

TREATMENT OF INTELLECTUAL PROPERTY LICENSES IN CROSS-BORDER INSOLVENCY PROCEEDINGS

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I. Introduction:

A. Request for Papers

1. The United Nations Commission on International Trade Law (“**UNCITRAL**”) issued a call for papers for its 50th Anniversary Conference on *Modernizing International Trade Law To Support Innovation And Sustainable Development*. The Congress intends to explore new directions in cross-border commerce and to bring together leaders in the field of international trade law to consider ways in which UNCITRAL’s text on international trade law can contribute to innovation and sustainable development. UNCITRAL invited interested researchers, scholars, and practitioners to submit proposals related to reform of substantive rules governing international commercial transactions and to support innovation and sustainable development through trade.

B. Abstract Accepted

2. The Authors’ *Abstract: Treatment Of Intellectual Property Licenses In Cross-Border Insolvency Proceedings* addresses the increasing frequency in which business insolvencies involve significant intellectual property assets (“**IP**”) and intellectual property licenses (“**IP Licenses**”) and considers how treatment of IP and IP Licenses in business insolvencies can significantly affect a network of non-debtor licensors, licensees, and other contractual counterparties in jurisdictions around the world.¹ The Abstract submits that uncertainty in the treatment of IP and IP Licenses by different national insolvency laws may be restricting long-term, cross-border licensing activity to the detriment of both IP-rich and IP-consuming companies. The Abstract also suggests that, as more companies with substantial IP mature and face financial difficulties, continued uncertainty about the treatment of IP and IP Licenses will limit the ability of companies to invest in technology-based businesses and creative activities, and to secure financing premised on the continuation of necessary (but shared) IP.

C. The Proposal

3. The Abstract proposes that UNCITRAL undertake a “Project [that] would obtain information regarding the treatment of IP agreements in insolvency proceedings and prepare recommendations to harmonize treatment across legal regimes. The Project would explore national legislative recommendations and the potential for an international convention protecting a limited set of essential rights for IP licensees. The Project’s goal would be to foster more certainty about the treatment of IP agreements in insolvency proceedings and, thereby, assist global technology companies in monetizing their IP and help licensees finance and exploit that IP as they build new businesses.”²

D. Overview of the Paper

4. The UNCITRAL Secretariat accepted the Abstract because it raised issues that may be considered at the Congress. The Authors are submitting this Paper in response to UNCITRAL's invitation to expand on the issues raised in the Abstract.
5. Part II of this Paper stresses that economic growth (for both developed and developing countries) has been enhanced by the dissemination of innovation and technology through IP licensing and that IP licenses play a critical role in new business development and financing. Therefore, the protection of IP and IP Licenses by various countries' insolvency laws, and in cross-border insolvencies, may be expected to affect economic development and the diversification of national economies.
6. Any analysis must consider the distinct policies underlying *intellectual property laws* (i.e., promoting asset creation and investment in research and development) versus *insolvency laws* (i.e., promoting economic stability and growth, maximizing the estate, assuring equitable distributions, and protecting parties' rights and expectations). Identification of the policies underlying various countries' intellectual property laws and insolvency laws is a critical first step in realizing the eventual goal of harmonizing the treatment of IP and IP Licenses in cross-border insolvencies.
7. Part III of this Paper reviews a possible approach, which emphasizes protecting the rights and interests of both debtors and non-debtors with respect to IP and IP Licenses, and evaluates how traditional insolvency concerns could be balanced with policies that favor the creation, development, and dissemination of IP.
8. Part IV of this Paper highlights recent developments in Germany and Canada relating to these issues. Similarly, a recent survey conducted by the *Association Internationale pour la Protection de la Propriété Intellectuelle* ("AIPPI") indicates that professionals in many countries believe that increasing harmonization in the treatment of IP and IP Licenses under various countries' insolvency laws is a high priority.
9. Finally, Part V summarizes suggestions made by various commentators concerning guiding principles for, and approaches to, harmonizing treatment of IP and IP Licenses by various countries' insolvency regimes that may be considered by UNCITRAL in any project it may undertake in this area.

II. Intellectual Property and International Trade

A. Importance of Intellectual Property to International Trade and Commerce

10. A significant portion of many companies' market value is found in their portfolios of intangible assets—"from the better defined forms of intellectual property (such as patents and copyrights) to the least tangible of the intangibles (trade secrets and know-how) and trademarks"³—and "[i]ntellectual property-based industries have become an increasingly vital part of the economy"⁴ Economists generally accept that innovation and technological advancements drive economic development and growth

throughout the world and are powerful determinants in the rate of increases in economic efficiency. Similarly, economists find that innovation and its transfer to developing nations depends upon legal protection of IP. This legal protection encourages the transfer of technology through direct imports and foreign investment,⁵ and these technology transfers often diffuse to domestic firms and increase the rate at which developing countries generate their own IP.⁶ “[T]he World Bank has reported that since 1980, the world’s greatest economic gains have been achieved by developing nations that aggressively opened their economies to foreign technologies . . . and protected the intellectual property rights of their developers.”⁷ As Paul Romer, one of the world’s leading experts on economic growth, has written: “If [a developing country] offers incentives for privately held ideas to be put to use within its borders (for example, by protecting foreign patents, copyrights and licenses, and by permitting direct investment by foreign firms), its citizens can soon work in state-of-the-art productive activities.”⁸

11. In the United States, IP-intensive industries are a growing part of both the economy and foreign trade. For example, eighty-one American industries from among 313 studied by Shapiro and Hassett were found to be IP-intensive, and these IP-intensive industries directly accounted for 27.9 million jobs in 2014 (up 800,000 from 2010) and indirectly supported 17.6 million more supply chain jobs throughout the economy. The share of total U.S. GDP attributable to IP-intensive industries increased from 34.8 percent in 2010 to 38.2 percent in 2014. In total, IP-intensive industries directly and indirectly supported 45.5 million jobs, about thirty percent of all employment. Exports of service-providing IP-intensive industries totaled about \$81 billion in 2012, and accounted for approximately 12.3 percent of total U.S. private services exported in 2012.⁹ In China, companies such as Alibaba, China Mobile, and Tencent rely heavily on IP.

B. Role of Intellectual Property Licenses

12. Few, if any, companies that develop IP can exploit that IP for every conceivable purpose. IP Licenses are the primary means by which IP is shared in modern economies. IP Licenses allow the developer of IP to encourage the broader exploitation of technological innovation and creative activities and to re-invest the proceeds of such exploitation in further IP development or other business activities. Equally important, IP Licenses provide a financing source for IP owners (including inventors and creators) who otherwise may not be able to commercialize their inventions.
13. For licensees, IP Licenses allow better situated players to adapt and exploit creative works, encouraging investment in IP-intensive industries.¹⁰ In the international economy, many businesses rely on in-bound IP licenses (especially patents or trade secret licenses) and expend significant resources on research, development, and commercialization of drugs and other products incorporating their licensed IP. In the high-tech and the telecommunications industry, cross-licensing systems are important in providing market players with freedom to operate.¹¹ If necessary or valuable IP Licenses are at risk of being terminated in the event a licensor becomes insolvent, a

licensee's business (and its ability to repay investors or lenders) can be severely compromised.

C. Concerns about Treatment of IP Licenses in Cross-Border Insolvencies

14. Many commentators have observed that as IP's importance to companies has increased, the treatment of IP assets in bankruptcy has also become more important.¹² The recent insolvencies of several multinational companies with significant patent portfolios (*e.g.*, *Nortel*,¹³ *Kodak*,¹⁴ and *Qimonda A.G.*¹⁵) drive this point home. The economic stakes in restructuring these enterprises can be extremely high for non-debtors, particularly if a debtor's proposed treatment of its IP licensing arrangements threatens a non-debtor company's ability to continue to use licensed IP or operate economically.
15. With respect to risks on a macro-economic level, almost seventy-five years ago, one of the seminal commentators on international insolvency matters observed: "The problems yet unsolved in international bankruptcy cases are considered a continual threat to and a source of disturbance in the development of international commercial relations."¹⁶ In the face of these risks, "there long has been a consensus among commentators that increased cooperation in insolvency and bankruptcy matters is essential to promoting commerce and trade."¹⁷

III. Treatment of Intellectual Property Licenses in Insolvency

16. A set of issues has been reappearing in courts around the world as insolvency regimes grapple with how to apply general insolvency rules and principles to modern IP licenses. Four of the most commercially important legal questions are: (A) When is a license a property right and when is it a contract? (B) If the licensee is in an insolvency proceeding, when can the debtor licensee assume or assign a license without the licensor's consent? (C) If the licensor is in an insolvency proceeding, when can the debtor licensor terminate the rights of the licensee to the IP? (D) And, also in the case of an insolvency proceeding for a licensor, when can the licensor sell the underlying IP free and clear of the license?

A. Property or Contract?

17. A threshold issue for most insolvency proceedings involving an IP license is whether the license should be treated as a property right (*i.e.*, an entitlement acquired in a pre-bankruptcy sale) or a contractual right (*i.e.*, an entitlement arising under a pre-bankruptcy contract). The issue can be extremely important, and sometimes dispositive to the ability of a debtor to reorganize or monetize, as a going concern, material parts of its operating business.
18. For in-bound licenses (under which the debtor is the licensee), a license that is treated as a property right generally can be retained by a reorganizing debtor, often without regard to a purported termination right of the licensor. In addition, a debtor generally can sell such an in-bound license to third parties without the consent of the licensor,

providing a source of funds for the debtor's reorganization or distributions to creditors.¹⁸ Unpaid amounts under an IP license treated as a property right do not necessarily need to be paid as a condition to reorganization or sale to a third party, as these unpaid amounts often can be treated as other pre-bankruptcy claims in accordance with the applicable rules of priority among creditors. These powers can be especially critical in cases where the debtor requires an in-bound license to make or sell products: the status of a license as property right may be necessary for the debtor to be able to monetize—in addition to its rights under the license—the going concern value of other assets and business lines.

19. In contrast, if an in-bound license is treated as a mere contractual right, a debtor will face more legal challenges if it seeks to preserve or sell its rights under the license, whether alone or as part of an effort to preserve or sell related assets or businesses. As a baseline, the debtor that seeks to assume or assign the IP license will be subject to the jurisdiction's normal rules for the assumption and assignment of contracts, which may require cure of monetary and non-monetary defaults and adequate assurances of future performance. In addition, the contractual restrictions on assignment that are ubiquitous in IP licenses around the world may be enforceable against the debtor under the legal regime's general rules for contracts, or background IP laws may restrict assignability (regardless of contractual language) and override insolvency law. Finally, in some jurisdictions, restrictions on assignment may also prevent *assumption* by the reorganizing debtor, preventing either a liquidation or a reorganization of applicable business lines as a going concern.
20. When the debtor has an out-bound IP license (under which the debtor is a licensor), a license that is treated as a property right in the hands of the non-debtor licensee generally will permit the licensee to continue to the use of the IP for the license term. The debtor will not be able to terminate the license as it would other contracts, or to sell the IP free and clear of the license. In contrast, if an out-bound IP license is a mere contract, the debtor may have the ability to terminate the license or sell the IP without the license, subject to the applicable rules for contracts. The non-debtor IP licensee would be left with a claim for damages, likely treated on a parity basis with other pre-bankruptcy claims. When the non-debtor licensee is dependent on the IP license for operations and unsecured claim recoveries are expected to be low, the resulting bargaining power of the debtor can be substantial—as is the potential uncompensated harm caused to the non-debtor licensee's business from the insolvency proceeding.¹⁹ Some jurisdictions have taken steps to protect non-debtor licensees against this risk.²⁰
21. Commentators note that it is far from clear as to when an IP license constitutes a sale, assignment, or outright transfer of ownership of IP, and when it is a mere contract.²¹ Some legal regimes may look through the form of the IP license to the economic realities of the particular arrangement.²² If the IP licensor is in effect an asset seller that has delivered the IP and owes no further obligations to the debtor, a court may easily find that the transfer to the debtor was a completed sale.²³ However, even where the IP is nominally retained by the licensor, if the payment scheme contemplates a one-time payment by the licensee (rather than a royalty determined on a per unit utilized), the transaction also may be a perfected sale of property rather than a mere contract.²⁴

22. Another important consideration is the type of IP subject to the IP license. Courts have provided substantial guidance in some jurisdictions with respect to patent and copyright licenses, both of which have a history of licensees making substantial business investment to monetize exclusive, as well as non-exclusive, licenses. In some jurisdictions, a debtor with an in-bound license that is an *exclusive* patent license or copyright license may presumptively have rights equivalent to fee simple ownership. On the other hand, a debtor with a *non-exclusive* patent or copyright license is far more likely to be subject to the rules for ordinary contractual relationships that are personal to the debtor (and the license, therefore, will not be assumable or transferable in the manner of a property right).²⁵
23. Adding to the complexity, IP licenses, of all sorts, typically include a network of continuing performance obligations between the licensor and licensee. Examples include obligations to account for and pay royalties; provide notices and submit reports; affix certain labels to products; police trademarks and monitor against infringement; service and maintain the IP; refrain from granting licenses to other parties; provide product upgrades; and forbear in bringing an action or honor a covenant not to sue.²⁶ These provisions can be cited by parties or the court to suggest that IP licenses are contracts, or at least have elements of both property and contract. The resulting uncertainty about when unperformed obligations are substantial enough to create a contract can confuse the rights of the parties to IP licenses, even in cases involving exclusive licenses or licenses that have been fully prepaid.²⁷

B. Can the Debtor Assume or Assign an In-Bound License Without Consent?

24. As discussed above, the treatment of an in-bound IP license can have a significant effect on a debtor's ability to restructure its business or maximize distributions to creditors. Unless applicable IP licenses are clearly property rights, a debtor in most jurisdictions must run a gauntlet of legal issues to preserve or assign its IP licenses.
25. Some of the issues debtors face apply to all contracts that are executory in nature (roughly defined as contracts where material performance remains on both sides). For example, the debtor may be permitted to assume or assign the contract only if it (a) cures defaults or provides adequate assurance that defaults will be promptly cured, (b) compensates the other party, or provides adequate assurance of prompt compensation, for any actual pecuniary loss caused by default, and (c) provides adequate assurance of future performance under the IP License.²⁸ The debtor may be unable to satisfy this test with respect to an IP license for a number of reasons. The debtor may not have the financial capacity to pay remaining license fees in a manner that is equitable with respect to other creditors, forcing the debtor to forfeit the value of licensing fees already paid as well as the value of investment in any underlying business that requires the IP. Alternatively, since many IP licenses include complex non-monetary provisions or may be part of larger contracts or contractual structures, cure by the debtor may technically require more than the mere payment of money. In some circumstances, cure may be impossible because the licensor has the benefit of covenants relating to the control, scope or nature of the debtor's business, which covenants are inconsistent with a viable plan of reorganization.

26. Other issues faced by debtors with important in-bound IP licenses are more specifically related to the special nature of the license. Many jurisdictions have rules that allow a debtor to overcome restrictions on assignment of an ordinary executory contract in order to assume and assign that contract to a purchaser of related business assets. Insolvency law's override of these anti-assignment provisions may not work for IP licenses. Separate statutes may prohibit a debtor-licensee from transferring patents, copyrights and other protected IP.²⁹ Where a statute is not on point, courts in common law jurisdictions have examined trademark licenses and noted the special nature of trademarks, the value of which is affected by business practices and product quality, as well as the obligation of trademark owners to police the mark to avoid abandoning it. As a result of these considerations, the transferability of a trademark license may require the consent of the non-debtor IP licensor even in jurisdictions where anti-assignment clauses in contracts are typically overridden.³⁰ There are similar cases relating to trade secrets.³¹
27. In some jurisdictions, restrictions on assignment may also prevent *assumption* by the reorganizing debtor. As an example, certain (but not all) U.S. jurisdictions read the U.S. Bankruptcy Code as preventing a debtor from assuming a contract that the debtor could not assign to a third party.³² For most contracts, which can be renegotiated or replaced, this limitation is not dispositive to the ability of a debtor to reorganize or distribute value to its creditors. However, where the debtor's business requires a critical in-bound IP license and the licensor (perhaps a competitor) is not willing to consent to the assumption, the inability of the debtor to assume the IP license may prevent an otherwise viable reorganization.

C. Can the Debtor Terminate an Out-Bound IP License?

28. When an IP licensor is subject to insolvency proceedings, third-party licensees can be exposed to substantial business risks. Unless the IP license is clearly a property right, the non-debtor licensee may be unable to prevent rejection and termination of the IP license. The consequences of rejection of the debtor's out-bound license, can be devastating to the licensee, and disproportionate to the value of the license to the debtor. This is particularly true where the non-debtor licensee has prepaid a substantial part of the remaining value of the license or where the non-debtor licensee has made substantial investments or third-party commitments (including, potentially, borrowing funds) to build out a business using its licensed IP.³³
29. The debtor may have broad discretion to reject an out-bound IP license that is not a property right. Generally, courts can be expected to review a debtor's discretionary business decision to reject contracts from the standpoint of the best interests of the debtor's estate, *not* the best interests of the licensee. Upon rejection, the licensee can be left with an unsecured claim for the value of the lost IP license. However, this claim is unlikely to take into account consequential, lost profits and similar damages. More fundamentally, absent special circumstances, the claim is only a pre-bankruptcy claim that ranks equally with other pre-bankruptcy claims and must share recoveries appropriately.

30. More is at stake than the fairness of IP-related insolvency proceedings. The real risk of rejection of an IP license in the licensor's insolvency proceeding is that it creates special concerns for people considering business investments that depend on long-term, reliable access to licensed IP. The current financial situation of the licensor may be difficult to ascertain, and the future financial situation impossible to predict—and a dispositive legal opinion concerning the potential treatment of the IP License upon insolvency will be next to impossible in most jurisdictions given the state of current law. Although further study into these matters would be useful, it is logical to assume that some investments are not being made, some loans are not being extended, and some IP licenses are not being issued in circumstances where there are concerns about licensor credit risk. This gap in licensing activity could be restricting the availability of IP for companies that desire it. The gap also may be reducing the ability of maturing (or even financially distressed companies) to license their IP to reinforce their balance sheets and prevent insolvency in the first place.
31. Recognizing the potential unfairness to licensees and chilling effect on licensing activity, one approach has tried to balance the interests of the debtor licensor (*i.e.*, restructuring its business operations and maximizing the estate) with the interests of the non-debtor licensee (*i.e.*, continuing to exploit the IP in its business). This approach provides that the debtor cannot terminate the IP license and strip the licensee of its rights, but also that the licensee cannot retain the use of those rights without paying for them.³⁴ Upon rejection of its IP License, the non-debtor licensee may elect either (A) to treat the rejection as termination of the IP license (and assert a rejection damage claim) or (B) to continue to pay and perform under the IP license and retain its rights in the IP as that IP exists at the time of the bankruptcy filing. If the licensee elects to continue to pay and perform, the debtor must (a) provide the licensee with the right to use the IP held by the debtor and perform its related obligations under the license and (b) not interfere with the licensee's rights as provided under the rejected license.³⁵
32. Under this approach, if the non-debtor licensee elects to retain its rights, it might retain all rights (a) as set forth in the rejected license and any supplementary agreement (regardless if the supplementary agreement itself was rejected), (b) to any judicial relief necessary to enforce that set of rights, (c) to compel certain specific performance (*e.g.*, to enjoin the additional licensing of the rights granted to the licensee) to the extent provided in the license, (d) to obtain possession of any embodiment of the IP to which it is entitled (including any prototype that was to be prepared, any genetic material needed to produce a biotechnical product, or computer source code); and (e) upon written request, to receive the IP (including any embodiment) to the extent provided for in the license or any supplementary agreement and to enjoy, without interference, its rights to the IP, or to obtain a copy of the IP from any entity.³⁶ However, the non-debtor licensee may be required to waive its rights (a) to set off any damages for breach arising from the rejection³⁷ and (b) to an administrative claim based on post-petition performance under the IP License.³⁸ The licensee also could be required to pay all royalties arising under the rejected license.³⁹

D. Can the Debtor Sell IP Free and Clear of an Out-Bound License?

33. With respect to IP assets the debtor may seek to transfer the assets free and clear of liens, encumbrances, and interests to facilitate either reorganization or liquidation.⁴⁰ A sale free and clear of “interests” should result in the IP being transferred free and clear of any obligation that may flow from the ownership of the property being sold, potentially including an IP license.⁴¹
34. Where the debtor is the patentee with respect to a patent or the registered owner of a copyright, the ability of the debtor to transfer is generally clear under applicable law. Where the debtor is not the registered owner, the situation can be more complicated because what constitutes a sale or complete transfer of ownership in the IP to the debtor may not be entirely certain and may be subject to dispute.⁴² Determining whether the original transfer of specific IP to a debtor was a sale or conveyance of all ownership interests may require a court to focus on the actual terms of the transfer, performance by the parties with respect to the agreement, the scope of the interests in the IP that were transferred to the debtor, and the specific law governing the IP.⁴³
35. Trademarks and service marks may be assigned along with the goodwill of the business in which they are used. Thus, while the sale of a trademark or a service mark alone (generally) is not permitted, a trademark or service mark could be sold as part of the sale of substantially all of the debtor’s assets.⁴⁴
36. Trade secrets (*e.g.*, computer software, both object code and source code, and customer databases)⁴⁵ are personal property and assignable, and their ownership is determined through contract law.⁴⁶ Presumably, then, upon the appropriate protections of the trade secret, it is an asset that may be sold by a debtor.⁴⁷
37. If the debtor purports to transfer IP “free and clear” of existing licenses, the applicable IP licensees may lose their license rights if they fail to object to the sale, regardless of the strength of their license entitlement.⁴⁸ If the IP licensees object to the sale, they may still lose their license entitlement if the debtor contests the objection and is able to pass the applicable test for sale “free and clear,” which will consider such factors as whether the sale price exceeds the aggregate value of liens on the IP and whether the license qualifies as an “interest” covered by section 363(f) of the Bankruptcy Code.⁴⁹
38. Another legal issue raised by IP sales in bankruptcy is the prevalence of ownership disputes relating to IP, which can have complicated rules about ownership and co-ownership based on the history of a particular invention, design, process, or recordation. This is a specialist area of the law with which insolvency courts are often unfamiliar. Yet to restructure its operations or to maximize value, a debtor may determine that an IP asset must be sold promptly and that any delay in effectuating that sale poses significant risks to the insolvency case. In the *Eastman Kodak* case, the debtor sought an order to assist in its proposed sale of patents, free and clear of all interests, while parties asserting conflicting ownership interests in the patents opposed any sale before the ownership issues were resolved. The *Kodak* court considered the interests of the parties, including the concern that the patent ownership dispute

(involving a complex jury trial in U.S. practice) could not possibly be resolved during the duration of the chapter 11 case. Accordingly, the court held that the asset sale could go forward prior to a definitive resolution of ownership because the value of the IP might be diminished if the sale was delayed. The *Eastman Kodak* court stressed that the interests of the parties contesting ownership would be protected by escrowing the sale proceeds pending adjudication of the ownership interests.⁵⁰

IV. Recent Developments in the Treatment of IP Licenses in Insolvency

39. Part IV of this Paper reviews recent developments in the insolvency laws of Germany and Canada, and recent efforts by AIPPI, with respect to the treatment of IP and IP Licenses by national insolvency regimes and in cross-border insolvencies. These developments highlight the timeliness of UNCITRAL undertaking a Project to study the treatment of IP and IP Licenses under national insolvency and bankruptcy laws and in the context of cross-border insolvencies, and to develop appropriate legal reforms.

A. Developments in German Law Concerning Treatment of IP Licenses

40. Developments over the last several years suggest that German insolvency and restructuring practice is concerned about issues related to treatment of IP Licenses. The Authors submit that these developments merit study by UNCITRAL if it undertakes a Project addressing the treatment of IP Licenses in cross-border insolvencies.
41. As a starting point, it is important to note that, unlike the U.S. Bankruptcy Code, the German Insolvency Code (the “**InsO**”) does not include any specific protections of IP Licenses,⁵¹ nor do any other German statutes specifically address the impact of insolvency on an IP License.⁵² One commentator describes the treatment of IP Licenses by German insolvency laws as characterized by a “significant lack of clarity.”⁵³ Other commentators, however, note that cases construing German insolvency law as it pertains to IP have developed rapidly in recent years.⁵⁴
42. German insolvency law treats contracts characterized by on-going obligations that are not fully performed by both parties as “executory.” These contracts are subject to the general rules relating to executory contracts in InsO § 103.⁵⁵ Section 103 authorizes an Insolvency Administrator, in its sole discretion, to take one of the following actions: (a) perform the contract (with the non-debtor holding a preferential claim); (b) refuse to perform the contract (with the non-debtor holding a pre-bankruptcy claim); or (c) transfer the contract to a third party (with the contract remaining in force). Under case law, IP Licenses are treated as contracts subject to InsO § 103 and, in practice, these contracts always involve ongoing contractual duties (*e.g.*, payment of license fees, reporting requirements) that remain to be performed for the full duration of the contract.⁵⁶
43. Additionally, when the debtor is a licensor under an out-bound IP License, the Insolvency Administrator of a debtor-IP licensor may terminate an IP License⁵⁷ and, thereafter, re-license the IP rights at a higher royalty fee.⁵⁸ While the non-debtor IP

licensee is entitled to file a claim for monetary damages arising from this termination, a claim may be of limited (if any) value where the insolvency estate is insufficient to provide a full recovery for the damages.⁵⁹

B. Protecting A Non-Debtor IP Licensee’s Right to Use IP

44. The InsO provides no statutory protections permitting a *non-debtor IP licensee* to continue its use of IP after termination of an IP License.⁶⁰ However, recent German case law suggests that, under certain circumstances, a non-debtor IP licensee may not be denied continued use of its IP rights. For example, in certain lower court decisions involving patent cross-licenses in *Qimonda*, the courts denied the debtor’s rejection of mutually beneficial patent cross-licenses.⁶¹ The outcome in this case (and other lower court cases) permitting the cross-licensees to continue to use the IP appears to turn on the finding that, although the patent cross-licenses were mutual, they had been fully performed.⁶² Essentially, it appears that, because the IP Licenses were not “executory contracts,” InsO §103 could not authorize any termination of rights under the cross-licenses. It is important to note that these cases were settled before the German Federal Court of Justice issued a binding decision.⁶³
45. Similarly, recent judicial decisions have held that (a) a sub-license of IP granted by a *debtor IP sub-licensor* remains valid after the initial IP License was terminated and (b) this rule applies in insolvency. This outcome is based on the principle of “Sukzessionsschutz” (*i.e.*, the protection of IP licensee in the event of a transfer of the IP), a balancing of interests, and the distinction between a license contract (an obligation) and a license (right to use).⁶⁴
46. This case law may indicate an increasing sensitivity to the significant effects on a non-debtor IP licensee if it is denied access to its licensed IP after disclaimer of the IP License, or its actual termination. The *Qimonda* cases suggest that, as is the rule under the U.S. Bankruptcy Code, if the underlying contract conveyed all ownership rights in the IP and it has been fully performed, the contract simply is not “executory” and cannot be terminated. The other cases suggest that, again as in the U.S., if a law intended to protect IP rights (*e.g.*, Sukzessionsschutz) applies and the equities of the case are compelling, a court may act to protect the interests of the IP licensee in continued use of the IP. These results mirror the outcomes one would expect under §§363(b) and 365 of the U.S. Bankruptcy Code. Certainly, the parameters of these developments under German insolvency law merit study by UNCITRAL if it undertakes the proposed Project.

C. Recent Reforms of the German Insolvency Law

47. In 2012, German insolvency law was modernized by the “Act to Facilitate Corporate Restructuring” (*Gesetz zur Erleichterung der Sanierung von Unternehmen*). These changes to German insolvency law shift the focus towards debtor- and creditor-driven proceedings, promote companies’ efforts to reorganize rather than liquidate, grant creditors and debtors more effective rights to influence the insolvency proceedings, and expand on the restructuring measures that can be undertaken as part of an insolvency

plan.⁶⁵ Although the InsO has not been revised specifically to address the rights and interests of licensors and licensees of IP,⁶⁶ an unsuccessful effort in 2012 to amend InsO §108a indicates increased awareness of the importance of addressing IP Licenses. This proposed revision would have provided that, after termination of either an exclusive or non-exclusive IP License, a non-debtor IP licensee would have the right to request that the Insolvency Administrator negotiate a new license agreement on "adequate terms."⁶⁷ Although this provision would not have retained the non-debtor's original economic bargain (as is the case under § 365(n) of the U.S. Bankruptcy Code), it would have provided the non-debtor IP licensee an opportunity to retain usage of IP critical to its business.

D. Developments in U.S. Law Concerning Treatment of Intellectual Property Licenses

48. The United States has long been concerned with the four questions addressed above. Of particular note is the reaction in the United States to the decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*⁶⁸ In *Lubrizol*, the Fourth Circuit upheld the debtor's rejection of its out-bound patent license, termination of that license because of the rejection, and the resulting deprivation of Lubrizol's continued right to use the patent in its business. In reaction to *Lubrizol*, Congress enacted the *Intellectual Property Licenses in Bankruptcy Act* ("IPLBA") "to protect licensees' rights to intellectual property in the event of a bankruptcy."⁶⁹ The critical provisions of IPLBA were codified as § 365(n) and § 101(35A) of the U.S. Bankruptcy Code, and their purpose is "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license."⁷⁰
49. However, section 365(n) only applies to certain types of intellectual property and, notably, excludes trademarks. In *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*,⁷¹ the Seventh Circuit held that the debtor's rejection of a trademark license, which was part of a supply agreement that related to the manufacturing and sale of electric fans by a third party, did not automatically extinguish the licensee's right to use the debtor's trademarks. The *Sunbeam* court stated that "an omission is just an omission. The limited definition in § 101(35A) means that § 365(n) does not affect trademarks one way or the other."⁷² The court examined the legislative history of §365(n) and suggested that "the omission [of trademarks from the definition] was designed to allow more time for study, not to approve *Lubrizol*."⁷³ The Seventh Circuit determined to focus on § 365(g), which sets forth the consequences of a rejection under § 365(a) and held that "rejection is not the functional equivalent of a rescission [as *Lubrizol* suggests], rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed. . . . It merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence."⁷⁴
50. Another noteworthy development in the United States considers chapter 15 of the Bankruptcy Code, which incorporates the UNCITRAL Model Law on Cross-Border Insolvency. U.S. courts have broadly accepted the central proposition of the Model

Law and, after recognizing a foreign main proceeding, typically defer to the orders issued by the court in the jurisdiction in which the foreign main proceeding occurs. U.S. courts have done so even when the foreign order is inconsistent with analogous principles of U.S. bankruptcy law.⁷⁵ Exceptions to this judicial rule of comity are rare.⁷⁶

51. However, one of the few exceptions involves IP. In *Jaffe v. Samsung Electronics Co., Ltd., (Qimonda)*,⁷⁷ the court was faced with the question whether to assist in the enforcement of a German court order that would strip license rights from a patent licensee in a manner that, although permitted under German law, would have been prohibited in a chapter 11 case because of section § 365(n) of the U.S. Bankruptcy Code. That section, as discussed above, protects a non-debtor licensee from the rejection of its IP license by the debtor and provides, upon rejection, a replacement IP entitlement that mirrors the original term of the license so long as the licensee continues to perform and pay amounts due under the IP license. In the view of the U.S. bankruptcy court, § 365(n) established a U.S. public policy that was so important it overcame the principle of deference enshrined in chapter 15.
52. The *Jaffe* decision was upheld on appeal, with the appellate court stressing that “[t]his appeal presents the significant question under Chapter 15 of the U.S. Bankruptcy Code of how to mediate between the United States’ interests in recognizing and cooperating with a foreign insolvency proceeding and its interests in protecting creditors of the foreign debtor with respect to U.S. assets. . . .”⁷⁸ The appellate court declined to determine that an order by a foreign insolvency court would be “manifestly contrary” to U.S. public policy any time it terminated a patent license held by a U.S. person, holding that the use of chapter 15 for that purpose on the facts of the *Jaffe* case was improper. However, the *Jaffe* decision, along with *Sunbeam*, illustrated the growing U.S. trend to protect licensee rights against licensor insolvency.⁷⁹ The Project should examine these conclusions.

E. Developments in Canadian Law Concerning Treatment of Intellectual Property Licenses.

53. Recent changes in Canadian insolvency law also recognize the importance of balancing the rights and interests of debtors and non-debtors with respect to IP Licenses. In 2009 the Canadian Companies’ Creditors Arrangement Act (“CCAA”) was amended to create protections for *non-debtor IP licensees* that are substantially like those created by § 365(n) of the U.S. Bankruptcy Code. Under CCAA § 32(6), if a debtor IP licensor has granted a right to use IP to non-debtor IP licensee, the disclaimer or resiliation of the IP License does not affect the non-debtor IP licensee’s right to use the IP (including an exclusive use) during the remaining term of the IP License provided the non-debtor IP licensee continues to perform its obligations under the IP License.⁸⁰ This balancing of the non-debtor IP licensee’s right to continue use of IP pursuant to a disclaimed IP License, while also being obligated to perform its duties under that license, is substantially similar to the balancing of interests codified by § 365(n) of the U.S. Bankruptcy Code. Both CCAA § 32(6) and § 365(n) of the U.S. Bankruptcy Code also provide that, after disclaimer of the IP License, the debtor IP licensor no

longer is bound to perform the terms and conditions of the IP License⁸¹ and the non-debtor IP licensee cannot compel the debtor IP licensor to take any action to assure the IP's validity and value are maintained.⁸² This revision demonstrates that balancing the rights of non-debtor IP licensees with the traditional interests of debtors in maximizing the estate is increasingly becoming part of modern insolvency laws.

F. AIPPI's Survey of the Treatment of IP Licenses in Insolvency and Bankruptcy

54. In 2014, the AIPPI conducted a survey of 39 national and regional groups to examine the treatment of licensing agreements in insolvency. Overall, the AIPPI Working Group determined that a majority of all national and regional groups contributing to the AIPPI Survey favored harmonization of laws relating to treatment of IP licensing in bankruptcy and insolvency proceedings. The AIPPI Survey also indicated that many countries lack clear protections or guidance for licensing parties involved in insolvencies and that the approaches to treating licensing agreements vary dramatically, even in countries where guidance does exist.⁸³ Likewise, there is no consensus concerning the proper scope of authority for an estate representative to assume (or ratify), assign, modify, or terminate an IP License, or whether there should be restrictions of this authority.⁸⁴ Finally, the Working Group Survey indicated that, although many countries' insolvency laws do not treat IP rights or IP licenses differently from other contracts, a minority of States (*e.g.*, the United States and Canada) afford IP rights and IP licenses special treatment in comparison to other types of contracts.

V. Proposals for UNCITRAL Project on Treatment of IP Licenses in Insolvency

55. This Paper submits there is a growing consensus that harmonizing the treatment of IP and IP Licenses in cross-border insolvencies would contribute significantly to UNCITRAL's goals of promoting economic development for developing countries and harmonizing laws governing commercial transactions.
56. As a starting point, the Authors submit that any Project undertaken in this area by UNCITRAL should study national insolvency regimes that expressly seek to balance, on the one hand, the rights and interests of licensors and licensees with respect to IP and, on the other, policies focusing on debtor-creditor rights embodied by these insolvency regimes. In that regard, this Paper has mentioned the treatment of non-debtor IP licensees' rights to use licensed IP after rejection as embodied in § 365(n) of the U.S. Bankruptcy Code and § 32(6) of the Canadian CCAA and the protection of non-debtor IP licensors rights to control dissemination of their IP. Other approaches should also be studied and considered in cataloging current practices and developing model laws on these issues.
57. Recent developments in Canada and Germany, as well as the findings from the AIPPI Survey, demonstrate that these issues are recognized as significant for countries' insolvency regimes. Simply put, a growing consensus concerning the importance of these issues argues in favor of UNCITRAL undertaking a Project to assess the

treatment of IP and IP Licenses in cross-border insolvencies and to explore ways to increase harmonization in this area.

58. Additionally, any UNCITRAL Project may benefit from considering the findings of the AIPPI Working Committee's Survey with respect to these issues. This AIPPI Survey found consensus on three principles: (1) harmonization of laws governing the treatment of IP Licenses during bankruptcy and insolvency proceeding should be strongly encouraged at both regional and international levels; (2) the pertinent legal rule should apply equally to all types of IP rights, and make no distinction between foreign and national IP rights; and (3) the pertinent rule should apply equally to exclusive or nonexclusive IP Licenses. The AIPPI Working Committee also approved the following principles that it asserts should be applied to the treatment of IP Licenses in bankruptcies and insolvencies:

- Any clause in an IP License restricting or prohibiting transfer or assignment of an IP License during a bankruptcy or insolvency proceeding should be enforceable.
- If an IP License is terminated during a bankruptcy or insolvency proceeding, the licensee should not be able to continue using the underlying IP rights unless the licensee continues to make all required payments.
- Rules should be enacted that specifically address IP rights or IP Licenses in bankruptcy or insolvency proceedings, in addition to rules governing other types of contracts, assets, and property rights.
- An administrator's ability to adopt, assign, modify, or terminate an IP license, if any, should be restricted to *keeping the balance of different interests involved* and upon guaranteeing the normal exploitation of IP licenses and the payment to creditors involved in bankruptcy and insolvency proceedings.
- A solvent IP licensee should have the option to acquire the pertinent IP rights or to continue as an IP licensee, at least until the regular termination of the contract.

ENDNOTES

¹ The Abstract was submitted by all the Authors of this Paper. The Authors wish to thank Stephen Childs, Associate at Sullivan & Cromwell LLP, and Reid Gaa, 1L at the University of California, Hastings College of the Law, for their assistance with this proposal.

² See ABSTRACT: Treatment of Intellectual Property Licenses In Cross-Border Insolvency Proceedings.

³ Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L. J. 735 (2007) [hereinafter Menell, Bankruptcy Treatment IP Assets].

⁴ Anthony Duggan and Norman Siebrasse, *The Protection of Intellectual Property Licenses in Insolvency: Lessons from the Nortel Case*, 4 PENN ST. J. L. & INT'L AFF., 489, (insert page cite) (2015) [hereinafter Duggan and Siebrasse, Protection of IP].

⁵ Robert Shapiro and Kevin A. Hassett, *The Economic Value of Intellectual Property* (October 2005) [last visited (Dec. 20, 2016), <http://www.sonecon.com/docs/studies/IntellectualPropertyReport-October2005.pdf>] [hereinafter Shapiro and Hassett, Economic Value].

⁶ *Id.* at 2-3.

⁷ *Id.* at 5-6.

⁸ *Id.* at 4.

⁹ *Id.*

¹⁰ Menell, Bankruptcy Treatment IP Assets, *supra* note 3, at 741 n.12.

¹¹ See, generally, Eisenbach and Kalnit, *Intellectual Property Issues and Challenges in Bankruptcy Cases*, 2015 Ann. Surv. of Bankr. Law at 3 [hereinafter Eisenbach and Kalnit, IP Issues]; Explanatory Note to Working Committee survey of 39 national and regional groups to examine the treatment of licensing agreements in insolvency presented at the 2014 World Congress – Toronto of the Association Internationale pour la Protection de la Propriété Intellectuelle at 1 (last visited Dec. 7, 2016), <http://aippi.org/wp-content/uploads/committees/241/Report241Explanatory+noteEnglish.pdf>]; *Managing Intellectual Property: The Messy Problem Of IP Licensing During Insolvency* (last visited Oct. 18, 2016), <http://www.managingip.com/Article/3380814/The-messy-problem-of-ip-licensing-during-insolvency.html> [hereinafter Managing Intellectual Property: The Messy Problem]; Menell, Bankruptcy Treatment IP Assets, *supra* note 3, at 735-36.

¹² See e.g., *Intellectual Property and the U.S. Economy: 2016 Update*, Economic and Statistics Administration, U.S. Department of Commerce, at pg. i. at <http://www.esa.doc.gov/sites/default/files/ip-and-the-us-economy-september-2016.pdf> (last visited Dec. 17, 2016); Duggan and Siebrasse, *supra* note 4; Managing Intellectual Property: The Messy Problem, *supra* note 11; Explanatory Note to 2014 AIPPI Working Committee, *supra* note 11, at 1; Menell, Bankruptcy Treatment IP Assets, *supra* note 3, at 735; The Economics Of Intellectual Property: Suggestions for Further Research in Developing Countries and Countries with Economies in Transition (2009), World Intellectual Property Organization, at 45 (last Dec. 20, 2016), http://www.wipo.int/edocs/pubdocs/en/economics/1012/wipo_pub_1012.pdf); Shapiro and Hassett, Economic Value, *supra* note 5, at *2.

¹³ Nortel's global business, once worth \$250 billion with 93,000 employees, collapsed in January 2009. Its businesses and patents were quickly auctioned off, raising \$7.5 billion. "Milestone' Nortel Settlement Gets Court Approval," 28 Westlaw Journal Delaware Corporate 10 (2014), at *1.

¹⁴ In Eastman Kodak Company's U.S. bankruptcy case, the intellectual property giants Apple, Inc. and Google, Inc. competitively bid more than \$250 million for a portion of the debtors' portfolio of intellectual property assets related to smart phone technology. Ashby Jones, Dana Mattioli, and Mike Spector, *Apple, Google Line Up to Bid for Kodak's Patents*, WALL ST. J. (July 27, 2012), <http://online.wsj.com/article/SB10000872396390443343704577553341769199960.html>.

¹⁵ Qimonda, a German company, owned approximately 4,000 U.S. patents and approximately \$1 billion of its € 4.5 billion in annual revenues were derived from sales and operations in the United States. See *In re Qimonda AG*, 462 B.R. 165, 168 (Bankr. E.D. Va. 2011), *aff'd sub nom. Jaffe v. Samsung Elecs. Co.*, 737 F.3d 14 (4th Cir. 2013), *cert. denied*, ___ U.S. ___, 135 S.Ct. 66 (Mem), 190 L.Ed. 2d 229, 82 USLW 3662, 83 USLW 3160, 83 USLW 3194 (2014). Qimonda's German Insolvency Administrator brought a

chapter 15 case in the U.S. and sought a determination that the non-debtor licensees could not continue to use these patents (pursuant to 11 U.S.C. § 365(n)) after their rejection. The Fourth Circuit held, *inter alia*, licensees of the U.S. patents, after rejection of their U.S. licenses, retained their rights under § 365(n) to use the U.S. patents under their cross-licenses. 737 F.3d at 32. See Part IV.B.4. of this Paper.

¹⁶ Thomas M. Gaa, *Harmonization of International Bankruptcy Law and Practice: Is It Necessary? Is It Possible?*, 27 *International Lawyer* 881, 884 n.9 (1993) (quoting Kurt H. Nadelmann, *Bankruptcy Treaties*, 93 P. L. Rev. 58, 68-70 (1944)).

¹⁷ *Id.* at 881-82 n.2.

¹⁸ 11 U.S.C. § 365(f)(1), (2).

¹⁹ *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1047-48 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057, 106 S.Ct. 1285(mem.), 89 L.Ed.2d 592 (1986). *Accord*, *Johnson v. Fairco Corp. (In re Johnson)*, 61 B.R. 317, 320 (N.D. Ill. 1986); *United States v. Bicoastal Corp. (In re Bicoastal Corp.)*, 125 B.R. 658, 667 (M.D. Fla. 1991); *In re Logical Software*, 66 Bankr. 683, 685, 687 (Bankr. D. Mass. 1986) (approving rejection even though the licensee's business was based entirely upon its use of the debtor's software and supplemental code developed by the licensee).

²⁰ *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012), *cert. denied*, ___ US ___, 133 S.Ct. 790 (Mem.), 184.2d 596 (2012) (holding that rejection of an executory licensing agreement does not terminate the license); *see, also*, Siddharth P. Sisodia, 24 No. 2 J. Bankr. L. & Prac. NL Art. 4 at * 1. In addition to its right to assert a rejection damage claim pursuant to § 365(g) or retain its rights pursuant to § 365(n), the non-debtor licensee to an IP License may enforce a valid and fully vested contract that is non-executory. *See Leasing Service Corp. v. First Tennessee Bank Nat. Ass'n*, 826 F.2d 434 (6th Cir. 1987).

²¹ *See, e.g.*, Menell, *Bankruptcy Treatment IP Assets*, *supra* note 3, at 735; David Cisar, "Exclusive And Non-Exclusive IP Licenses And Executory Contract Assumption And Assignment: Does Exclusivity Matter?" *Am. Bankr. Inst. J.* 28 (2003) [hereinafter Cisar, *Exclusive And Non-Exclusive IP Licenses*].

²² *Microsoft v. Dak Industries, Inc. (In re Dak Industries, Inc.)*, 66 F.3d 1091, 1095 (1995). *See also Zenith Products v. AEG Acquisition Corp. (In re AEG Acquisition Corp.)*, 161 B.R. 50 (9th Cir. B.A.P. 1993) (holding that a transaction structured as a license of intellectual property with a security interest granted to assure payment may be deemed by a court to be a "conditional sale" and not an "executory contract").

²³ *Id.*

²⁴ *Id.*

²⁵ *See e.g.*, *In re Catapult Entm't, Inc.*, 165 F.3d 747 (9th Cir. 1999); *Gilson v. Republic of Ireland*, 787 F.2d 655, 658, 229 U.S.P.Q. 460 (D.C. Cir. 1986); *In re Access Beyond Techs., Inc.*, 237 B.R. 32 (Bankr. D. Del. 1999).

²⁶ *See Lubrizol*, 756 F.2d at 1045; *Otto Preminger Films Limited v. Qintex Entertainment, Inc. (In re Qintex Entertainment, Inc.)*, 950 F.2d 1492, 1495 (9th Cir. 1991); *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311 (Bankr. D. Del. 2001); *In re Access Beyond Technologies, Inc.*, 227 B.R. 32 (Bankr. D. Del. 1999); *In re Learning Publ'ns, Inc.*, 94 B.R. 763, 765 (Bankr. M.D. Fla. 1988); *In re Stein & Day, Inc.*, 81 B.R. 263, 267 (Bankr. S.D.N.Y. 1988).

²⁷ *See* Cisar, *Exclusive And Non-Exclusive IP Licenses*, *supra* note 21, at 28 ("Many cases start out on the assumption that the agreement at issue is an executory contract. In other cases, the first argument of debtors, their lenders and the putative acquirers (who are attempting to accomplish a transaction) is that the agreement at issue is not an executory contract but a completed sale, assignment or transfer, and therefore § 365 does not apply. The cases are far from clear as to what is a sale, assignment or outright transfer (or how a court distinguishes between them). However, courts do not have difficulty in reviewing the agreements at issue to find sufficient performance due each side such that failure of either to complete performance would constitute a material breach excusing the performance of the other, thereby fulfilling the *Countryman* test of what constitutes an executory contract.") (internal citations omitted).

²⁸ *See* 11 U.S.C. § 365(b)(1).

²⁹ *See* 35 U.S.C. § 261. *See also PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1093 (6th Cir. 1979) ("Questions with respect to the assignability of a patent license are controlled by federal law. It has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so."); *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996) ("Allowing free assignability—or, more accurately, allowing states to allow free assignability—of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented

invention could either seek a license from the patent holder *or* seek an assignment of an existing patent license from a licensee.”).

³⁰ See *In re XMH Corp.*, 647 F.3d 690, 695 (7th Cir. 2011); *In re N.C.P. Marketing Group, Inc.*, 337 B.R. 230, 235-36 (D.Nev.2005); *Accord, Miller v. Glenn Miller Prods.*, 318 F. Supp. 2d 923 (C.D. Cal. 2004); *Tap Publ'ns, Inc. v. Chinese Yellow Pages (New York), Inc.*, 925 F. Supp. 212, 218 (S.D.N.Y. 1996) (barring assignment of exclusive trademark license that was silent on assignment without trademark owner's consent); *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 123 (Bankr. D. Del. 2015) (“the substantial weight of authority holds that under federal trademark law, trademark licenses are not assignable in the absence of some express authorization from the licensor, such as a clause in the license agreement itself. See, e.g., *XMH*, 647 F.3d at 695 (“as far as we've been able to determine, the universal rule is that trademark licenses are not assignable in the absence of a clause expressly authorizing assignment”); *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 988, 992-93 (9th Cir. 2006); *N.C.P. Mktg. Group, Inc. v. Billy Blanks (In re N.C.P. Mktg. Group, Inc.)*, 337 B.R. 230, 235-37 (D. Nev.2005); 3 *McCarthy on Trademarks* § 18:43 (4th ed. 2010).”).

³¹ Menell, *Bankruptcy Treatment of Intellectual Property Assets*, *supra* note 3, at 748.

³² See 11 U.S.C. § 365(c)(1). See also *Matter of W. Elecs. Inc.*, 852 F.2d 79 (3d Cir. 1988) (holding that, under § 365(c)(1) of the Bankruptcy Code, if applicable law prohibits the assignment of an executory contract by the debtor without the consent of a non-debtor party to the contract, the debtor may neither assign *nor assume* the contract—whether or not the debtor actually intended to assign the contract); *In re Catapult Entm't, Inc.*, 165 F.3d at 750 (“The literal language of § 365(c)(1) . . . establish[es] a “hypothetical test”: a debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor in possession has no intention of assigning the contract in question to any such third party.”); *In re Hernandez*, 285 B.R. 435 (Bankr. D. Ariz. 2002) (holding that an *exclusive* patent license was not assignable and, therefore, could not be assumed by the debtor). *But see Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 493 (1st Cir. 1997) (adopting an “actual test” in which the court evaluates “whether the nondebtor party . . . *actually* was being forced to accept performance under its executory contract from someone other than the debtor party with whom it originally contracted.”) (internal quotations omitted).

³³ See, generally, Senate Report to the Intellectual Property Bankruptcy Protection Act, Pub. L. No. 100-506, Sen. Rpt. 100-505, Section I., at pg. 1, compiled at COLLIER ON BANKRUPTCY, Appendix F, App. Pt. 41-92 [hereinafter Sen. Rpt. 100-505].

³⁴ *In re Prize Frize, Inc.*, 32 F.3d 426, 428 (9th Cir. 1994).

³⁵ 11 U.S.C. § 365(n)(4)(A), (B).

³⁶ 11 U.S.C. § 365(n)(3).

³⁷ 11 U.S.C. § 365(n)(2)(C)(i). See Sen. Rpt. 100-505 at 10.

³⁸ 11 U.S.C. § 365(n)(2)(C)(ii). See Sen. Rpt. 100-505 at 10.

³⁹ 11 U.S.C. § 365(n)(2)(B);

⁴⁰ Section 363(f) provides for the sale of property of the estate free and clear of liens and interests in such property if (1) applicable nonbankruptcy law permits a sale of such property free and clear of such interests; (2) the holder of the lien or interest consents to the sale; (3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property; (4) the interest is in bona fide dispute; or (5) the entity holding the lien or interest could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

⁴¹ Rather than formulating a single precise definition for “any interest in such property,” courts have continued to address the phrase “on a case-by-case basis.” See *Elliot et al. v. General Motors LLC (In Matter of Motors Liquidation Company)*, 829 F.3d 135, 155 (2d Cir. 2016) (citing 3 COLLIER ON BANKRUPTCY ¶ 363.06[1]). The language in § 363(f) permits the sale of property free and clear of *in rem* interests in the property. *FutureSource LLC v. Reuters Ltd.*, 312 F.3d 281, 285 (7th Cir. 2002).

⁴² See e.g., *In re Eastman Kodak Co.*, 479 B.R. 280 (Bankr. S.D.N.Y. 2012) (holding that as prerequisite to a sale pursuant to § 363(b) or (f), the debtor must have a putative interest in the property and final determination of ownership of the subject asset may be resolved after the sale itself); Cisar, *Exclusive And Non-Exclusive IP Licenses*, *supra* note 21, at 28-29.

⁴³ *Cf.*, *In re Exide Technologies*, 607 F.3d 957 (3rd Cir. 2010). Prior to bankruptcy, Exide sold substantially all of its industrial battery business including physical manufacturing plants, equipment, inventory, and certain items of intellectual property, to EnerSys for about \$135 million. To formalize the sale, Exide and EnerSys entered into numerous agreements including (1) the Trademark and Trade Name License

Agreement, (2) the Asset Purchase Agreement, (3) the Administrative Services Agreement, and (4) a letter agreement, that constituted a single integrated Agreement. The Court held that, under New York law, EnerSys had substantially performed its obligations and, therefore, the agreement was not executory and could not be rejected.). See 35 U.S.C. § 201(d)(1). For purposes of this determination, it is critical to recognize that *patents* have attributes of personal property and the patentee may “grant and convey exclusive right to the patent.” Accordingly, an agreement is a “sale” only if it conveys all right, title and interest in (1) the whole patent, comprising the exclusive rights to make, use and sell the invention, (2) an undivided share of that exclusive right, or (3) an exclusive right to practice the invention within a specified territory. *In re Access Beyond Techs., Inc.*, 237 B.R. at 44; *Wing v. Comm’r*, 278 F.2d 656, 661 (8th Cir. 1960) (“[E]xclusive licenses to manufacture, use, and sell for the life of the patent, are considered to be ‘sales or exchanges’ because, in substantive effect, all ‘right, title, and interests’ in the patent property is transferred.”). Thus, if an *exclusive patent license* assigns all right, title and interests in the IP *and* all aspects of the transfer to the debtor are completed, this transaction should effectuate a sale of the IP to the debtor and it, therefore, should be able to sell that exclusive patent license without the consent of the patentee.

⁴⁴ *Cf. In re Crumbs Bake Shop, Inc.*, 522 B. R. 766, 770 (Bankr. D. N.J. 2014).

⁴⁵ *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (Cal.), *cert. dismissed sub nom, Peak Computer, Inc. v. MAI Systems Corp.*, 510 U.S. 1033 (1994).

⁴⁶ *Cf. Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002, 104 S. Ct. 2862, 2872, 81 L. Ed. 2d 815 (1984) (“Trade secrets have many of the characteristics of more tangible forms of property. A trade secret is assignable.”) (citations omitted). A trade secret can form the *res* of a trust and it passes to a trustee in bankruptcy. Restatement (Second) of Trusts § 82, Comment e (1959); 1 A. Scott, *Law of Trusts* § 82.5, p. 703 (3d ed. 1967).

⁴⁷ *Id.*

⁴⁸ 11 U.S.C. § 363(f).

⁴⁹ See *In re PW, LLC*, 391 B.R. 25 (9th Cir. B.A.P. 2008); *In re Chrysler LLC*, 576 F.3d 108 (2d Cir. 2008).

⁵⁰ *In re Eastman Kodak Co.*, 479 B.R. (2012) (holding that a sale free and clear of disputed ownership interests may be held pursuant to § 363(f)(4) before ownership is definitively determined).

⁵¹ See Dr. Stephen Maddaus, “IP Licenses under German Insolvency Law,” Presentation at the 15th Annual Conference of the International Insolvency Institute, Naples, Italy (June 16, 2015) [hereinafter Maddaus, *IP Licenses under German Insolvency Law*]. Materials in the files of Thomas M. Gaa and available upon request.

⁵² Prof. Dr. Mary-Rose McGuire, *IP Licensing & Insolvency: Deficiencies under Current Law from a German Perspective*, AIPPI Workshop Helsinki, 9 September 2013, at * 2 [downloaded Dec. 13, 2016 at http://aippi.org/wp-content/uploads/2014/11/Pres_WS_I_MRMcGuire_280813.pdf] [hereinafter McGuire, *IP Licensing & Insolvency*].

⁵³ Jost Kotthoff and Dr. Thomas Feiler, *AIPPI’s resolution on “IP Licensing and Insolvency: will this reignite legislative initiatives in Germany?”*, White & Case LLP, LEXIOLOGY, 4 November 2014 at * 1 *citing* AIPPI’s Resolution regarding Question Q241 (IP Licensing and Insolvency) [downloaded Dec. 13, 2016 at <http://www.lexology.com/search/?q=treatment+intellectual+property+licenses+in+insolvency>] [hereinafter Kotthoff and Feiler, *AIPPI’s resolution*].

⁵⁴ Maddaus, *IP Licenses under German Insolvency Law*, *supra* note 51; Peter Jark and Tom H. Braegelmann, *Intellectual property rights under German insolvency law*, DLA Piper LLP, 5 April 2015, LEXIOLOGY at * 1 [last visited Jan. 26, 2017 at <http://www.lexology.com/library/detail.aspx?g=f335a8bd-81c3-4e55-92b9-dd30a7c92adb>] [hereinafter Jark and Braegelmann, *Intellectual property rights*].

⁵⁵ Maddaus, *IP Licenses under German Insolvency Law*, *supra* note 51.

⁵⁶ Jark and Braegelmann, *Intellectual property rights*, *supra* note 54.

⁵⁷ Kotthoff and Feiler, *AIPPI’s resolution*, *supra* note 53; *cf. In re Qimonda AG*, 462 B.R. 165 (Bankr. E.D. Va. 2011).

⁵⁸ Jark and Braegelmann, *Intellectual property rights*, *supra* note 54.

⁵⁹ Kotthoff and Feiler, *AIPPI’s resolution*, *supra* note 53.

⁶⁰ Maddaus, *IP Licenses under German Insolvency Law*, *supra* note 54.

⁶¹ *Id.*

⁶² *Id.*

⁶³ Jark and Braegelmann, *Intellectual property rights*, *supra* note 54.

⁶⁴ McGuire, *IP Licensing & Insolvency: Deficiencies under Current Law from a German Perspective*.

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- ⁶⁵ Hoffman and Pinkert, *Insolvency law reform in Germany*, Practical Law at 2.
- ⁶⁶ Jark and Braegelmann, *Intellectual property rights*, *supra* note 54.
- ⁶⁷ Kotthoff and Feiler, *AIPPI's resolution*, *supra* note 53.
- ⁶⁸ *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057.
- ⁶⁹ *Raima UK Limited v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660, 668 n.9 (Bankr. N.D. Cal. 2002) (internal citations omitted) (holding, *inter alia*, Congress specifically excluded trademark licensees from protection accorded to other intellectual property licensees under executory licensing agreements rejected by debtor-licensor; and upon debtor's rejection of executory trademark licensing agreement, licensee no longer had any right to use licensed trademarks, but was limited to claim for damages). *See also* Senate Report to the Intellectual Property Bankruptcy Protection Act, Pub. L. No. 100-506, Sen. Rpt. 100-505, Section I., at 1, compiled at Collier on Bankruptcy, Appendix F, App. Pt. 41-92.
- ⁷⁰ *In re Centura Software Corp.*, 281 B.R. at 668.
- ⁷¹ *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012), *cert. denied*, ___ US ___, 133 S.Ct. 790 (Mem.), 184 2d 596 (2012).
- ⁷² *Id.* at 375.
- ⁷³ *Id.* (citations omitted).
- ⁷⁴ *Id.* at 377 (citations omitted).
- ⁷⁵ Examples include the recognition of foreign court orders involving the release of non-debtors and restrictions on insider compensation.
- ⁷⁶ *But see In re Vitro, S.A.B. de C.V.*, 701 F.3d 1031 (5th Cir. 2012).
- ⁷⁷ *In re Qimonda AG*, 462 B.R. 165 (Bankr. E.D. Va. 2011).
- ⁷⁸ *Id.* at 17.
- ⁷⁹ Eisenbach and Kalnit, IP Issues, *supra* note 11, at 6-7.
- ⁸⁰ *See* Companies' Creditors Arrangement Act, Bill Clause No. 131, Section No. 32. The rule is the same under § 65.11(5) of the Bankruptcy and Insolvency Act.
- ⁸¹ Nadia Perri, *Amendments To BIA, CCIA Enhance Rights Of IP Licensees*, World Intellectual Property Report, Vol. 24, No. 1 at pp. 21-22 (last visited Dec. 2016), <http://www.robic.ca/admin/pdf/471/142.232E-NPE-2010.pdf>.
- ⁸² Chapter 47 amends the BIA and the CCAA to provide that if the debtor has, in any agreement, granted the use of intellectual property to a party to the agreement, a disclaimer or rescission of the agreement does not affect the party's right to use the intellectual property, so long as that party continues to perform its obligations (section 65.11(5) BIA; section 32(5) CCAA).
- ⁸³ *See* Managing Intellectual Property: The Messy Problem, *supra* note 11.
- ⁸⁴ The Working Group reported that the national and regional groups from Argentina, China, Egypt, Germany, Hungary, Japan, Mexico, the Netherlands, and Republic of Korea supported strict limitations on an insolvency administrator's power to modify or terminate an IP License, emphasizing the importance of the language of the IP License. The national and regional group from Canada, Finland, France, Latvia, Norway, the Philippines, Portugal, Turkey, and the United States generally supported allowing the administrator to adopt or terminate an IP License subject to reasonable restrictions. Finally, the reporting groups from Sweden, Switzerland, Ukraine, and Uruguay suggested that restrictions should not be put in place that would impede the discretion of the administrator.