Similarly, the rationale for the rule on patent licenses is much the same as the rationale for the rule on copyright licenses. Federal patent law encourages the invention of new technology.

Allowing free assignability . . . of nonexclusive patent licenses would undermine the reward that encourages [such] 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. . . . Thus, any license a patent holder granted . . . would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party to whom the patent holder itself might be absolutely unwilling to license.⁴⁷

C. TRADEMARK LICENSES

Our research to date has revealed one case that has directly addressed the assignability of a non-exclusive trademark license, in this case in the

ownership, the right to further assign patent rights is implicit in any true assignment."); *In re Supernatural Foods, LLC*, 268 B.R. 759, 798 (Bankr. M.D.L.A. 2001) ("[C]rucial concepts regarding assignment versus license . . . are that the purported assignment convey the entire and unqualified monopoly, at least regarding a specified territory.").

46. *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996).

47. *Id.*

context of a bankruptcy proceeding. In *In re N.C.P. Marketing Group, Inc.*, the U.S. District Court of Nevada affirmed the bankruptcy court's ruling that a non-exclusive trademark license is personal to the licensee and therefore not assignable without the licensor's consent.⁴⁸ The court, relying on the principles of trademark law, stated that because a trademark owner "has an interest in the party to whom the trademark is assigned so that it can maintain the good will, quality, and value of its products and thereby its trademark, trademark rights are personal to the assignee and not freely assignable to a third party."⁴⁹

Other than *N.C.P. Marketing*, there are few cases directly discussing the assignability of trademark licenses, whether exclusive or non-exclusive. That said, the *N.C.P. Marketing* court's approach appears to be well reasoned. Commentators have argued, and some courts have held, that absent express language permitting assignment without consent, assignment of a trademark license without the licensor's consent is likely prohibited.⁵⁰ This rule is based on the policy underlying federal trademark law, which seeks to prevent consumer confusion by protecting the goodwill associated with a particular mark.

A trademark owner-licensor has an ongoing right and duty under trademark law to control the quality of the goods sold under its mark.⁵¹ If such duty is not properly discharged, the licensor risks losing trademark protection.⁵² A court may determine that an integral part of the licensor's duty to control the quality of goods sold under its mark is the ability to control the identity of the licensee to whom the licensor has granted the right to manufacture and sell goods or provide services under the licensor's mark. Thus, according to *McCarthy*, a trademark owner must have the right at all times to determine who is an appropriate licensee of its mark.⁵³ As a result, absent either express language permitting assignment without

48. 337 B.R. 230, 236-37 (D. Nev. 2005).

49. *Id.* at 236.

50. See *Tap Publ'n, Inc. v. Chinese Yellow Pages (New York) Inc.*, 925 F. Supp. 212, 218 (S.D.N.Y. 1996) (holding that assignment of exclusive trademark license that was silent on assignment was prohibited absent trademark owner's consent); *In re Travelot Co.*, 286 B.R. 447, 453-55 (Bankr. S.D. Ga. 2002) (noting in dicta that federal trademark law is "applicable" law under § 365(c) and that an assignment of a non-exclusive trademark license is an "assignment in gross," and thus such a license is not freely assignable to a third party); 4 MCCARTHY ON TRADEMARKS § 25.33 (2001) (noting that while the case law is sparse on this issue, unless the license states otherwise, a licensed mark is personal to the licensee and cannot be assigned).

51. *Gorenstein Enter., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) ("The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark. . . . The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the same good or service.").

52. *Id.*

53. MCCARTHY, *supra* note 50, § 25.33.

consent or consent by the licensor, a court might hold that a trademark license—whether exclusive or non-exclusive—cannot be assigned by the licensee.⁵⁴

D. COMPUTER SOFTWARE LICENSES

Our research to date has revealed at least two cases that have specifically addressed a licensee's ability to assign a software license.⁵⁵ Certain aspects of non-exclusive software licenses, like non-exclusive copyright and patent licenses, make them personal to the licensee, such that non-exclusive software licenses that either expressly restrict assignment or are silent on the issue may also be non-assignable absent consent from the licensor. Software is protected by copyright and in some cases patent, as well. Consequently, there is, at the very least, a copyright license inherent in every software license.⁵⁶ In addition, a software license may contain an explicit patent license. But even if such a license is silent in this regard, the licensor may still hold a patent in the subject software's functionality. In that case, assuming the licensee's use of such software would otherwise violate the patent, a non-exclusive patent license could be implied.⁵⁷

Turning to exclusive software licenses, we have located no case that has specifically addressed their assignability. But again, because software licenses are generally protected by copyright and in some cases patent, as well, one might expect the analysis concerning the assignability of exclusive copyright and patent licenses to apply.⁵⁸

E. KNOW-HOW LICENSES

At least one case has considered the assignability of know-how

54. The case law and commentary do not appear to distinguish between exclusive and non-exclusive trademark licenses, perhaps because a licensor always maintains its duty to control the quality of goods and services sold under the licensed mark, whether the trademark license is exclusive or non-exclusive. However, the *N.C.P. Marketing* court, in dicta, did provide some indication that it may have decided differently had the trademark license at issue been exclusive. See *In re N.C.P. Marketing Group*, 337 B.R. at 237 (citing, with no additional discussion, case law stating that that an exclusive trademark license assigns the exclusive ownership and goodwill in the trademarks).

55. See, e.g., *In re Sunterra Corp.*, 361 F.3d 257, 260 (4th Cir. 2004); *SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at *5 (N.D. Cal. Dec. 18, 1991).

56. See *SQL Solutions*, 1991 WL 626458, at *5-6 (noting "[i]t is well established that computer programs are 'works of authorship' subject to copyright" and holding non-exclusive copyright license that expressly restricted assignment non-assignable absent licensor's consent); *Sunterra*, 361 F.3d at 262 n.7 (noting that by virtue of registration of computer programs with the United States Copyright Office, federal copyright law is the applicable non-bankruptcy law precluding assignability of non-exclusive software license).

57. See WILLIAM NORTON III & WILLIAM NORTON, JR., *NORTON BANKRUPTCY LAW & PRACTICE*, 2d §151:33 (2000) ("A non-exclusive patent license component could be implied whenever the licensor holds a patent in the software's functionality and the licensee's use of the software would, absent a patent license, violate the patent.").

58. See discussions *supra* Parts II.A.1 and II.B.1

licenses.⁵⁹ *Verson Corp. v. Verson International Group* involved a non-exclusive know-how licensee that granted to a third party the exclusive sublicense right to use some of the licensed know-how.⁶⁰ The court equated the exclusive sublicense grant with assignment and analyzed the assignability issue under patent law (although it did not explain why such law was analogous), which the court stated prohibits assignment of non-exclusive patent licenses without consent.⁶¹ The court also found insufficient evidence of licensor's consent to the exclusive grant of the licensed know-how by the licensee.⁶² If *Verson* is any indication of how a future court may rule, non-exclusive know-how licenses would not be assignable without the consent of the licensor. We have located no case that has directly addressed the assignability of exclusive know-how licenses. Even assuming the application of patent law to the issue, how a court might rule is unpredictable because the law on assignability of exclusive patent licenses is unsettled.

III. ASSIGNMENT OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY PROCEEDINGS

Despite the general non-bankruptcy rules requiring consent to assign certain types of intellectual property licenses, bankruptcy courts have historically treated such licenses as executory contracts and have considered their assignability under sections 365(a), (b), and (f) of the Bankruptcy Code.⁶³ Sections 365(a) and 365(b) allow a debtor (subject to court approval, cure of any and all past defaults, and adequate assurances of future performance by the debtor) to assume an executory contract.⁶⁴ Section 365(f) allows a debtor (again subject to court approval, cure of any and all past defaults and adequate assurances of future performance by the assignee) to assign an executory contract to a third party.⁶⁵ Typically, a debtor may take either of these actions even if the executory contract expressly restricts assignment.⁶⁶ In more recent decisions involving intellectual property licenses, however, courts have interpreted another provision of § 365—namely, § 365(c)(1)—as limiting the seemingly extraordinary authority that §§ 365(a) and (f) appear to grant to a debtor.

Section 365(c)(1) provides, in relevant part, that “[t]he trustee may not

59. *Verson Corp. v. Verson Int'l Group*, 899 F. Supp. 358, 360 (N.D. Ill. 1995).

60. *Id.* at 360. It is unclear from the *Verson* opinion whether or not there was an enforceable express restriction on assignment; the court says only that the licensor did not expressly grant the licensee the right to assign. *Id.* at 364.

61. *Id.* at 363.

62. *Id.*

63. *See, e.g., In re CFLC, Inc.*, 89 F.3d 673, 676-77 (9th Cir. 1996).

64. *See* 11 U.S.C. § 365(f) (2000).

65. *Id.*

66. *Id.*

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) applicable law excuses the non-debtor from accepting performance from or rendering performance to a third party; and (2) the non-debtor does not consent to the assumption or assignment.⁶⁷ Some courts have interpreted the reference in § 365(c) to “applicable law” to apply only to “personal services” contracts.⁶⁸ But most courts adhere to the more reasoned view that § 365(c) applies more broadly.⁶⁹

Indeed, courts have applied § 365(c)(1) to patent, copyright, and trademark licenses where the assumption or assumption and assignment of such licenses were at issue.⁷⁰

67. *See id.* § 365(c)(1). Section 365(c)(1) states in its entirety:

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 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.

68. *See, e.g., In re Tom Stimus Chrysler-Plymouth, Inc.*, 134 B.R. 676, 679 (Bankr. M.D. Fla. 1991); *In re Fulton Air Serv., Inc.*, 34 B.R. 568, 571-73 (Bankr. N.D. Ga. 1983). “Personal services” contracts are considered to be non-assignable because the party performing the services possesses certain unique skills or special knowledge. Presumably, the other party has relied upon such skill and knowledge as the basis for entering into the contract and such reliance makes the performing party’s duties non-delegable and thus non-assignable without the non-performing party’s consent. *See, e.g., In re Rooster, Inc.*, 100 B.R. 228, 232-33 (Bankr. E.D. Pa. 1989).

69. *See In re Braniff Airways, Inc.*, 700 F.2d 935, 943 (5th Cir. 1983) (“Surely if Congress had intended to limit § 365(c) specifically to personal services contracts, its members could have conceived of a more precise term than ‘applicable law’ to convey the meaning.”). *See also In re Pioneer Ford Sales, Inc.*, 729 F.2d 27, 28-29 (1st Cir. 1984); *In re Lil’ Things, Inc.*, 220 B.R. 583, 587-88 (Bankr. N.D. Tex. 1998).

70. *See In re Catapult Entm’t, Inc.*, 165 F.3d 747, 754-55 (9th Cir. 1999) (holding that debtor-licensee may not assume non-exclusive patent license without consent); *In re N.C.P. Mktg. Group, Inc.*, 337 B.R. 230, 236-37 (D. Nev. 2005) (holding that non-exclusive trademark license not assignable without consent); *In re Hernandez*, 285 B.R. 435, 439-40 (Bankr. D. Ariz. 2002) (holding that debtor-licensee may not assume exclusive patent license without consent); *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 48-49 (Bankr. D. Del. 1999) (holding that debtor-licensee may not, without consent, assume and assign non-exclusive patent license that is silent on the issue of assignment); *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 242-43 (Bankr. S.D.N.Y. 1997) (holding that non-exclusive copyright license with anti-assignment provision not assignable without consent).

Although outside of the scope of this article, it is worth noting that the issues raised by the interpretation and application of § 365(c)(1) are also implicated in another provision of the Bankruptcy Code. Under § 365(e), a provision in an executory contract that provides for termination or modification of such contract upon the insolvency or financial condition of a debtor, the commencement of a bankruptcy proceeding or the appointment of, or taking possession by, a trustee (generally called *ipso facto* clauses) is generally unenforceable. *See* 11 U.S.C. § 365(e)(1). However, § 365(e)(2)(A) provides for an exception to this general rule of unenforceability under essentially the same circumstances as set forth in § 365(c)(1). *See id.* §§ 365(e)(2)(A), (c)(1). Thus, it is possible that a non-debtor-licensor may have a basis to actually enforce an *ipso facto* clause and terminate the debtor-licensee’s intellectual

A. EXECUTORY VERSUS NON-EXECUTORY LICENSE CONTRACTS

The threshold question concerning the assumption and assignment of an intellectual property license under § 365 is whether the intellectual property license is an executory contract, because only executory contracts are subject to § 365.⁷¹ The majority of courts that have considered the issue have held that intellectual property licenses are executory contracts.⁷² However, courts are certainly not unanimous. In *In re Gencor Industries, Inc.*, a U.S. District Court considered whether a settlement agreement arising out of patent litigation that included an irrevocable patent license was an executory contract.⁷³ Applying the Countryman definition of an executory contract,⁷⁴ the court first expressly distinguished between the failure of a condition and the breach of an unconditional duty or obligation, stating, “the failure to fulfill a condition would not cause a breach of contract, unless a party has an affirmative duty to insure that the condition occurs.”⁷⁵ Then, the *Gencor* court found the agreement to be non-executory because: (1) the licensee paid to the licensor a one-time \$1.2 million fee; (2) although licensee did have an obligation to pay royalties if it produced products through use of the licensed patent, it never actually utilized the patent and had no obligation to do so; and (3) the licensor’s obligations to enforce the patent and provide most favored royalty terms to licensee were not unconditional obligations but were merely conditions to licensee’s obligation to pay royalties.⁷⁶

Further, the *Gencor* court expressly disagreed with the Ninth Circuit’s determination in *In re CFLC, Inc.* that a licensor’s covenant not to sue, inherent in all license agreements, is a sufficient ongoing affirmative

property license without ever having to reach the question of assignability.

71. For an example of the definition of executory contracts adopted by courts, see *supra* text accompanying note 1. Insofar as a license is found to be non-executory, the treatment of such license in bankruptcy would be just the same as that of any other asset of the debtor, such that a purchaser of any interest in such license would acquire all right, title and interest in and to such asset.

72. Some courts do not need much to deem an intellectual property license executory. For example, one case did so even though the only performance owed from the licensor was to refrain from suing the licensee for infringement and the only performance due from the licensee was to mark all products made pursuant to the license with the statutory patent notice. See *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996). See also *In re Sunterra Corp.*, 361 F.3d 257, 264 (4th Cir. 2004); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 490-91 (1st Cir. 1997) (recognizing patent license as executory); *In re Superior Toy & Mfg. Co., Inc.*, 78 F.3d 1169, 1176 (7th Cir. 1996) (recognizing trademark license as executory); *Patient Educ. Media*, 210 B.R. at 241 (finding copyright license to be executory contract); *In re Exide Techs.*, 340 B.R. 222, 235 (Bankr. D. Del. 2006) (holding exclusive trademark license to be executory because licensor’s agreement not to use licensed trademark was a continuing material obligation); *In re Gencor Indus., Inc.*, 298 B.R. 902, 907 (Bankr. M.D. Fla. 2003) (discussed below).

73. *Gencor*, 298 B.R. at 907.

74. *Id.* at 909-10; Countryman, *supra* note 1, at 460.

75. *Gencor*, 298 B.R. at 911 (citations omitted).

76. *Id.*

obligation to classify an intellectual property license as executory.⁷⁷ The court noted that if a licensor believes that a licensee has acted outside the scope of the license granted, the licensor is free to sue the licensee.⁷⁸ In such a case, the licensor's covenant not to sue simply "provides a defense to the licensee" to the extent it can show that it has not exceeded the scope of the licensed rights.⁷⁹ Thus, such a covenant not to sue on behalf of a licensor is "more like a condition than a duty."⁸⁰

Note that the parties' characterization of a contract as a "license" will not make the contract executory when in fact all performance has been rendered, as in a sales contract. At least one court has interpreted an apparent intellectual property license as a sale rather than a license.⁸¹ In *In re DAK Industries, Inc.*, Microsoft granted DAK a pre-petition non-exclusive license to adapt Microsoft software for computer systems sold by DAK to end-users.⁸² The following factors caused the court to conclude the agreement was a sale and not a license: (1) pricing and timing of payment were more akin to a sale than a right to use (e.g., \$2.75 million payment became due at signing and payment schedule was based upon units sold rather than duration of use of the software); (2) DAK received all rights under the agreement upon signing (at the point DAK made its first installment payment to Microsoft, it was given the right to the full quantity of units covered by the payment); and (3) the agreement did not simply permit DAK to use the software, but rather permitted DAK to sell the software.⁸³ *DAK Industries* illustrates that a "license" could be characterized as a sale. This characterization could lead to a determination that the underlying contract is non-executory and thus not subject to § 365.

In light of the existing case law, parties should closely examine the nature of the intellectual property license at issue before assuming that a purported intellectual property license is an executory contract. Courts certainly may view this analysis as a highly fact-specific inquiry.

B. ASSUMPTION VERSUS ASSUMPTION AND ASSIGNMENT— HYPOTHETICAL VERSUS ACTUAL TEST

Although this article largely concerns debtor-licensees seeking to assume and assign intellectual property licenses, there may be circumstances (e.g., plan of reorganization which contemplates the survival of the debtor) under which a debtor-licensee seeks only to assume an

77. *Id.* at 910-11.

78. *Id.* at 911.

79. *Id.* at 912.

80. *Id.*

81. See *In re DAK Indus., Inc.*, 66 F.3d 1091, 1096 (9th Cir. 1995).

82. *Id.* at 1092-93.

83. *Id.* at 1095-96.

intellectual property license.⁸⁴ This possibility begs the question of whether the debtor-licensee may do so without first obtaining the consent of the non-debtor licensor. Courts have split on the issue, largely because the relevant language of § 365(c) is ambiguous.⁸⁵

1. Hypothetical Test

The Third and Ninth Circuits hold that a debtor may not assume an intellectual property license subject to § 365(c) where applicable non-bankruptcy law prohibits assignment without consent, even if the debtor has no intention of ever assigning the license. Based on their interpretation of the language of § 365(c), these courts are not concerned with whether or not a debtor *actually* intends to assign the license—once the license is assumed, these courts will create a “hypothetical” third party to whom the license will be assigned. For this reason, the analysis is referred to as the “hypothetical test.”⁸⁶ The Sixth and Eleventh Circuits have applied the hypothetical test in a non-intellectual property context.⁸⁷ Recently, the Fourth Circuit adopted an even stricter version of the hypothetical test, holding that a non-exclusive software/copyright license expressly permitting assignment in the context of certain corporate transactions (which would likely be sufficient to satisfy the “hypothetical test” in the Third and Ninth Circuits) was not assumable without a licensor’s express consent of such assumption.⁸⁸

2. Actual Test

The First Circuit takes a more pragmatic approach, allowing a debtor-

84. In many bankruptcy proceedings, the debtor’s business (or one of debtor’s businesses) may be liquidated and the assets associated with such business are sold to unrelated third parties, requiring that title to such assets, including any intellectual property licenses, be assigned to such unrelated third party to effect a proper transfer. However, certain plans of reorganization are structured in a way that causes the debtor (or one of debtor’s businesses) to survive the bankruptcy proceedings and thus assumption of any necessary intellectual property licenses is all that is needed.

85. The ambiguity stems from the “assume or assign” language in § 365(c)(1) and whether the disjunctive “or” is strictly construed to mean what it says or interpreted to mean the conjunctive “and.” 11 U.S.C. § 365(c)(1) (2000). *See, e.g., In re Sunterra Corp.*, 361 F.3d 257, 265 (4th Cir. 2004).

86. *In re Catapult Entm’t, Inc.*, 165 F.3d 747, 754-55 (9th Cir. 1999) (holding that debtor may not assume non-exclusive patent license because federal patent law prohibits assignment of such license without consent); *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 48-49 (Bankr. D. Del. 1999) (holding that non-exclusive patent license silent on the issue of assignment cannot be assigned without consent, and thus debtor could not even assume the license); *see also In re N.C.P. Mktg. Group, Inc.*, 337 B.R. 230, 234-35 (D. Nev. 2005).

87. *In re James Cable Partners, L.P.*, 27 F.3d 534, 537-38 (11th Cir. 1994); *In re Magness*, 972 F.2d 689, 695-96 (6th Cir. 1992). At least one district court in the Seventh Circuit has indicated in dicta that it will likely follow the “hypothetical test.” *See In re Szombathy*, Nos. 94 B 15536, 95 A 01035, 1996 WL 417121, at *12 (Bankr. N.D. Ill. July 9, 1996) (noting that federal law concerning assignability of patent license rights “supersedes assignment rights under § 365 of the Bankruptcy Code”), *rev’d in part*, *Szombathy v. Controlled Shredders Inc.*, No. 97 C 481, 1997 WL 189314 (N.D. Ill. Apr. 14, 1997).

88. *Sunterra*, 361 F.3d at 271.

licensee to assume an intellectual property license that is subject to § 365(c), even over the objection of a non-debtor licensor, where the debtor-licensee does not contemplate assignment of the license to a third party.⁸⁹ The First Circuit approach is called the “actual test” because there is no consideration of the issue of assignment when the debtor-licensee seeks only to assume an intellectual property license. The *Institute Pasteur v. Cambridge Biotech Corp.* court reasoned that requiring consent to assume the license is irrelevant because the debtor will continue to provide performance under the contract to the non-debtor post-petition and thus the non-debtor licensor cannot possibly be harmed by the assumption.⁹⁰

Recently, a U.S. District Court adopted the “actual test” when it allowed a debtor-in-possession to assume an executory contract involving the exclusive right to operate footwear departments in a large retail store chain.⁹¹ However, the *In re Footstar, Inc.* court based its ruling on a novel interpretation of the language of § 365(c), focusing on the limitation to a trustee in the initial clause of § 365(c).⁹² First the court examined the Bankruptcy Code generally and concluded that the Bankruptcy Code treats a trustee and a debtor or debtor-in-possession as different parties.⁹³ The court then construed the plain language of § 365(c)(1) to be inapplicable in the context of a debtor-in-possession seeking to assume an executory contract because the counterparty in such a case would not be forced to accept performance from an entity other than the debtor.⁹⁴ Notwithstanding the *Footstar* court’s plain-language reading of § 365(c), it also relied upon legislative history to conclude that § 365(c) could not have been intended to restrict a debtor or debtor in possession from simply *assuming* an executory contract, citing to a proposed 1980 amendment (that was ultimately adopted in 1984) to § 365(c) designed to make clear that the trustee’s power to assume an executory contract would not apply to a

89. *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 490-91, 493-95 (1st Cir. 1997).

90. *Id.* at 493-94; *see also In re GP Express Airlines, Inc.*, 200 B.R. 222, 231-33 (Bankr. D. Neb. 1996) (accepting “actual test” as applied to airline contract); *Texaco Inc. v. La. Land & Exploration Co.*, 136 B.R. 658, 668-71 (M.D. La. 1992) (“actual test” applied to mineral contract); *Cf. In re GlycoGenesys, Inc.*, 352 B.R. 568, 576-77 (Bankr. D. Mass. 2006) (permitting debtor to assume and assign exclusive patent license that expressly allowed assignment to a successor of “all or substantially all of debtor’s business”).

91. *In re Footstar, Inc.*, 323 B.R. 566, 567-68 (Bankr. S.D.N.Y. 2005).

92. *Id.* at 570-71.

93. *Id.*

94. *Id.* at 573.

Indeed, where the debtor seeks to assume but not assign a contract, to read the statute to that “the debtor in possession may not assume . . . any contract if . . . applicable law excuses [the counterparty] . . . from accepting performance from or rendering performance to an entity other than the debtor in possession . . .” would render the provision a virtual oxymoron, since mere assumption (without assignment) would not compel the counterparty to accept performance from or render it to “an entity other than” the debtor.
(alterations in original) (emphasis omitted).

debtor in possession because the debtor is not an entity other than itself.⁹⁵ The *Footstar* court maintained that § 365(c)(1) would still restrict a *debtor* seeking to *assign* its contract since the counterparty would be forced to accept performance from an entity other than the debtor.⁹⁶

Based upon the clear circuit split with respect to the interpretation of the ambiguous language in § 365(c), this issue may soon be ripe for resolution by the Supreme Court.

C. COPYRIGHT LICENSES

1. Exclusive Copyright Licenses

At least one court has held that an exclusive copyright license is freely assignable without the licensor's consent, notwithstanding a non-assignability provision.⁹⁷ That said, applicable non-bankruptcy law—federal copyright law—is largely unsettled with respect to the assignability of exclusive copyright licenses.⁹⁸ As a result, how a bankruptcy court will rule when a debtor-licensee seeks to assume and assign such licenses will likely depend upon which authority such court chooses to follow: (1) *In re Patient Education Media, Inc.* and *In re Golden Books Family Entertainment, Inc.* suggest that such assignment is generally appropriate even if the copyright license expressly prohibits assignment; (2) *Nimmer* would allow assignment absent express contractual restrictions to the contrary; and (3) *Gardner v. Nike, Inc.* prohibits assignment unless consent is first obtained, at least with respect to copyright licenses that are silent on the issue.⁹⁹

2. Non-Exclusive Copyright Licenses

As discussed above, several bankruptcy courts have applied § 365(c)(1) to a non-exclusive copyright license and held that, absent consent by a licensor or express provisions to the contrary, such a license is non-assignable in bankruptcy proceedings.¹⁰⁰ *Patient Education Media* involved a non-exclusive copyright license that the debtor claimed could be assigned in bankruptcy without consent despite the presence of an anti-assignment provision.¹⁰¹ The court rejected the debtor's claim because "applicable" federal copyright law provides that non-exclusive copyright

95. *Id.* at 574 (citing H.R. Rep. No. 96-1195 (1980)).

96. *Id.* at 575.

97. *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 318-19 (Bankr. D. Del. 2001).

98. *See supra* Part II.A.1.

99. *See generally* discussion *supra* Part II.A.

100. *See In re Patient Educ. Media, Inc.*, 210 B.R. 237, 240-41 (Bankr. S.D.N.Y. 1997); *Golden Books*, 269 B.R. at 311; *In re Buildnet, Inc.*, No. 01-82293, 01-82294, 01-82295, 01-82296, 01-82297, 01-82298, 01-82299, 2002 WL 31103235, at *5 (Bankr. M.D.N.C. Sept. 20, 2002).

101. *See supra* introduction to Part III.

licenses are personal to the licensee and not assignable without being expressly made so in the agreement.¹⁰²

D. PATENT LICENSES

1. Exclusive Patent Licenses

We have located only one case in which § 365(c)(1) has been applied to an exclusive patent license.¹⁰³ In *In re Hernandez*, the court concluded that the debtor-licensee could not assign an exclusive patent license with an anti-assignment provision without consent from the licensor.¹⁰⁴ However, in *Superbrace, Inc. v. Tidwell*, a California state court concluded that federal patent law and policy is inapplicable to exclusive patent licenses, but rather state contract law governs these licenses.¹⁰⁵ As discussed in Part II.B.1 above, the assignability of exclusive patent licenses may depend upon the scope of the license and the relevant language in the particular license agreement, as well as applicable jurisdiction and governing law. As a result, it is difficult to predict how a bankruptcy court will rule when faced with a licensee seeking to assume and assign an exclusive patent license. A key deciding factor may well be the initial determination of the appropriate “applicable law” to consider in the assignability determination.

2. Non-Exclusive Licenses

Bankruptcy courts hold that non-exclusive patent licenses are not assignable under § 365(c) absent consent by a licensor. The court in *In re Access Beyond Technologies, Inc.* disallowed the assignment of a patent license that was silent on assignment, because “applicable” patent law provides that patent licenses are personal to the licensee and not assignable unless expressly made so in the agreement.¹⁰⁶

E. TRADEMARK LICENSES

We have found one recently published opinion that provides a discussion and analysis concerning the assignability under § 365(c) of a non-exclusive trademark license. In *In re N.C.P. Marketing Group, Inc.*, the debtor-licensee sought to assume its rights under a non-exclusive trademark license.¹⁰⁷ The court, citing numerous courts and commentators

102. *Patient Educ. Media*, 210 B.R. at 242-43. See generally *In re Sunterra*, 361 F.3d 257 (4th Cir. 2004).

103. *In re Hernandez*, 285 B.R. 435, 439-40 (Bankr. D. Ariz. 2002).

104. *Id.* at 440.

105. 124 Cal. App. 4th 388, 391 (2004).

106. 237 B.R. 32, 45-47 (Bankr. D. Del. 1999). See also *In re Catapult Entm't, Inc.*, 165 F.3d 747, 750-55 (9th Cir. 1999) (holding that federal patent law made non-exclusive patent licenses personal and non-delegable, and thus not assignable without licensor's consent).

107. 337 B.R. 230, 233 (D. Nev. 2005).

and relying on prior decisions in the context of patent and copyright licenses, first held that trademarks are “personal and non-assignable without the consent of the licensor.”¹⁰⁸ Applying the hypothetical test, the court then interpreted the agreements at issue under California contract law and held that the licensor did not give the debtor-licensee the right to assign its rights to third parties.¹⁰⁹

Other case law exists that at first glance might appear to support the proposition that trademark licenses are assignable without consent. However, upon closer examination, such decisions likely apply only in very narrow circumstances or provide insufficient analysis to prove helpful.¹¹⁰

In *In re Rooster, Inc.*, the court held that a trademark sublicensee, without the licensor’s consent, could assume and assign an *exclusive* trademark sublicense under which the debtor-sublicensee was permitted to use the “Bill Blass” name and trademark on neckties that it manufactured.¹¹¹ *Rooster* supports the proposition that consent to assign a trademark license is *not* required. However, it is important to note that the issue decided in *Rooster* was narrowly framed by the parties. The court’s analysis was based upon an interpretation of “applicable law” under § 365(c), but the court specifically stated that it was deciding the parties’ “narrowly framed” issue of whether the trademark license constituted a *contract for personal services* under such “applicable law” (in this case, the law of Pennsylvania).¹¹² The court ruled that the trademark license did not constitute a personal services contract and thus was assignable.¹¹³ As a result, unless one is presented with an issue of whether a trademark license falls within the definition of a personal services contract (under Pennsylvania law), *Rooster* will likely have limited persuasive value.¹¹⁴ As

108. *Id.* at 237.

109. *Id.* at 237-38. The agreements at issue only allowed the debtor-licensee to assign its rights under very narrow circumstances, none of which applied in this context. *Id.*

110. See generally *In re Rooster, Inc.*, 100 B.R. 228 (Bankr. E.D. Pa. 1989); *In re Superior Toy & Mfg. Co., Inc.*, 78 F.3d 1169 (7th Cir. 1996).

111. *Rooster*, 100 B.R. at 235. The court did not disclose in its opinion whether there was a provision in the license agreement concerning the licensee’s ability to assign the agreement. In any event, it is fair to assume that the license agreement did not expressly permit assignment.

112. *Id.* at 232. The *Rooster* court acknowledged that § 365(c) is applicable to any contract subject to a legal prohibition against assignment—not only “personal services” contracts. *Id.* at 232 n.6.

113. In the words of the court:

I cannot conclude that the debtor’s performance under the licensing agreement draws upon any special personal relationship, knowledge, unique skill or talent. The only actual discretion retained by the debtor in the area of development or manufacture is the choice of patterns to put into production. . . . [The debtor] is not involved in creating the actual design of the trademarked neckwear; its artistic input is limited to choosing from established patterns. . . . Thus, [the debtor] is not involved in the creation of a new or unique product.

Id. at 233.

114. Note that a “personal services” contract and a contract that is “personal” (e.g., patent, copyright

noted above in the introduction to Part III, § 365(c) applies much more broadly than simply to “personal services” contracts.

In re Superior Toy & Manufacturing Co, Ltd. is often cited for the proposition that trademark licenses are freely assignable in bankruptcy proceedings. But a close reading of *Superior Toy* reveals that this case provides little, if any, support for such a proposition. *Superior Toy* concerned whether a trustee could recover pre-bankruptcy petition payments made pursuant to a validly assumed trademark license.¹¹⁵ With no discussion, the court simply noted in the factual background that the exclusive, non-transferable license at issue was assumed by the trustee, without a hearing, and with approval of the bankruptcy court.¹¹⁶ The opinion contains no discussion concerning the propriety of such assumption or even whether the non-debtor licensor objected to such assumption. Thus, *Superior Toy* likely stands for little more than the rather obvious proposition that trademark licenses *can* be assumed.

Additional authority suggests that, in certain circumstances, a trademark license cannot be assumed or assumed and assigned by a debtor-licensee without the licensor’s consent.¹¹⁷ In *In re Luce Industries, Inc.*, the debtor-licensee attempted to assume a trademark license under which the debtor-licensee was granted the right to use the “Fruit of the Loom” trademark on certain apparel manufactured by the subcontractor of the debtor-licensee that was approved by the licensor.¹¹⁸ The licensor sought to terminate the license. The debtor-licensee responded stating its intent to assume the license under § 365.¹¹⁹ The *Luce* court denied the attempted assumption because: (1) the debtor-licensee sought to have the goods manufactured by a different subcontractor that had not been approved by licensor, which would have been “tantamount to an assignment of the License to [such subcontractor], an act prohibited by the [license agreement]”; (2) the potential third party subcontractor refused to guarantee the debtor-licensee’s continued performance to licensor; and (3) there was no assurance that the back debt owed to licensor would be paid.¹²⁰ It is unclear from *Luce* which one of the foregoing reasons was determinative of

and trademark licenses) are two distinct, although somewhat related, concepts. In both situations, the *identity* of the licensee or the party performing special or unique services, as the case may be, is the important factor. The licensor or non-performing party is entitled to know and choose with whom it is contracting because of the special nature of the relationship. The *Rooster* court did not consider whether the license agreement at issue was “personal” to the licensee under applicable non-bankruptcy trademark law.

115. *Superior Toy*, 78 F.3d at 1171.

116. *Id.* at 1170.

117. See *In re Luce Indus., Inc.*, 14 B.R. 529, 530-32 (S.D.N.Y. 1981); *In re Travelot Co.*, 286 B.R. 447, 454-55 (Bankr. S.D. Ga. 2002).

118. The *Luce* case did not specify whether the license at issue was exclusive or non-exclusive.

119. *Luce*, 14 B.R. at 530.

120. *Id.* at 530-31.

the court's decision. Thus, it is difficult to predict how much weight a bankruptcy court would give to the argument that a proposed assumption or assignment of a trademark license is prohibited solely because either the licensor does not consent or the license expressly prohibits assignment. Nevertheless, *Luce* does suggest that a bankruptcy court will consider the unique aspects of a trademark licensing relationship before allowing assumption or assumption and assignment of a trademark license.

In light of the foregoing, a court attempting to determine whether a trademark license is assumable, or assumable and assignable, may rely directly upon *N.C.P. Marketing* and apply "applicable" non-bankruptcy trademark law to restrict a debtor-licensee from assuming, or assuming and assigning, a trademark license without the licensor's consent. As discussed in Part II above, a trademark license, like non-exclusive copyright and non-exclusive patent licenses, is personal to the licensee (although a trademark license is personal for different reasons). Thus, under trademark law, a trademark licensor, like a copyright and patent licensor, may be able to prevent a debtor-licensee's assumption and assignment of a trademark license without the licensor's consent, regardless of whether the license is exclusive or non-exclusive. The *In re Travelot Co.* court agreed with this conclusion, noting in dicta that "applicable" federal trademark law would have prohibited a non-exclusive trademark license from being assumable by the debtor absent the consent of the trademark owner.¹²¹

It is important to note that a trademark licensor need not wait for notice from a debtor-licensee of its intent to assume and possibly assign a license before taking action to prevent such a result. Under certain circumstances, a trademark licensor may be able to successfully persuade a bankruptcy court to lift the automatic stay¹²² in order to permit the licensor to terminate the license. To do this, a licensor would have to demonstrate real harm (other than simply financial harm) as a result of the licensee's continued use of licensor's trademark or service mark, or the licensee's inability to cure past defaults or provide adequate assurance of future performance under § 365.¹²³

For example, if a licensor could show that a debtor-licensee repeatedly failed to comply with the "quality control" provisions of the license,

121. 286 B.R. at 454-55.

122. As a general matter, the filing of a bankruptcy petition operates as an automatic, temporary stay of several different actions that non-debtors may otherwise be entitled to pursue against the debtor, including the right to seek an injunction to prevent the use of the non-debtor's intellectual property rights. 11 U.S.C. § 362(a)(1)-(8) (2000).

123. See, e.g., *In re Indep. Mgmt. Assoc., Inc.*, 108 B.R. 456, 465-66 (Bankr. D.N.J. 1989) (finding that licensor's failure to provide evidence of consistent quality control inspections and its failure to raise quality control issues until after bankruptcy petition filed clearly indicated that the reasons sought to terminate the agreements were solely financial).

especially pre-petition, or that the debtor-licensee was failing to satisfy its post-petition payment obligations, a court may allow the licensor to terminate the agreement.¹²⁴ In any event, in order to take advantage of its ability to lift the automatic stay and terminate the license, a licensor would be well-advised to be vigilant and to keep detailed records of its efforts to exercise control over the quality of licensee's trademark-related activities.

F. COMPUTER SOFTWARE LICENSES

As a general matter, computer software licenses are treated as executory contracts under the Bankruptcy Code.¹²⁵ Our research to date has disclosed at least one case addressing whether a software license could be assumed (and not assigned) in the bankruptcy context.¹²⁶ The *In re Sunterra* court applied the "hypothetical" test to a software license, holding such license could not be *assumed* by the debtor-licensee over the licensor's objection under federal copyright law, even though the license expressly permitted assignment in the context of certain corporate transactions.¹²⁷ As discussed above in Part II.D, however, *Sunterra* makes clear that because there are elements of copyright (and possibly patent) inherent in every software license, one might expect that applicable non-bankruptcy law concerning the assignability of copyright and patent licenses would apply when analyzing the assignability of a software license.

G. KNOW-HOW LICENSES

We have located no case in which § 365 has been applied to the assignability of know-how licenses. Should a bankruptcy court determine that the law discussed in Part II.E above is applicable non-bankruptcy law, it is possible the assignability of know-how licenses, at least in the non-exclusive context, would be treated the same as the assignability of non-exclusive patent licenses.

124. See *In re B-K of Kansas, Inc.*, 69 B.R. 812, 815-16 (Bankr. D. Kan. 1987) (holding that licensee-debtor's failure to make post-petition royalty payments clearly indicated an inability to cure monetary defaults and present a successful reorganization plan). See also *In re Tudor Motor Lodge Assocs., L.P.*, 102 B.R. 936, 950-51 (Bankr. D.N.J. 1989) (holding that licensee-debtor's repeated pre-petition, and continued post-petition, failure to comply with licensor's stringent quality control requirements entitled licensor to terminate license agreement, in spite of debtor's assurances of adequate protection in the form of payment of post-petition obligations).

125. *In re Sunterra*, 361 F.3d 257, 264 (4th Cir. 2004) (holding that upon filing of the bankruptcy petition, each party owed at least the continuing material duty to maintain the confidentiality of the source code of the software developed by the other under the license agreement at issue). *But see In re DAK Indus., Inc.*, 66 F.3d 1091, 1095-96 (9th Cir. 1995) (holding that software "license" is characterized as a sale and thus could be deemed non-executory).

126. *Sunterra*, 361 F.3d at 257.

127. *Id.* at 271.

IV. CONCLUSION

As in many areas of law, the rules concerning assignability of intellectual property licenses in bankruptcy proceedings are often less than clear and constantly evolving. Nevertheless, this article has attempted to distill and present those rules in a manner that is helpful to the intellectual property and bankruptcy practitioner attempting to reach a satisfactory resolution of these challenging issues.