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How to Identify and Manage Intellectual Property Rights in Bankruptcy

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I. Introduction

This paper will cover the basics of ownership of intellectual property—what kinds there might be, when it arises, and the various parties that may have an ownership interest in it. It will also discuss the specialized requirements for the transfer of intellectual property assets under the copyright, patent and trademark regimes, giving insight into how to construct the transactions so that they achieve the desired outcome. The paper will conclude with the treatment of intellectual property licenses under Section 365 of the Bankruptcy Code, including assumption and assignment and a licensee's options if the licensor rejects the license.

Before beginning, as a caveat the reader should be aware that there is not even agreement on what substantive areas are considered "intellectual property"—certainly copyright, patent and trademark are included, trade secret and domain names are often considered "intellectual property," and it may also include the rights of publicity and privacy, the duty of confidentiality, and misappropriation of idea. These areas all have separate and different bodies of law, some state, some federal. It therefore is not useful, and can be harmful, to try to deal with all the assets as a lump of "intellectual property" rather than addressing each separately.

For the most part, this paper will discuss copyright, patent and trademark. These are all areas of federal law: patent and copyright are exclusively federal law[1] and federal trademark law is concurrent with state trademark law. Despite the author's dislike for the term, this paper will use the term "intellectual property" as a catch-all for the category, but not with respect to specific legal doctrines.

II. Fundamental principles of ownership – when does it arise and who owns it?

Property ownership in bankruptcy is generally determined by non-bankruptcy law.[2] Thus, to determine what intellectual property assets are property of the bankruptcy estate, it is necessary to understand the applicable non-bankruptcy law.

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[1] The Copyright Act of 1976 (effective January 1, 1978) eliminated state law for copyright, often called "common law copyright," except that pre-1972 sound recordings are still protected by state law copyright.

[2] "The principle that state law determines the rights and obligations of debtors and creditors when the Bankruptcy Code fails to supply a federal rule is well recognized." Tidewater Fin. Co. v. Kenney, 531 F.3d 312, 318 (4th Cir. 2008), *citing* Butner v. United States, 440 U.S. 48, 55, 99 S.Ct. 914, 59 L.Ed.2d 136 (1979), Travelers Cas. & Sur. Co. v. Pac. Gas & Elec. Co., 549 U.S. 443, 127 S.Ct. 1199, 1204–05, 167 L.Ed.2d 178 (2007) and Am. Bankers Ins. Co. of Florida v. Maness, 101 F.3d 358, 365 (4th Cir.1996).

A. Copyright

1. In general

A copyright arises at the moment of fixation in a tangible medium. The Copyright Act defines the subject matter of copyright as "including" the following categories: (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works.

Under this expansive statutory definition, not only does something like a routine email fall into the category of "literary works," some courts also consider the list only exemplary. Recently, there was consternation over an appeals court decision that an acting performance is copyrightable subject matter.[3]

While there are benefits to copyright registration,[4] there is no requirement that copyrights be registered. Given the expansive definition of copyrightable subject matter, only a miniscule proportion of copyrightable content is registered so registration is not a reliable way to identify copyrighted works, even in content-heavy industries.

Every business has copyrighted content; for example, every business has a website and that website will be copyrighted, although it will rarely be registered. That content might even have some value to a competitor; there are a number of lawsuits revolving around the scraping of data from a website to gain competitive information. So while acknowledging that all businesses probably have some copyrighted content of value, some North Carolina industries in which copyright is a significant financial asset would be:

Architectural firms (architectural designs)
Furniture companies (ornamentation on furniture)
Fabric manufacturers and converters (surface design on fabric)
Songwriters, musical performers, record publishing companies (composition and sound recording)
Software companies (software code and documentation)
Advertising and marketing companies (creative content)
Film industry and related service providers (costume design, set design, photography, videography)

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[3] *See* Garcia v. Google, Inc., –- F.3d –--, No. 12-57302, 2014 WL 3377343 (9th Cir. July 11, 2014), *amending and superseding* 743 F.3d 1258 (9th Cir. 2014).

[4] Registration is a precondition to filing an infringement lawsuit, 17 U.S.C. § 411(a) (2012), and there are evidentiary and damages benefits if the copyright is registered early enough. 17 U.S.C. § 410(c) (2012); 17 U.S.C. § 412 (2012).

2. Distinction between authorship and ownership

"Authorship" and "ownership" are two different concepts. The author of a work is the original owner of the work. Authorship is defined by the Copyright Act[5] and the parties' intentions are not determinative, even if mutual.[6] Thereafter, copyright ownership is fully transferable assuming that all the requirements for transfer are met.[7]

3. Types of authorship

There are three types of authors of copyrighted works: an individual author, a "work made for hire," and joint authorship.

(a) Individual author

The default rule is that the individual who creates the work will be the author of the work. It is *not* correct to assume that because a party commissioned a work the commissioning party owns the copyright in the work. In that situation, it will depend on whether the commissioned work meets the statutory definition for a "work made for hire."

(b) Work made for hire

In the business environment, much of the time the company is the statutory author because the work is a "work made for hire." There are two distinct means by which a work will be considered a work made for hire.

(1) Employee in scope of employment

In most cases, the business entity will be considered the author of, and therefore own, the copyright in the first instance because a work is created by an employee in the scope of his or her employment.[8] The safe view is that this means a W-2 employee whose assigned duties include creating the copyrighted work, for example, an architect employed by an architectural firm to design buildings.

The category is broader than W-2 employees however, and covers those who would be considered employees by the common law of agency. The standard is defined

[5] See Section II.A.3 *infra* describing types of authorship.

[6] *See, e.g.*, DeliverMed Holdings LLC v. Schaltenbrand, No. 3:10-cv-00685-JPG-DGW (S.D. Ill. Oct. 15, 2012) (describing how individual was the owner of the copyright in a logo, despite the hiring party's various efforts to meet the statutory requirements that would make it the author).

[7] See Section IV.B.2 *infra* describing requirements for transfer of copyright interest.

[8] 17 U.S.C. § 201(b) (2012) (stating that the employer is considered the author); 17 U.S.C. § 101(1) (2012) (defining a "work made for hire" as a work made by an employee in the scope of his or her employment).

in *Community for Creative Non-Violence v. Reid*,[9] and requires examination of a number of factors to determine how much independence the person creating the work had.[10]

Where the business entity is closely-held, it can be quite difficult to determine whether the entity or the shareholder, even though an employee, is the owner of a work created by the individual. For example, in *Jules Jordan Video, Inc. v. 144942 Canada Inc.*,[11] the 9th Circuit held that, as between the employee and the company of which he was the sole shareholder, there was no one to contradict the individual's position about who the copyright owner was.[12]

[9] 490 U.S. 730, 109 S. Ct. 2166, 104 L. Ed. 2d 811 (1989).

[10] "In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party's right to control the manner and means by which the product is accomplished. Among the other factors relevant to this inquiry are the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party. *See* Restatement § 220(2) (setting forth a nonexhaustive list of factors relevant to determining whether a hired party is an employee). No one of these factors is determinative." *CCNV*, 490 U.S. at 751-52, 109 S. Ct. at 2178-79, 104 L. Ed. 2d 811. *See e.g.*, Huebbe v. Oklahoma Casting Co., 663 F. Supp. 2d 1196, 1205 (W.D. Okla. 2009) (holding that, despite absence of employee benefits and the lack of withholding for tax purposes, individual was an employee under the common law of agency when she performed all work at plaintiff's studio, plaintiff provided all tools and supplies, assigned the work she was to perform, had the right to alter any of her work, and dictated the details of the sculptural works); Innovative Networks, Inc. v. Satellite Airlines Ticketing Ctrs., Inc., 871 F. Supp. 709, 718-19 (S.D.N.Y. 1995) (despite being reported as an independent contractor to taxing authorities, the individual was an employee within the meaning of Section 101(1) of the Copyright Act when his work did not require skills beyond the capacity of an ordinary layman, the company owned all of the materials used to prepare the copyrighted work, the individual worked regular business hours at the company's offices, and the individual working under another's direction, simply drawing without adding any of his own ideas).

[11] 617 F.3d 1146 (9th Cir. 2010).

[12] "Gasper was the sole officer, director, and shareholder of JJV, exercised complete control over it, and made all decisions concerning JJV and production of the films. It was all Gasper all the time. JJV as employer and Gasper as employee could certainly agree as to the scope of the employee's employment, and could agree that Gasper should retain all copyrights. Since JJV was Gasper, JJV intended whatever Gasper intended, and if Gasper intended that his creative work be outside the scope of his employment with JJV, there was no one to disagree." *Id.* at 1156. Nevertheless, it seems unlikely that the individual had never committed to a legal position one way or the other before the suit, such as in tax records or business agreements.

(2) Commissioned work

Alternatively, a work created by a non-employee may be a work made for hire if it was specially created or commissioned, it is a specific type of work,[13] and there is a writing signed by both parties stating that it is a work made for hire.[14]

A risk in the corporate environment are works created by independent contractors. Note that the statutory categories are very specific and many kinds of works do not fall into the statutory categories. In that case, the corporate ownership must be acquired through assignment. So unless the company was careful to ensure it had ownership of the copyright (generally through an assignment in the engagement contract), the owner of the copyright in the work is quite possibly the person hired to create the work.[15]

(c) Joint authorship

A "joint work" is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.[16] In the absence of an agreement, joint authors have an equal undivided interest in the whole work, which includes the right to use or to license the work as he or she wishes, subject only to the obligation to account to the other joint owner for any profits that are made.[17] This means that a joint author can assign or license his or her share of the undivided interest, essentially undermining any attempted grant of exclusivity by another joint author.

4. Distinction between a tangible work and the copyright in the work

A copyright is separate from the tangible object in which the copyright is embodied, like a record or painting. A transfer of a tangible object is *not* a transfer of the ownership of the copyright.[18] For example, if a valuable collection of previously unreleased master recordings was an asset of a sound recording studio, the purchaser

[13] The types are "a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas ...." 17 U.S.C. § 101(2) (2012).

[14] 17 U.S.C. § 101(2) (2012).

[15] *See, e.g.*, DeliverMed Holdings, LLC v. Schaltenbrand, 734 F.3d 616, 621 (7th Cir. 2013) (affirming district court opinion that independent contractor owned the copyright in a logo used by a mail order pharmacy); Princeton Payment Solutions, LLC v. ACI Worldwide, Inc., 1:13-CV-852, 2014 WL 4104170 (E.D. Va. Aug. 15, 2014) (holding that plaintiff lacked standing for copyright infringement claim because independent contractor wrote the software).

[16] 17 U.S.C. § 101 (2012).

[17] Thomson v. Larson, 147 F.3d 195, 199 (2d Cir. 1998).

[18] 17 U.S.C. § 202 (2012).

would not have the right to make duplicates of the sound recordings because most likely the owner of the records is not also the owner of the copyright in the songs.[19]

B. Patent

1. In general

The patent is the most easily-recognized intellectual property because it is the only one that is a government grant of rights, which means there will be a document, a U.S. Patent, that defines the scope of the right.

A patent is the right to exclude others from making the invention described in the patent, not any affirmative grant of the right to make. For example, if a company has a patent on an improvement to a preexisting device that is patented, the company with the improvement cannot make the device with the improvement unless it has a license to make the underlying device too.

2. Individual inventor as first owner

In the United States, unlike most other countries, the individual inventors are the initial owners of the patent. A patent must name all the inventors and each inventor is the owner of a pro rata undivided interest in the entire patent, no matter what their respective contributions.[20]

Even though most invention is done by companies, the employer is not the first owner of the patent but must have the inventors assign the patent rights to it. Generally this is done through the employment agreement, which assigns the ownership of any later-developed invention from the employee to the employer as a condition of employment. The agreement will oblige the inventor-employee to sign any necessary documents and, if the inventor refuses, there are procedural means for dealing with the refusal.[21] If the assignment is made pre-issuance, the company-assignee will be named on the front of the patent. However, what is stated on the patent itself is only presumptively correct;[22] it can be rebutted.[23] It is common litigation strategy to find a missing assignment (or even an inventor who should have been

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[19] Music copyright is quite complicated, with separate copyrights in the composition and in the sound recording itself. Complicating it further, as mentioned *supra* in note 1, copyrights for pre-1972 musical works are treated differently from copyrights for non-musical works for the same time period.

[20] *Israel Bio-Eng'g Project v. Amgen, Inc.*, 475 F.3d 1256, 1263 (Fed. Cir. 2007).

[21] 35 U.S.C. § 116 (2012).

[22] Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc., 487 F. Supp. 2d 1099, 1111 (N.D. Cal. 2007) *aff'd*, 583 F.3d 832 (Fed. Cir. 2009) *aff'd*, 131 S. Ct. 2188, 180 L. Ed. 2d 1 (U.S. 2011).

[23] Mayfair Wireless LLC v. Celico P'ship, CV 11-772-SLR-SRF, 2013 WL 4657507 (D. Del. Aug. 30, 2013) *report and recommendation adopted*, CV 11-772 (GMS-SRF), 2014 WL 2536194 (D. Del. June 3, 2014).

named but was not) and have the inventor assign or license his or her share of the patent to the defendant, thus turning the defendant into a co-owner or licensee rather than an infringer.

Whether one is an "inventor" is a question of law,[24] meaning that one cannot be named as an inventor as a matter of vanity and one cannot dictate inventorship by agreement.

3. Continuing applications

A patent application may spawn a whole family of related patent applications, known as "continuing applications." These children and grandchildren applications may include new inventors and drop inventors, depending on the type of application and its scope. An agreement that transfers ownership of a patent or application may, or may not, also obligate the inventor to transfer his or her rights to an entire family of patents and applications, including foreign rights. The assignment document itself will determine whether child patents were also assigned.[25]

C. Trademark

1. In general

A trademark is any word, name, symbol, or device used by a person to identify and distinguish his or her goods or services from those manufactured or sold by others and to indicate the source of the goods.[26] The term "service mark" is used for this type of designation when it is used in association with services. The word "trademark" is used for a designation used in association with goods, but it is also used to refer to service marks, as is the word "marks." Regardless of whether they are "service marks," "trademarks" or "marks," the legal rights are the same.

A trademark is typically a word or symbol, like a logo, but can include colors (the color brown is a trademark for UPS), product shapes (the shape of a Goldfish cracker is a trademark for Pepperidge Farm), packaging (the shape of the Coca-Cola bottle), and sound (a duck quacking the word "AFLAC"). Trademarks come into existence when they are adopted and used as source identifiers: registration is not required, although they

[24] Beech Aircraft Corp. v. EDO Corp., 990 F.2d 1237, 1248 (Fed. Cir. 1993) ("[I]nventorship is a question of who actually invented the subject matter claimed in a patent. Ownership, however, is a question of who owns legal title to the subject matter claimed in a patent, patents having the attributes of personal property.").

[25] *See, e.g.*, Alpha One Transporter, Inc. v. Perkins Motor Transp., Inc., 13-CV-2662-H-DHB, 2014 WL 4537012 (S.D. Cal. Sept. 11, 2014) (assignment of "said invention" did not include assignment of continuing patent).

[26] The Trademark Act of 1946 ("Lanham Act") § 45, 15 U.S.C. § 1127 (2012).

can be registered at both the state and federal level.[27] Registration therefore is not an affirmative grant of rights but simply recognition of existing trademark rights, encouraged by offering some evidentiary benefits for having obtained a registration.

Every business has at least one trademark, the business name by which the public knows it, and will often have many more in the way of product names and service names.[28] Most will not be registered.

Registration of a trademark is a different legal mechanism with a different statutory basis than the registration of a business entity name with the Secretary of State's office, which is itself different from state trademark registration. Although the Secretary of State ostensibly examines business names for similarity and will not register two identical or similar business names, this is an entirely separate process, with different standards of similarity, from the registration of a trademark.

Another commonly-seen term is "trade name," defined in the Lanham Act as the "name used by a person to identify his or her business or vocation."[29] Ownership or transfer of a trade name is not the same as ownership or transfer of the trademark.[30]

2. Trademark in business name

A common problem with transfer of businesses is that the trademark rights are not specifically mentioned, so it becomes a matter of dispute later in time. The paradigm case is a restaurant name, although it can happen with any business and most commonly happens with a business tied to a specific locale. Often the business is in leased premises, so it can be very hard to distinguish whether customers believe that the name is associated with the locale or the owner of the operations. As an example, the restaurateur who operated the famous "Tavern on the Green" restaurant in New York's Central Park lost his lease and filed for bankruptcy. He claimed to own the restaurant name "Tavern on the Green," and on the bankruptcy schedules the name was the most valuable asset. The City of New York disputed the restaurant's claim and ultimately the bankruptcy court held in an adversarial proceeding that the City owned the name.[31] As another example in an estate case, the daughter purchased the family

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[27] Federal registration is done by the U.S. Patent and Trademark Office and state trademark registration is generally done by the Secretary of State.

[28] Whether a name, logo or symbol is functioning as a trademark is a complicated question beyond the scope of this paper.

[29] Lanham Act § 45, 15 U.S.C. § 1127 (2012).

[30] Lavatec Laundry Tech., GmbH v. Lavatec, Inc., No. 3:13cv00045 (SRU), 2014 WL 4355566 (D. Conn. Sept. 3, 2014) (holding that recognition in Asset Purchase Agreement that a subsidiary had the right to use the trade name was not acknowledgment that the subsidiary owned the trademark too).

[31] *City of New York v. Tavern on the Green, L.P.*, 427 B.R. 233 (S.D.N.Y. 2010). This is a simplification of the issue. There was also a trademark registration owned by the restaurateur for TAVERN ON THE GREEN for condiments, which remained part of the estate. A description of the ultimate

grocery store in a partition sale. The store had been in operation in the same locale under the same name for over 100 years and had been operated by her brother before the sale. After the sale, the sign mysteriously disappeared, the daughter put up a new sign, and her brother sued her for trademark infringement. The court awarded the son the store name, holding that he had become the owner of the name before their parents died.[32]

3. Trademark in personal name

A personal name can be a trademark; for example, "Richard Petty" is a registered trademark for promotional goods[33] and "Richard Petty Driving Experience" is registered for vehicle driving instruction.[34] Therefore, in any transaction involving a personal name that is also used as a trademark, the two separate types of uses should be carefully considered and defined.[35]

D. Other specialized types

1. Trade secret

A trade secret is a right under state law. Forty-seven states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands have adopted the Uniform Trade Secrets Act; New York, North Carolina and Massachusetts have not.[36] In general terms, a trade secret is information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[37]

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resolution of the parties' relative rights is at Property, Intangible, *An Assignment That Works Like a License*, Oct. 17, 2011, http://propertyintangible.com/2011/10/assignment-that-works-like-license.html.

[32] *Lingo v. Lingo*, 785 F. Supp. 2d 443 (D. Del. 2011).

[33] U.S. Reg. No. 3778822.

[34] U.S. Reg. No. 4061176.

[35] *See, e.g.*, JA Apparel Corp. v. Abboud, 568 F.3d 390 (2d Cir. 2009) (interpreting agreement defining when Joseph Abboud could use his personal name for his new clothing business after he had sold the rights to his name with the old business).

[36] Uniform Law Commission, Legislative Fact Sheet – Trade Secrets Act, http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act (last visited Sept. 13, 2014).

[37] Uniform Trade Secret Act § 1.4 (1985), *available at* http://www.uniformlaws.org/shared/docs/trade%20secrets/utsa_final_85.pdf.

2. Domain names

The domain name system consists of top level domains and second level domains. Top level domains are the portion after the last dot in a domain name. These were originally only two types, "gtld's," that is, "generic" top level domains (e.g., .com, .net, .edu, .army) and "cctld's," that is, country code top level domains (e.g., .us, .uk, .tv, owned by Tuvalu and used to mimic a gtld). There have now been over 350 new tlds delegated in the past year and altogether over 1100 will be added in the next few years. There are also a few "brand" top level domains, that is, where a brand owner will be running a registry for its own strategic marketing purposes, e.g., .cartier, .canon and .allstate.

One registers the second-level domain name, i.e., the portion immediately preceding the tld in the domain address (e.g., "ncbar" in ncbar.org) through a "registrar" (e.g., GoDaddy), and this ownership is recorded in the domain name "registry" for that top-level domain, which has a single operator (e.g., Verisign runs the registry for .com). Any third-level or higher portions of the domain name (e.g., the "www" of www.ncbar.org or "smile" in smile.amazon.com) are in the control of the owner of the second-level domain name.

A domain name may be an intangible personal property[38] or it may be only a contractual right,[39] so any disposition of it must contemplate both possibilities.

3. Right of publicity

The "right of publicity" is an individual's right to the exclusive use of his or her name and likeness for commercial purposes and arises under state law. Although some states have a statutory right of publicity, like New York,[40] California,[41] Tennessee[42] and Virginia,[43] North Carolina does not. In North Carolina, the analogous claim is for invasion of privacy by means of “appropriation, for the defendant's advantage, of the plaintiff's name or likeness.”[44]

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[38] Kremen v. Cohen, 337 F.3d. 1024, 1033 (9th Cir. 2003) (holding that the domain name sex.com was property that could be converted).

[39] In re Alexandria Surveys Int'l, LLC, 500 B.R. 817 (E.D. Va. 2013) (holding there is no property interest in a domain name so it was not subject to a trustee sale in a bankruptcy and, alternatively, it was an executory contract rejected by the trustee); Network Solutions, Inc. v. Umbro Int'l, Inc., 529 S.E.2d 80 (Va. 2000) (holding that a domain name is a contractual right not subject to garnishment).

[40] N.Y. Civ. Rights Law § 50 (McKinney).

[41] Cal. Civ. Code §§ 3344, 3344.1 (West).

[42] Tenn. Code Ann. § 47-25-1104 (West).

[43] Va. Code Ann. § 8.01-40 (West).

[44] Renwick v. News and Observer Publishing Co., 310 N.C. 312, 322, 312 S.E.2d 405, 411 (1984); *see* Flake v. Greensboro News Co., 212 N.C. 780, 195 S.E. 55 (1938) (adopting tort).

E. Recording statutes

The Patent Act, Trademark Act ("Lanham Act") and Copyright Act all have recording provisions.[45] They are notice statutes, that is, in the absence of actual notice or recordation of a transfer (constructive notice), the second purchaser of the same property will have a bona fide purchaser in good faith defense and the earlier transfer will be void.

The assignment databases can be found at
Copyright: http://cocatalog.loc.gov/cgi-bin/Pwebrecon.cgi?DB=local&PAGE=First;
Patent: http://assignments.uspto.gov/assignments/?db=pat;
Trademark: http://assignments.uspto.gov/assignments/q?db=tm.

In all cases recording is a ministerial act, that is, the various offices do not pass judgment on the validity of the transfer, only record it.[46]

Despite the fact that the statutes provide for recording transfers, the recording databases are not particularly accurate. To start, if a trademark or copyright isn't

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[45] Copyright: "As between two conflicting transfers, the one executed first prevails if it is recorded, in the manner required to give constructive notice under subsection (c), within one month after its execution in the United States or within two months after its execution outside the United States, or at any time before recordation in such manner of the later transfer. Otherwise the later transfer prevails if recorded first in such manner, and if taken in good faith, for valuable consideration or on the basis of a binding promise to pay royalties, and without notice of the earlier transfer." 17 U.S.C. § 205(d) (2012) and "A nonexclusive license, whether recorded or not, prevails over a conflicting transfer of copyright ownership if the license is evidenced by a written instrument signed by the owner of the rights licensed or such owner's duly authorized agent, and if (1) the license was taken before execution of the transfer; or (2) the license was taken in good faith before recordation of the transfer and without notice of it." 17 U.S.C. § 205(e) (2012).

Patent: "An assignment, grant, or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage." 35 U.S.C. § 261 (2012). However, the recordation is a presumption of validity as to the assignment, placing the burden to rebut such a showing on one challenging the assignment. SiRF Tech., Inc. v. Int'l Trade Comm'n, 601 F.3d 1319, 1327-28 (Fed. Cir. 2010).

Trademark: "An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within 3 months after the date of the assignment or prior to the subsequent purchase." 15 U.S.C. § 1060 (2012).

[46] Copyright: 2 William F. Patry, Patry on Copyright § 5:145 (2014) *citing* Policy Decision: Recordation of Documents, 57 Fed. Reg. 27,074 (June 17, 1992); *see also* Copyright Office, Compendium of Copyright Office Practice § 2305 (3d ed., Aug. 18, 2014 public draft) (stating that recordation is not a determination by the Copyright Office on the validity of the document).

Patent: SiRF Tech., Inc. v. Int'l Trade Comm'n, 601 F.3d 1319, 1327-28 (Fed. Cir. 2010) (although recordation is presumptively correct)

Trademark: Fed. Treasury Enter. Sojuzplodoimport v. Spirits Int'l N.V., 623 F.3d 61, 68 (2d Cir. 2010).

registered then nothing can be recorded against it, so a large volume of assets are not subject matter for recordation.

Next, the information in the databases is taken from a cover sheet filled out by the person doing the recording (now done electronically), and so is only as reliable as the person filling out the form. Further, whether a document is an assignment or a license is a matter of interpretation of the document itself rather than a matter of its title,[47] a nuance that is unlikely to be captured on the cover sheet. Therefore, understanding the legal significance of previous transfers requires reviewing the underlying documents themselves.

Finally, even with registered trademarks and copyrights there are many transfers that simply are not recorded. There may be a security interest that was recorded but the discharge is not, or there are missing links in the chain of title. Patent trolls are so notorious in failing to record (in order to hide the true owner of a patent) that Congress has considered, but not yet passed, an amendment to the Patent Act to require the disclosure of transfers, with the penalty for failure to comply a bar on the collection of damages.[48]

For these reasons, the assignment databases are not particularly reliable for ascertaining what intellectual property assets exist or their true ownership.[49]

III. Asset management during bankruptcy

The failure to capture and appropriately dispose of intellectual property assets that existed prior to, or were developed during, the period of bankruptcy will undoubtedly create problems for future enforcement.[50] However, the only way to identify what intellectual property is part of the estate is by working with the client to uncover what assets exist. Patents and their applications are easy to identify because they are well-documented. But copyrights and trademarks are not; often people think only of registered copyrights and trademarks when listing their assets, therefore grossly underrepresenting these types of assets. This will mean that, since the asset was unscheduled, the bankruptcy did not dispose of the asset and the property is still owned by the trustee after discharge.[51] Further, the debtor may misrepresent the value of the asset in the hope that the trustee will abandon it back to the debtor.[52]

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[47] See note 68 *infra* and accompanying text.

[48] H. Rep. 2024, 113th Cong. § 2 (2013).

[49] *See, e.g.*, Bank of N. Carolina v. RCR Mktg., LLC, 1:10CV663, 2010 WL 5020502 at *3 (M.D.N.C. Dec. 3, 2010) (defendant claimed to have acquired trademark in bankruptcy even though the trademark was owned by the parent of the bankrupt company, not the bankrupt company itself).

[50] See section IV.A *infra* discussing standing.

[51] *See, e.g.*, Guaranty Residential Lending, Inc. v. Homestead Mortgage Co., 291 F. App'x 734 (6th Cir. 2008) (describing a complicated case involving the separation of legal and beneficial ownership

Intellectual property licenses are also an asset of the estate. However, often they are non-transferable by the licensee, limiting their value. Where the licensor is the debtor, there are also statutory limits on the bankrupt licensor's ability to reject the licenses.[53]

A. Applications filed during bankruptcy

Occasionally the person or entity in bankruptcy will elect to register a copyright or trademark or file a patent application during the pendency of the bankruptcy. There is a legal fiction that an intellectual property comes into existence at a fixed moment,[54] so works that were created pre-petition will become property of the estate whether or not they have been registered. This means that any application for registration filed during the pendency of the bankruptcy should identify the estate, rather than the debtor, as the owner of the asset. But it may not occur to the debtor, so the application will be filed by the wrong entity. For copyrights and trademarks this means that the registration (but not the underlying rights) are invalid, so that when the ultimate owner of the rights tries to enforce them the new owner will not be able to take advantage of the benefits of registration. For copyright, where registration is a precondition to suit, the error is fatal to the suit.[55] For trademark it will deprive the trademark owner of statutory presumptions and, in the case of counterfeit goods, significant damages.[56]

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of a trademark under state law after the corporate privileges and charter were forfeited, and how that related to the company owner's scheduling of assets in his personal bankruptcy); Clarity Software, LLC v. Financial Independence Group, LLC, No. 2:12-cv-1609-MRH (W.D. Pa. Sept. 30, 2014) (copyright owner assigned copyright to company that, unbeknownst to copyright owner, wasn't properly formed and then declared bankruptcy; because the copyright was not scheduled it remained in the estate).

[52] *See* Zig Zag Holdings LLC v. Hubbard, C 13-2643 SI, 2014 WL 2735094 (N.D. Cal. June 11, 2014) (multiple ways the debtor tried to convince the court that a trademark was worthless, despite having received royalty income from it).

[53] See section V *infra*.

[54] Copyright: 17 U.S.C. § 101 ("A work is 'created' when it is fixed in a copy or phonorecord for the first time; where a work is prepared over a period of time, the portion of it that has been fixed at any particular time constitutes the work as of that time, and where the work has been prepared in different versions, each version constitutes a separate work.")

Patent: Since they are a government grant, patent rights come into existence at the time of the grant. Gayler v. Wilder, 51 U.S. 477, 493 (1850) ("The inventor of a new and useful improvement certainly has no exclusive right to it until he obtains a patent. This right is created by the patent, and no suit can be maintained by the inventor against any one for using it before the patent is issued."). The application is an inchoate property right. Hobbs v. United States, 376 F.2d 488, 493 (5th Cir. 1967).

Trademark: *Cf.* Lanham Act § 1, 15 U.S.C. § 1051 (2012) (noting that an applicant for registration must identify a "date of first use" of the mark).

[55] 17 U.S.C. § 411(a) (2012). In *Kunkel v. Jasin*, 420 F. App'x 198, 200 (3d Cir. 2011), the copyright applications filed during bankruptcy for works created pre-petition named the debtor as the owner of the copyrights, rather than the estate. The court held they registrations were invalid and therefore the owner could not satisfy the registration requirement for an infringement suit post-

Some writings can nunc pro tunc memorialize an earlier oral agreement. However, in the case where the oral agreement is pre-petition, but the writing done post-petition to memorialize the pre-petition transfer, the writing will be defective if not done with the trustee's approval.[57]

B. Wasting Assets

1. Copyright termination

Where there has been an assignment or license of copyright, an author or his or her statutory heirs has the inalienable right to terminate the transfer and reacquire the ownership.[58] This was done to protect artists, who early in their career do not have much bargaining power against large corporate interests like record companies.[59] In the case of grants made after January 1 1978, the right vests between 35 and 40 years after the transfer of ownership.[60] There is no way around this right; any contract provision that tries to keep the author from exercising his or her right to recapture the ownership will be void.[61] Therefore, the value of an assignment or license will decrease in time as the opportunity for termination gets closer.

2. Trademark abandonment

Bankruptcy is somewhat challenging with respect to trademarks because trademarks are essentially a wasting asset—if they are not used, the goodwill dissipates and eventually there is no trademark to convey.[62] Nevertheless, courts are fairly

bankruptcy. *But see* Mowder v. Permanent Gen. Assur. Corp. of Ohio, 1:13-CV-00082, 2013 WL 5923766 (N.D. Ohio Oct. 31, 2013), which held that, since a registration is not invalid if the applicant doesn't know the information is inaccurate, the case could proceed.

[56] Lanham Act § 32, 15 U.S.C. § 1114 (2012) and Lanham Act § 35, 15 U.S.C. § 1117 (2012) (providing for treble damages for counterfeiting a registered trademark).

[57] XAC, LLC v . Deep, No. 1:07-CV-135 (FJS/RFT) (N.D.N.Y. Oct. 10, 2011).

[58] 17 U.S.C. § 203 (2012); 17 U.S.C. § 304(c) (2012). Note that this does not apply to a work made for hire.

[59] H.R. Rep. No. 94–1476, at 124, 1976 U.S.C.C.A.N. 5659, 5740 ("A provision of this sort is needed because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited. Section 203 reflects a practical compromise that will further the objectives of the copyright law while recognizing the problems and legitimate needs of all interests involved.”).

[60] 17 U.S.C. § 203 (2012).

[61] Stewart v. Abend, 495 U.S. 207, 230, 110 S. Ct. 1750, 1765, 109 L. Ed. 2d 184 (1990) ("The 1976 Copyright Act provides a single, fixed term, but provides an inalienable termination right.").

[62] Defiance Button Mach. Co. v. C & C Metal Products Corp., 759 F.2d 1053, 1062 (2d Cir. 1985) ("It is true that when the owner discontinues his business activities and ceases to use his trademark his goodwill begins to fade and if he does nothing to resume use of the mark it may eventually vanish altogether.").

understanding of this challenge and hesitate to hold that a trademark was abandoned during the period of bankruptcy.[63]

C. Assets not scheduled

If an intellectual property asset is not scheduled and the estate closed, the owner will have to petition that the estate be reopened in order to regain ownership.[64]

IV. Transfer of assets

This section will cover both assignment of and licenses to intellectual property. There is not necessarily a bright line between the two, but whether a transfer is an assignment or a license is an important distinction for several reasons.

First, as a rule of thumb only the owner of the asset has standing to bring an infringement lawsuit and a licensee will not, except in limited situations. Therefore, the chain of title, and exactly what rights the acquiring party received, are the first grounds of attack in a litigation. The trustee therefore needs to understand the limits on what can be transferred and how to carry out that transfer in a legally effective way. Standing will be discussed immediately below.

Second, there is a difference between how the two are dealt with when the trustee is disposing of the assets. For example, *In re Interstate Bakeries Corp.*[65] is a complex case where, many years earlier as part of an antitrust settlement, Interstate Bakeries had to divest itself of its bakery operations in the Chicago area. Because trademark registrations are nationwide in scope, the divestment include a trademark

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[63] Merry Hull & Co. v. Hi-Line Co., 243 F. Supp. 45, 50 (S.D.N.Y. 1965) ("This is not to say, however, that goodwill can exist only in connection with an active going business and that at the moment business is suspended the goodwill ceases to exist for if this were so there would be few instances where a mark could be transferred in a bankruptcy sale, and little need for the Bankruptcy Act to provide for the vesting of title to trademarks in the Trustee.").

[64] Voss v. Knotts, No. 12-56168, 2014 WL 1599418 at *1 (9th Cir. April 22, 2014) (unpublished) ("The district court did not err when it determined that because Voss had not listed his alleged copyright in his bankruptcy schedules, ownership of the asset remained in the bankruptcy estate and he lacked standing to pursue this action. Only the trustee of the bankruptcy estate would have standing."); Kunkel v. Jasin, 09-CV-00371, 2010 WL 55293 at *2 (E.D. Pa. Jan. 6, 2010) (involving a case where an previous lawsuit between the parties was dismissed because the estate, not the plaintiff, was the owner of the copyrights, after which the plaintiff reopened the case and had the trustee abandon the copyrights back to him); *but see* Anderson v. TOL, Inc., 927 F. Supp. 2d 475, 486, *appeal dismissed* (Mar. 28, 2014), *reconsideration denied*, 940 F. Supp. 2d 766 (M.D. Tenn. 2013) (despite the fact that the patentee did not declare the patent applications filed while in Chapter 13 bankruptcy, the court could not conclude the patentee did not have standing).

[65] 751 F.3d 955 (8th Cir. 2014).

license for the Chicago area rather than a trademark assignment.[66] When Interstate Bakeries later filed for bankruptcy, the question of whether this was an executory license that could be rejected was litigated up to the Court of Appeals, which ultimately held it was not executory.[67] Although the distinction between an assignment and a license was not considered per se by the court, and it was rather a question of whether the license was executory, the effect is the same since most intellectual property licenses are considered executory. Assumption, assignment and rejection of licenses will be discussed in Section V below.

A. Standing

1. In general

In a bit of oversimplification, intellectual property rights are exclusionary, a claim of right that allows one to use the legal system to compel others to cease their infringing behavior and sometimes, but not always, obtain money damages. Therefore the value of the property is only as robust as one's ability to enforce the exclusionary right, which can only be exercised by the person or entity with standing.

The general divisions of ownership of intellectual property rights that may, or may not, have standing are assignee, exclusive licensee and nonexclusive licensee. In deciding in which category a claimant fits, however, the court will look at the substance of agreement, not how the agreement is described.[68]

A non-exclusive license is simply a covenant not to sue, that is, a defense to an infringement claim that grants no ownership interest.[69] An exclusive license[70] is permission for the licensee to use the protected material for a specific use combined

[66] Probably a better way to handle the transaction would have been a concurrent user agreement to divide ownership by territory, as was done with the Tavern on the Green restaurant mark, described in note 113 and accompanying text.

[67] In re Interstate Bakeries Corp., 751 F.3d 955, 963 (8th Cir. 2014).

[68] Copyright: HyperQuest, Inc. v. N'Site Solutions, Inc., 632 F.3d 377, 383 (7th Cir. 2011).
Patent: Waterman v. Mackenzie, 138 U.S. 252, 256, 11 S. Ct. 334, 335, 34 L. Ed. 923 (1891).
Trademark: Geltech Solutions, Inc. v. Marteal, Ltd., 09-CV-81027, 2010 WL 1791423 (S.D. Fla. May 5, 2010).

[69] Jacobsen v. Katzer, C 06-01905 JSW, 2007 WL 2358628 at *6 (N.D. Cal. Aug. 17, 2007) *vacated in part*, 535 F.3d 1373 (Fed. Cir. 2008) ("implicit in a nonexclusive license is the promise not to sue for copyright infringement"); U.S. Philips Corp. v. Int'l Trade Comm'n, 424 F.3d 1179, 1189 (Fed. Cir. 2005) ("a nonexclusive patent license is simply a promise not to sue for infringement.").

[70] Note that the word "exclusive" is ambiguous. The grant of an "exclusive" license may or may not foreclose the owner from itself making use of the intellectual property. Adams on Contract Drafting, Revisiting "Sole" and "Exclusive," (July 20, 2012), http://www.adamsdrafting.com/revisiting-sole-and-exclusive/. Therefore, any license agreement should explain in the definitions section or in the grant what is intended, e.g., "exclusive license, subject, however, to an express reservation of the continued right to use." *Id.,* quoting Milgrim on Licensing § 15.33.

with a promise that the same permission will not be given to others.[71] What type of ownership or license interest supports standing is specific to the type of intellectual property in dispute, as discussed below.

2. Copyright

By statute, only the beneficial or legal owner of an exclusive right under a copyright[72] may bring an action for infringement committed while he or she was the owner of that particular right.[73] A "beneficial" owner is someone with an economic interest in the copyright, most commonly one who has conveyed exclusive rights in a work in exchange for royalty payments.[74] "Legal" ownership includes the category of exclusive licensee, because by statutory definition an exclusive licensee is considered the owner of partial rights in a copyright.[75] How legal ownership of a copyright can be divided and transferred will be discussed below at IV.B.2. A nonexclusive licensee will never have standing.

3. Patent

Standing for a claim for patent infringement is the narrowest standard of all types of intellectual property. The inventor, if still the owner, or his or her assignee

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[71] Copyright: I.A.E., Inc. v. Shaver, 74 F.3d 768, 775 (7th Cir. 1996).

Patent: Morrow v. Microsoft Corp., 499 F.3d 1332, 1340 (Fed. Cir. 2007).

Trademark: Material Supply Intern., Inc. v. Sunmatch Indus. Co., Ltd., 146 F.3d 983, 993 (D.C. Cir. 1998).

[72] The exclusive rights are:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 106 (2012).

[73] 17 U.S.C. § 501 (2012).

[74] Cohen v. United States, 94 Fed. Cl. 165, 171 (Fed. Cl. 2010), *superseded in part*, 98 Fed. Cl. 156 (Fed. Cl. 2011).

[75] *See* 17 U.S.C. § 101 (2012) defining a "transfer of copyright ownership" as an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

must be the infringement plaintiff.[76] And if there are joint owners, all owners must be parties to the suit.[77]

To complicate matters however, there is the concept of a "virtual assignee," also called "de facto owner" or "effective patentee." This is the case where what purports to be a license instead transfers so many of the patent rights, that is "all substantial rights," that the licensee is effectively the owner. In this case, the licensee can bring suit in its own name alone and the purported licensor cannot.[78]

An exclusive licensee will have standing but cannot bring the claim alone; in that case the assignee must also be joined.[79] Whether a licensee will be considered "exclusive" for purposes of suit is measured by whether the accused party either possesses a license already or can obtain a license from anyone other than the challenging licensee.[80] If not, the licensee is exclusive as to the particular use and has standing.[81] A nonexclusive licensee will never have standing.

4. Trademark

There are two statutory bases for claims for trademark infringement. Only the owner of a trademark registration can bring a claim for infringement under Section 32 of the Lanham Act.[82] There is a split in authority regarding whether an exclusive licensee of a federal trademark will have standing to sue under Section 32; one split strictly construes the statute as applying to registrants only, while other courts have held that a license that excludes the licensor itself from using the mark is a property interest with rights that amount to those of an assignee and the exclusive licensee therefore has standing.[83]

Section 43(a) of the Lanham Act[84] is the basis for claims for infringement of unregistered trademarks. Under it, anyone who will be "damaged" can bring a claim for infringement. This can even include nonexclusive licensees.[85]

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[76] "[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271 (2012).

[77] See section IV.C.2 *infra* discussing joint ownership.

[78] Alfred E. Mann Found. For Scientific Research v. Cochlear Corp., 604 F.3d 1354, 1359 (Fed. Cir. 2010).

[79] Prima Tek II, L.L.C. v. A-Roo Co., 222 F.3d 1372, 1377 (Fed. Cir. 2000).

[80] WiAV Solutions LLC v. Motorola, Inc., 631 F.3d 1257, 1267 (Fed. Cir. 2010).

[81] *Id.*

[82] Lanham Act § 32, 15 U.S.C. § 1114 (2012).

[83] Innovation Ventures, LLC v. Pittsburg Wholesale Grocers, Inc., C 12-05523 WHA, 2013 WL 1007666 (N.D. Cal. Mar. 13, 2013) (recognizing split).

[84] Lanham Act § 43(a), 15 U.S.C. § 1125(a) (2012).

[85] MPC Franchise, LLC v. Tarntino, 11-CV-6310 CJS, 2014 WL 1920531 (W.D.N.Y. May 14, 2014).

5. Trade secret

Although there is some disagreement amongst the courts, standing for a trade secret claim accrues to the entity from which the trade secret has been misappropriated, which may be the licensee, meaning that the licensee will have standing for a claim.[86]

B. Requirements for valid assignment

1. In general

"Assignment" is defined generally as "the act of transferring to another all or part of one's property, interest or rights."[87] For intellectual property rights, an "assignment" is understood to be a transfer of all rights with nothing retained by the assignor.[88] Nevertheless, there can be a condition precedent to full transfer,[89] a retention of a reversionary interest,[90] or the agreement may provide for deferred payment,[91] and still be an assignment.

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[86] DTM Research, L.L.C. v. AT & T Corp., 245 F.3d 327, 332 (4th Cir. 2001) (misappropriation of trade secret claim can be brought by the possessor of the secret, not just the owner); *but see* Brigham Young Univ. v. Pfizer, Inc., 2:06-CV-890 TS, 2012 WL 1032769 (D. Utah Mar. 27, 2012) (disagreeing with *DTM Research*).

[87] BLACK'S LAW DICTIONARY 119 (6th ed. 1996).

[88] Copyright: Broadcast Music, Inc. v. Hirsch, 104 F.3d 1163, 1167 (9th Cir. 1997) ("Under New York law, 'an assignment occurs only where the assignor retains no control over the funds, no authority to collect and no power to revoke.'").

Patent: Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1551 (Fed. Cir. 1995) (defining an assignment as a conveyance of legal title by the patentee, which can be made only of the entire patent, an undivided part or share of the entire patent, or all rights under the patent in a specified geographical region); Oliver v. Rumford Chem. Works, 109 U.S. 75, 82, 3 S. Ct. 61, 65, 27 L. Ed. 862 (1883) (stating that an assignment is a transfer of the whole of an exclusive right or legal estate and there is no interest retained by the grantor for the territory).

Trademark: Presley's Estate v. Russen, 513 F. Supp. 1339, 1350 (D.N.J. 1981) ("An assignment passes legal and equitable title to the property while a license is mere permission to use. Assignment is the transfer of the whole of the interest in the right while in a license the owner retains the legal ownership of the property").

[89] Copyright: Herbert v. United States, 32 Fed. Cl. 293, 299 (Fed. Cl. 1994) (discussing whether copyright assignment had condition precedent, an appropriate credit on the final publication).

Patent: MHL Tek, LLC v. Gen. Motors Corp., 622 F. Supp. 2d 400, 404 (E.D. Tex. 2009) *aff'd in part, rev'd in part sub nom.* MHL TEK, LLC v. Nissan Motor Co., 655 F.3d 1266 (Fed. Cir. 2011) (discussing condition precedent of financial payment).

[90] Copyright: Mailer v. RKO Teleradio Pictures, Inc., 332 F.2d 747, 748 (2d Cir. 1964) (interpreting whether conditions for reversion of copyright to author were met).

Patent: Bell Intercontinental Corp. v. United States, 381 F.2d 1004, 1011 (Ct. Cl. 1967) ("Moreover, clauses in an agreement permitting termination by the grantor upon the occurrence of stated events or conditions will not preclude the transaction from being considered a sale; such clauses are uniformly treated as conditions subsequent, akin to provisions in realty conveyances calling for reversion of title previously vested.").

2. Copyright

By design, the Copyright Act of 1976 allows for the divisibility of copyright.[92] The entire bundle of rights originally vests in the author, but thereafter can be divided and transferred. The transferee of all rights in a stick from the bundle is not a licensee, but the outright owner of the particular right transferred.[93]

An assignment or grant of an exclusive license must be in writing;[94] however an oral transfer can be given legal effect by a subsequent signed writing.[95] The Copyright Act also provides that copyright can be transferred by operation of law, which can include sales resulting from bankruptcy, lien foreclosures, mortgage foreclosures, bequests in a will, perhaps community property law or marital divisions, and perhaps consent judgments.[96]

As noted above, copyright can be subdivided and the possessor of exclusivity of that subdivided right will be considered the owner of it for purposes of standing. There is no bright line, however, for how miniscule a right one can assign.[97] One court observed that rights are usually subdivided along geographical lines or distinctions

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Trademark: Ralston v. Salba Corp. N.A., No. Civ. 09-CV-02142-CMA-MJW, 2010 WL 1644627 (D. Colo. Apr. 21, 2010) (recognition in arbitrator's decision that the trademark reverted to original assignor as a result of a breach of the assignment agreement).

[91] Copyright: Yount v. Acuff Rose-Opryland, 103 F.3d 830, 835 (9th Cir. 1996) (noting that assignor had transferred the underlying copyright but retained a contractual right to royalties).

Patent: Kenyon v. Automatic Instrument Co., 160 F.2d 878, 882 (6th Cir. 1947) ("[A]n assignment is not invalidated because there is a reservation of royalty"); Baladevon, Inc. v. Abbott Labs., Inc., 871 F. Supp. 89, 96 (D. Mass. 1994) ("royalties in an assignment agreement are properly conceived as deferred consideration for the original conveyance of rights, with the amount of consideration pegged to the commercial success of the product.").

Trademark: Stephen Slesinger, Inc. v. Disney Enter., Inc., Opp. No. 91179064, 2011 WL 2489755, at *5, n.16 (Trademark Tr. & App. Bd. June 8, 2011) (holding that royalties in trademark assignment agreement were deferred compensation).

[92] This is in marked distinction to ownership under the Act of 1909, which was indivisible. If you are dealing with works that were created before January 1, 1978, consult with a copyright specialist to assist you in determining ownership.

[93] 17 U.S.C. § 201(d)(2) (2012) states "Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title."

[94] 17 U.S.C. § 204 (2012).

[95] Barefoot Architect, Inc. v. Bunge, 632 F.3d 822, 827 (3d Cir. 2011).

[96] 2 William F. Patry, Patry on Copyright § 5:116 (2014).

[97] See HyperQuest, Inc. v. N'Site Solutions, Inc., 632 F.3d 377, 383 (7th Cir. 2011) (noting "one would reach the point of absurdity going too far down that line" but not deciding where it reaches absurdity); 6 William F. Patry, Patry on Copyright § 21:9 (2014) (stating copyright can be infinitely subdivided and giving as an example "the exclusive right to sell the New York Daily News at the southwest corner of Fifth Avenue and 42nd Street in Manhattan on Monday mornings from 6:30 a.m. to 9:30 a.m.").

among forms of production, and gives a typical example of the author of a novel giving an exclusive license for the hardcover edition to one person and an exclusive license for the movie version to a second.[98]

Consistent with the principle that only the owner of the property can sue for infringement, one cannot transfer the bare right to sue.[99] And, the right to sue for past infringement remains with the transferor unless the assignment also specifically includes the assignment of the causes of action for past infringement.[100]

3. Patent

A patent owner can assign a partial undivided interest in a patent[101] but cannot assign a limited field of use or only certain claims of the patent.[102] A patent owner may also assign rights to a particular territory.[103] The assignment or grant of an exclusive license must be in writing.[104] Despite the absence of an express reference to transfers by operations of law, there are decisions that patents can be transferred by operation

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[98] HyperQuest, Inc. v. N'Site Solutions, Inc., 632 F.3d 377, 383 (7th Cir. 2011).

[99] Silvers v. Sony Pictures Entm't, Inc., 402 F.3d 881, 890 (9th Cir. 2005).

[100] Eden Toys, Inc. v. Florelee Undergarment Co., 526 F. Supp. 1187, 1193 (S.D.N.Y. 1981) *aff'd in part, rev'd in part*, 697 F.2d 27 (2d Cir. 1982) ("An assignment of a copyright, even if it conveys 'all right title and interest,' will not be construed to assign existing causes of action unless expressly included.").

[101] Waterman v. Mackenzie, 138 U.S. 252, 255, 11 S.Ct. 334, 335, 34 L.Ed. 923 (1891) ("The patentee or his assigns may, by instrument in writing, assign, grant, and convey, either (1) the whole patent ...; or (2) an undivided part or share of that exclusive right; or (3) the exclusive right under the patent within and throughout a specified part of the United States. A transfer of either of these three kinds of interests is an assignment, properly speaking, and vests in the assignee a title in so much of the patent itself, with a right to sue infringers. In the second case, jointly with the assignor. In the first and third cases, in the name of the assignee alone.").

[102] Pope Mfg. Co. v. Gormully & Jeffery Mfg. Co., 144 U.S. 248, 252, 12 S. Ct. 641, 642, 36 L. Ed. 423 (1892) (cannot assign a single claim of a patent); Int'l Gamco, Inc. v. Multimedia Games, Inc., 504 F.3d 1273, 1279 (Fed. Cir. 2007) (distinguishing a license for an exclusive territory from one for an exclusive field of use).

[103] 35 U.S.C. § 251 ("Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."), *recognized in* International Gamco, Inc. v. Multimedia Games, Inc., 504 F.3d 1273, 1276 (Fed. Cir. 2007) ("Section 261 specifically allows for geographically-restricted assignments").

[104] 35 U.S.C. § 261 ("Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing.").

of state probate law[105] and through foreclosure,[106] so most likely any transfer by operation of law will be effective.[107]

Some patents are subject to a "terminal disclaimer," which is generally reflected on the face of the patent. When there is a "terminal disclaimer," the patent is tied to other related patents and is only enforceable if the same entity owns all of the patents.[108]

Like copyright, the assignment of a cause of action must be express or else the claim remains with the party who owned the patent at the time the infringement occurred.[109]

4. Trademark

A trademark is an association of a word, logo, design, etc., with specific goods and services—it is the combination of the two, symbol and goods or services, that create trademark rights.[110] They are also territorial; unregistered trademark rights are for only the locales in which the mark is used and federally registered rights are for the entire United States. One must also register and/or use in the various countries around the world to have rights in those countries.

Because of this mark-goods association and the territorial aspect of trademarks, it is possible to disaggregate ownership for unrelated goods or in different geographic territories. For example, if a company is in two different industries, say peanuts and pencils, the trademark rights could be subdivided and sold to two different owners with little problem. Nevertheless, the goal should be to ensure that there will be no likelihood of confusion between the two disaggregated uses. This means they should be in distinctly different industries and the transaction will probably include an agreement ensuring that the two businesses stay in their defined fields. However, to the extent that cannot be achieved and there is some confusion, courts will be deferential to the

[105] Akazawa v. Link New Tech. Int'l, Inc., 520 F.3d 1354, 1357 (Fed. Cir. 2008).
[106] Sky Technologies LLC v. SAP AG, 576 F.3d 1374, 1380 (Fed. Cir. 2009).
[107] *See* Akazawa v. Link New Tech. Int'l, Inc., 520 F.3d 1354, 1356 (Fed. Cir. 2008) ("patent ownership may be transferred by assignment, and section 261 addresses such a transfer—requiring assignments to be in writing. However, there is nothing that limits assignment as the only means for transferring patent ownership.")
[108] 37 C.F.R. 1.321(c) (2014).
[109] Arachnid, Inc. v. Merit Indus., Inc., 939 F.2d 1574, 1579 n.7 (Fed. Cir. 1991) (citing authority for the proposition "The rule is that to pass the right to sue for past infringement words must be used in the assignment which expressly transfer to the assignee the right of action").
[110] See section II.C.1 *supra*.

parties' private agreement or a bankruptcy court's division of the rights and simply allow that confusion to exist.[111]

The bankruptcy of the Tavern on the Green restaurant in New York City used the solution of dividing trademark ownership on territorial terms. The case involved a dispute over the ownership of the restaurant name. After the court held that the City of New York owned the trademark for restaurant services,[112] the parties cooperated on a "Concurrent User Agreement," allowing ownership of the name by a different entity outside of the New York territory that could be sold as part of the estate.

Despite the title on the document, however, the provisions strongly resemble those that would be in a license agreement.[113] In the author's opinion, if challenged a court might ultimately conclude it is a license,[114] but it was an elegant way to try to grant full ownership of trademark rights, a much more valuable right than a license.

The assignment of a registered trademark must be in writing,[115] but a common law (unregistered) trademark can be assigned orally.[116] In all cases, however, the assignment must also include the "goodwill" associated with the trademark,[117] although no tangible assets have to be transferred.[118] There is a nuance that "intent to use" applications, a kind of trademark application that is filed before actual use of the trademark has started, cannot be assigned except "to a successor to the business of the applicant, or portion thereof, to which the mark pertains, if that business is ongoing and existing."[119] This does not absolutely require the transfer of tangible assets with the intent-to-use application, but acquiring tangible assets helps to show than an ongoing business was transferred.

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[111] *See, e.g.,* Vincent's of Mott St., Inc. v. Quadami, Inc., 423 F. App'x 46, 51 (2d Cir. 2011) (enforcing stipulation entered into during bankruptcy allowing confusing, unlicensed use of restaurant name).

[112] City of New York v. Tavern on the Green, L.P., 427 B.R. 233, 242 (S.D.N.Y. 2010).

[113] *See* Property, Intangible, An Assignment that Works Like a License (Oct. 17, 2011), http://propertyintangible.com/2011/10/assignment-that-works-like-license.html.

[114] See IV.A *supra* regarding the distinction between an assignment and a license.

[115] Lanham Act § 10, 15 U.S.C. § 1060 (2012) ("Assignments shall be by instruments in writing duly executed.")

[116] Martha Graham Sch. & Dance Found., Inc. v. Martha Graham Ctr. of Contemporary Dance, Inc., 43 F. App'x 408, 413 (2d Cir. 2002).

[117] Lanham Act § 10(a)(1), 15 U.S.C. § 1060(a)(1) (2010) ("A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark."); A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692, 43 S. Ct. 244, 245, 67 L. Ed. 464 (1923) (the trademark "was sold and could only be sold with the good will of the business that the plaintiff bought.").

[118] Money Store v. Harriscorp Fin., Inc., 689 F.2d 666, 676 (7th Cir. 1982).

[119] Lanham Act § 10(a)(1), 15 U.S.C. § 1060(a)(1) (2010).

Unlike patent and copyright, there are occasions where the assignment of a trademark can be implied. In particular, where a business is sold as a going concern, the trademarks and goodwill of the business are presumed to go with the business.[120] An assignment can also be implied from transactional documents that do not mention the trademark expressly.[121] Nevertheless, it is good practice to address the trademarks expressly in the transactional documents.[122]

The assignment of a trademark does not ordinarily include the right to sue for past infringement.[123] But in the case where a party obtained all of a party's assets, the acquiring party will have also acquired the existing claims for trademark infringement.[124]

5. Trade secret

The concepts of ownership and licensing exist for trade secret. However because of the nature of the right, a transfer of ownership means simply that the former owner must forego using the knowledge it has.[125]

C. Joint ownership

All types of intellectual property can have joint owners, but ownership by more than one person adds complexity both in the right to use and the right to bring suit.

Generally joint ownership arises because there are joint authors who created a copyrighted work or individuals who jointly participated in creating a new invention.[126] However, there is some case law that suggests that in some states a spouse might be

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[120] 3 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 18:37 (4th ed. 2014) (collecting cases).

[121] *See, e.g.*, Taylor v. Thomas, 2:12-CV-02309-JPM, 2013 WL 228033 at *8 (W.D. Tenn. Jan. 22, 2013) (implied assignment to the sole shareholder when she closed her business and expressly withheld ownership from her new employer); *but see* Axiom Worldwide, Inc. v. HTRD Grp. Hong Kong Ltd., 8:11-CV-1468-T-33TBM, 2012 WL 4077505 (M.D. Fla. July 18, 2012) *report and recommendation adopted in part, rejected in part*, 8:11-CV-1468-T-33TBM, 2012 WL 4077238 (M.D. Fla. Sept. 17, 2012) (recognizing that if the transfer is short of the entire business and its assets, such that the transferor can continue operating within the same line of business, the trademarks do not pass inherently with transferred goodwill).

[122] *See, e.g.*, Lingo v. Lingo, 785 F. Supp. 2d 443 (D. Del. 2011) (daughter acquired grocery store in partition sale but son successfully claimed ownership of the name of the store).

[123] Lanard Toys Ltd. v. Novelty Inc., 511 F. Supp. 2d 1020, 1030 (C.D. Cal. 2007), *citing* George W. Luft Co. v. Zande Cosmetic Co., 142 F.2d 536, 541 (2d Cir.1944).

[124] *Id.*

[125] Marley Co. v. FE Petro, Inc., 38 F. Supp. 2d 1070, 1079 (S.D. Iowa 1998) (stating a claim where the former employee was under a contractual duty not to use or reveal any technical information acquired but used the information in a patent application filed by new employer).

[126] See Sections II.A.3(c) and II.B.2.

considered a joint owner of a work as the result of community property law.[127] It is also possible that there will be joint ownership interests created transactionally, for example, where a patent inventor assigns her invention to two different entities.

1. Right to use in joint ownership

A joint owner cannot sue its co-owner for infringement.[128] However, in some cases there are additional burdens or impairments arising from the joint ownership.

(a) Copyright

Co-owners are like tenants in common, each owning a share of the undivided whole[129] and each co-owner has an independent right to use or license the use of the copyright.[130] However, a co-owner of a copyright must account to other co-owners for any profits he or she earns from licensing or use of the copyright.[131] The share is presumed to be pro rata unless there is an agreement otherwise.

(b) Patent

Co-owners each own a share of the undivided whole.[132] Each co-owner has a right to use the patent without any duty to the other co-owners.[133] This includes the right to license the patent to an accused infringer in a way that deprives the plaintiff of its claim.[134]

(c) Trademark

While procedurally possible, joint ownership of trademarks is highly disfavored because it is thought to be inconsistent with the trademark's role as a sole source

[127] In re Worth, 241 Cal. Rptr. 135, 195 Cal. App. 3d 768 (App. Ct. 1987) (copyright); Taylor v. Taylor Made Plastics, Inc., No. 8:12-CV-746-T-EAK-AEL (S.D. Fla. April 29, 2013) (patent); *but see* Berry v. Berry, 127 Hawai'i 243, 277 P.3d 968 (May 11, 2012) (copyright; holding that the spouse was entitled to only the income interest).

[128] Copyright: Oddo v. Ries, 743 F.2d 630, 632-33 (9th Cir. 1984).

Patent: 25 U.S.C. § 262 (2012) ("In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other co-owners.").

Trademark: Derminer v. Kramer, 406 F. Supp. 2d 756, 759 (E.D. Mich. 2005) ("An owner does not infringe upon his co-owner's rights in a trademark by exercising his own right of use.").

[129] Sybersound Records, Inc. v. UAV Corp., 517 F.3d 1137, 1145 (9th Cir. 2008).

[130] Oddo v. Ries, 743 F.2d 630, 632-33 (9th Cir. 1984).

[131] *Id.* at 633.

[132] See Section IV.A.3 *supra*.

[133] 35 U.S.C. § 262 (2012).

[134] STC.UNM v. Intel Corp., 754 F.3d 940, 946 (Fed. Cir. 2014), *denying reh'g and reh'g en banc* STC.UNM v. Intel Corp., 2013-1241, 2014 WL 4629058 (Fed. Cir. Sept. 17, 2014).

identifier—if there is more than one owner then, at least conceptually, there is more than one source.[135] Rather, where there are legal persons who have a shared interest, best practice would be that the owning entity is a common law partnership, unincorporated association, joint venture, or formalized as a legal entity. In cases where the owning entity breaks up, a court can prohibit everyone from using the trademark in order to avoid confusion.[136]

2. Right to enforce in joint ownership

(a) Copyright

A joint owner is not required to join his other co-owners in an action for infringement,[137] but as noted above will have a duty of accounting to its co-owners if there is a recovery.

(b) Patent

Where one co-owner possesses an undivided part of the entire patent, that joint owner must join all the other co-owners to establish standing. Thus, one co-owner has the right to limit the other co-owner's ability to sue infringers by refusing to join in the patent infringement suit.[138]

(c) Trademark

There are two commonly-used sections for trademark infringement claims: Section 32 is for infringement of a registered trademark and Section 43(a) for infringement of an unregistered trademark. Under Section 32 courts have not yet decided whether a joint owner has standing without joining the other co-owners, but they have held that the other co-owners must be joined as indispensible parties or the suit will be dismissed.[139]

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[135] See 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 16:40 (4th ed. 2014) ("Legal recognition of more than one owner of a single mark is contrary to the basic definition of a mark as identifying and distinguishing a single seller's goods or services.")

[136] In a decision enjoining use of the mark by all parties involved, one court stated "A trademark, however, is not divisible. If it were shared among the different splintered partners, the resulting confusion would destroy the value that each partner worked so hard to create." Lunatrex, LLC v. Cafasso, 674 F. Supp. 2d 1060, 1075 (S.D. Ind. 2009).

[137] Davis v. Blige, 505 F.3d 90, 99 (2d Cir. 2007), citing 17 U.S.C. § 501(b).

[138] Israel Bio-Eng'g Project v. Amgen, Inc., 475 F.3d 1256, 1264 (Fed. Cir. 2007).

[139] Int'l Importers, Inc. v. Int'l Spirits & Wines, LLC, 10-61856-CIV, 2011 WL 7807548 at *4 (S.D. Fla. July 26, 2011) (finding that co-owner was a required party under Fed. R. Civ. P. 19(a) and if not joined the case would be dismissed); Chiropartners, Inc. v. Gravely, CA 1:12-00223-CG-C, 2012 WL 4050840 at *4 (S.D. Ala. Aug. 24, 2012), *report and recommendation adopted*, CIV.A. 12-0223-CG-C, 2012 WL 4050188 (S.D. Ala. Sept. 13, 2012).

Under Section 43(a), anyone who is "likely to be damaged" by the infringing act may bring a claim,[140] but, again, most likely all co-owners must be joined.[141]

V. Treatment of intellectual property licenses in bankruptcy

A. Assuming and assigning licenses

Under § 365(a) of the Bankruptcy Code a trustee may assume an executory contract, and under § 365(f) the trustee may assign an executory contract, including in cases where a provision in the contract purports to limit or restrict assignment.[142] The Fourth Circuit follows the Countryman Test in deciding whether contract is executory.[143] Under the Countryman Test, a contract is executory if the "obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete the performance would constitute a material breach excusing the performance of the other."[144]

As a general rule, intellectual property licenses are executory contracts,[145] the licensor obliged to forebear from suit[146] and the licensee will generally have

[140] Lanham Act § 43(a), 15 U.S.C. § 1125(a) (2012).

[141] Golden Temple of Oregon, LLC v. Wai Lana Prods., LLC, 03:09-CV-902-HZ, 2011 WL 6070385 at *3 (D. Or. Dec. 5, 2011).

[142] In re CFLC, Inc., 89 F.3d 673, 676 (9th Cir.1996).

[143] In re Sunterra Corp., 361 F.3d 257, 264 (4th Cir. 2004).

[144] *Id.*

[145] In re Buildnet, Inc., 01-82293, 2002 WL 31103235 (Bankr. M.D.N.C. Sept. 20, 2002) ("As a general rule, most patent, trademark, technology and other intellectual property licenses are executory contracts"); In re Patient Educ. Media, Inc., 210 B.R. 237, 241 (Bankr. S.D.N.Y. 1997) ("Bankruptcy courts have generally treated nonexclusive copyright and patent licenses as executory contracts").

Copyright: In re Sunterra Corp., 361 F.3d 257, 264 (4th Cir. 2004) (non-exclusive, irrevocable license was executory); *but see* In re AEG Acquisition Corp., 161 B.R. 50, 59 (B.A.P. 9th Cir. 1993) (holding that film distribution contract was a conditional sales agreement and not executory).

Patent: Lubrizol Enterprises v. Richmond Metal Finishers, 756 F.2d 1043, 1045 (4th Cir.1985), *cert. denied*, 475 U.S. 1043 (1986); *but see* In re Gencor Indus., Inc., 298 B.R. 902, 911 (Bankr. M.D. Fla. 2003) (in case of nonexclusive, irrevocable license, holding that Most Favored Nations Clause and the Patent Defense Clause were conditions of payment, not continuing obligations, so the license could be assumed).

Trademark: In re Chipwich, Inc., 54 B.R. 427, 430 (Bankr.N.Y.1985) (exclusive trademark license agreements for eggnog and a dairy shake product were executory); In re N.C.P. Mktg. Grp., Inc., 337 B.R. 230, 237 (D. Nev. 2005) *aff'd*, 279 F. App'x 561 (9th Cir. 2008) (nonexclusive trademark license was executory); *but see* In re Exide Technologies, 607 F.3d 957, 964 (3d Cir. 2010), as amended (June 24, 2010) (sale of assets that included physical manufacturing plants, equipment, inventory, and that included license of trademark that excluded seller's own use in same field was not executory).

In the author's opinion, whether a license is executory is consistent with the conclusion that under substantive law the agreement, albeit characterized as a license, would instead be considered an assignment. See Section IV.A *supra* discussing assignments (including virtual), exclusive licenses and nonexclusive licenses.

[146] De Forest Radio Telephone Co. v. United States, 273 U.S. 236, 242, 47 S.Ct. 366, 367-68, 71 L.Ed. 625 (1927).

performance obligations.[147] Therefore, the existing intellectual property licenses are subject matter for assumption and assignment.

However, § 365(a) and (f) are expressly subject to an exception in § 365(c) that will in most cases prevent the assumption and assignment, i.e.,

> the trustee may not assume or assign an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—(1) (A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or 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....

The "applicable law" in these cases is the law of transferability of intellectual property licenses and, indeed, IP licenses are generally considered non-assignable and non-transferable.[148] Thus, under § 365(c), the trustee may not be able to assume or assign the license.[149]

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[147] For example, a patentee may have to mark product with the patent number, *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996), and a trademark owner has to ensure that the goods and services remain of a quality acceptable to the licensor, In re Interstate Bakeries Corp., 690 F.3d 1069, 1075 (8th Cir. 2012), *reh'g en banc granted, opinion vacated* (June 18, 2013), *on reh'g en banc*, 751 F.3d 955 (8th Cir. 2014).

[148] Copyright: Gardner v. Nike, Inc., 279 F.3d 774, 781 (9th Cir. 2002) (holding that exclusive licenses are only assignable with the consent of the licensor), *but see* In re Golden Books Family Entm't, Inc., 269 B.R. 311, 319 (Bankr. D. Del. 2001) (holding that exclusive copyright license was transferable).

Patent: Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp., 284 F.3d 1323, 1328 (Fed. Cir. 2002) (stating that patent licenses are personal and non-transferable in the absence of an agreement authorizing assignment, contrary to the state common law rule that contractual rights are assignable unless forbidden by an agreement); In re Catapult Entm't, Inc., 165 F.3d 747, 751 (9th Cir. 1999) (nonexclusive license not assumable); In re Hernandez, 285 B.R. 435, 440 (Bankr. D. Ariz. 2002) (noting that applicable federal patent law would require the consent of the licensor to assign the license whether it was exclusive or nonexclusive); *cf.* In re Supernatural Foods, LLC, 268 B.R. 759, 803 (Bankr. M.D. La. 2001) (license that allowed for assignment incident to the sale of a substantial portion of assets was consent to the assumption of the license).

Trademark: In re XMH Corp., 647 F.3d 690, 695 (7th Cir. 2011) ("the universal rule is that trademark licenses are not assignable in the absence of a clause expressly authorizing assignment.").

[149] There is a circuit split on the issue of whether the language "assume or assign" is disjunctive or conjunctive. Since generally an intellectual property license allows the licensor to choose its licensee, depending on how one reads the statute it may allow for the assumption and continued performance by the same debtor-licensee, but not the assignment to a different licensee. *See* In re Sunterra Corp., 361 F.3d 257, 262 (4th Cir. 2004); *but see* Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493 (1st Cir.1997) (applying the "actual test" and holding that the debtor could assume the license); In re Catapult, 165 F.3d at 749 n. 2 (collecting bankruptcy court decisions adopting actual test).

Take as an example a stock photo agency that is in bankruptcy. Since it is an agency, it probably does not own the copyright in any of the photographs it licenses and only has a license from the photographers to further convey limited licenses. If the license from the photographers is not transferable, then the large portfolio of photographs may have no value at all in the bankruptcy.

B. Licensor bankruptcy—rejection of intellectual property licenses

Where a trustee elects to reject the intellectual property license, under § 365(n) the licensee of an "intellectual property" license[150] granted by a bankrupt licensor may elect to retain its rights to the license.

1. History of development

In *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*,[151] the Court of Appeals allowed a patent owner to reject a patent license and strip the licensee of its ability to practice the patents. This was beneficial to the bankrupt estate because the estate could then license the patents on more favorable terms. But when an intellectual property license is terminated it can be devastating to the licensee's business if its business relies to any substantial degree on using the licensed intellectual property. For example, a bank that needs a software license for critical operations would have to shut down without it, a manufacturer of a medical device could not make the device without a patent license, and a franchisee in a hotel chain may go out of business if it could not take advantage of the benefits of being a trademark licensee.

Congress responded to *Lubrizol* by amending the Bankruptcy Code to add § 365(n). The Senate Report described the need this way:

> The purpose of the bill is to amend Section 365 of the Bankruptcy Code 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 pursuant to Section 365 in the event of the licensor's bankruptcy. Certain recent court decisions interpreting Section 365 have imposed a burden on American technological development that was never intended by Congress in enacting Section 365. The adoption of this bill will immediately remove that burden and its attendant threat to the development of American Technology and will further clarify that Congress never intended for Section 365 to be so applied.[152]

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[150] In this case, "intellectual property" is the statutory term, although it is defined. See note 154 *infra* and accompanying text.
[151] 756 F.2d 1043 (4th Cir. 1985).
[152] S. Rep. No. 100-505, at 1 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3200.

Under Section 365(n), if the trustee rejects an executory contract where the debtor is the licensor, the licensee may elect to retain its rights, including any provision for exclusivity (but not for specific performance of any other terms) for the duration of the contract and its extensions. In exchange, the licensee must continue to pay royalties and gives up the right to setoff.[153]

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

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

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

(i) the duration of such contract; and

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

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

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

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

(C) the licensee shall be deemed to waive—

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

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

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) held by the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

2. Exclusion of trademarks and courts' response

The significant limitation to § 365(n) is that trademarks are not included.[154] The Senate Report explains why:

> Finally, the bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the Lubrizol court and others, see, e.g., *In re Chipwich, Inc.*, 54 Bankr. Rep. 427 (Bankr. S.D.N.Y. 1985), such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.[155]

However, the exclusion may not be as significant as originally thought. In *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*,[156] the bankrupt company, Lakewood Engineering & Manufacturing, had granted a patent and trademark license to defendant Chicago American (CAM) to manufacture box fans. Because Lakewood was in financial distress, it also authorized CAM to sell the run of box fans for CAM's own account if Lakewood did not buy them.

Three months later Lakewood was put into involuntary bankruptcy. The trustee sold the assets of the business to plaintiff Sunbeam. Because Sunbeam did not want the inventory or for CAM to sell the fans, the trustee rejected the contract. CAM sold the fans anyway, so Sunbeam brought an adversary action.

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

11 U.S.C. § 365(n) (2012).

[154] The term "intellectual property" means—
(A) trade secret;
(B) invention, process, design, or plant protected under title 35;
(C) patent application;
(D) plant variety;
(E) work of authorship protected under title 17; or
(F) mask work protected under chapter 9 of title 17;
to the extent protected by applicable nonbankruptcy law.
Bankruptcy Code § 101(35A). Note that it does not include "trademarks."

[155] S. Rep. No. 100-505, at 1 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3200.

[156] 686 F.3d 372 (7th Cir. 2012) *cert. denied*, 133 S. Ct. 790, 184 L. Ed. 2d 596 (U.S. 2012).

The bankruptcy judge held that under § 365(n) CAM could practice Lakewood's patents and that, as a matter of equity, CAM could also use the trademarks on the fans. Sunbeam appealed and the Court of Appeals for the Eighth Circuit had to decide what the absence of "trademarks" in § 365(n) meant. The court had this to say:

> Outside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property. … CAM had bargained for the security of being able to sell Lakewood-branded fans for its own account if Lakewood defaulted; outside of bankruptcy, Lakewood could not have ended CAM's right to sell the box fans by failing to perform its own duties, any more than a borrower could end the lender's right to collect just by declaring that the debt will not be paid. What § 365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place. After rejecting a contract, a debtor is not subject to an order of specific performance. The debtor's unfulfilled obligations are converted to damages; when a debtor does not assume the contract before rejecting it, these damages are treated as a pre-petition obligation, which may be written down in common with other debts of the same class. But nothing about this process implies that any rights of the other contracting party have been vaporized. Consider how rejection works for leases. A lessee that enters bankruptcy may reject the lease and pay damages for abandoning the premises, but rejection does not abrogate the lease (which would absolve the debtor of the need to pay damages). Similarly a lessor that enters bankruptcy could not, by rejecting the lease, end the tenant's right to possession and thus re-acquire premises that might be rented out for a higher price. The bankrupt lessor might substitute damages for an obligation to make repairs, but not rescind the lease altogether. Bankruptcy law does provide means for eliminating rights under some contracts. … [But] the trustee used § 365(a) rather than any of the avoiding powers—and rejection is not the functional equivalent of a rescission, 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. Scholars uniformly criticize *Lubrizol*, concluding that it confuses rejection with the use of an avoiding power. *Lubrizol* itself devoted scant attention to the question whether rejection cancels a contract, worrying instead about the right way to identify executory contracts to which the rejection power applies. *Lubrizol* does not persuade us.[157]

[157] Sunbeam Products, Inc. v. Chicago Am. Mfg., LLC, 686 F.3d 372, 376-78 (7th Cir. 2012) *cert. denied*, 133 S. Ct. 790, 184 L. Ed. 2d 596 (U.S. 2012) (internal quotations and citations omitted).

This reasoning, although arising in the case of a trademark license, is equally applicable to patent and copyright cases.[158]

[158] *Id.* at 378 (recognizing that the opinion creates a conflict among the circuits).