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Navigating Intellectual Property Licensing Issues in the Bankruptcy Universe

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> "I don't think they play at all fairly," Alice began, in rather a complaining tone, "and they all quarrel so dreadfully one can't hear oneself speak—and they don't seem to have any rules in particular; at least, if there are, nobody attends to them—and you've no idea how confusing it is. . . ."
>
> — Lewis Carroll, *Alice's Adventures in Wonderland*

OVERVIEW

For intellectual property lawyers, whose courtroom experiences consist mainly of appearances in federal district court, arriving in bankruptcy court for the first time can cause culture shock. The procedures seem different, the rules seem odd. What makes it more jarring is that bankruptcy courts are federal courts. They often are in the same building as district courts, and they largely apply the Federal Rules of Civil Procedure in disputed matters. But the similarities often get overwhelmed by the differences. Bankruptcy court can seem a different universe.

The Bankruptcy Code is not primarily concerned with protecting original expression or preventing consumer confusion. The concerns and policies of intellectual property law are of secondary importance in bankruptcy. Although the Code purports on its face to apply existing non-bankruptcy law in determining rights of those who must deal with the debtor, the Code does have its own unique philosophy that sometimes clashes with the other interests that make their way into bankruptcy court. Specifically, the Bankruptcy Code is mainly concerned—particularly in the reorganization provisions of Chapter 11—with rehabilitating the debtor and providing it with a fresh start, and with maximizing payments to creditors. To achieve this goal, the Code seeks to enlarge as much as possible the pool of funds that will be available to pay creditors and/or help the debtor reorganize. What is more, the debtor has a "home court advantage": The main forum for determining disputes with debtors is the bankruptcy court, a specialized forum that exists for the precise purpose of applying the Bankruptcy Code.

The Code's fresh-start policy, and the consequent inclination of the bankruptcy system to protect the debtor and its creditor body, informs and pervades most decisions the bankruptcy court has to make—including decisions affecting intellectual property. For better or worse, filtering copyright, patent, and trademark law through the procedures and processes of the bankruptcy system can result in the creation of a parallel universe: the surroundings are familiar, the landmarks are recognizable, but everything is skewed by just a few degrees.

This article attempts to summarize some of the more common issues that are likely to arise when an owner or user of intellectual property has filed a petition under the Bankruptcy Code, with a primary focus on licensing issues. Sometimes the debtor will be a licensor, sometimes a licensee, sometimes a borrower that has offered its rights or its licenses as collateral. In each event the issues will be somewhat different, the concerns will vary. But knowing the usual risks that pres-

ent themselves may enable the intellectual property practitioner to take steps to insulate her client from the more undesirable impacts of a bankruptcy, to the extent possible.

BASIC CONCEPTS OF THE BANKRUPTCY PROCESS

Effect of Filing a Petition

The overwhelming majority of bankruptcy proceedings are commenced voluntarily. The triggering event that begins a voluntary bankruptcy case is the filing of a petition, a single act that both requests and grants relief to the debtor.[1] Filing a petition has two immediate effects. First, it creates a bankruptcy estate. That estate contains, roughly speaking, all the debtor's interests in property at the moment of filing, as well as the proceeds of such property and certain additional interests in property the estate may acquire later.[2] In Chapter 11 cases, unless the court rules otherwise, the debtor will be "in possession," meaning it will continue to operate the business while attempting to reorganize.[3] In Chapter 7 cases, the debtor liquidates (as opposed to reorganizing), and the liquidation is overseen by a trustee.[4] This article focuses mainly on bankruptcy under Chapter 11, and thus refers usually to the "debtor" rather than the "trustee."

Filing a petition also triggers one of the most far-reaching features of the Bankruptcy Code: the automatic stay. Under section 362 of the Code, the filing of a petition automatically stays all actions and activities that seek to collect money from the debtor or execute on the debtor's assets (with several statutorily defined exceptions not normally applicable to commercial disputes). Thereafter, anyone wishing to proceed against the debtor based on pre-petition (and some post-petition) events, or even to resume proceedings that already were in progress, must first go through the bankruptcy court.

Assumption or Rejection of Executory Contracts Under Section 365

As the Chapter 11 case progresses, additional issues arise. For current purposes, the issue of most interest is assumption, rejection, or assignment of executory contracts because, as discussed in more detail below, most licenses of intellectual property are considered executory contracts for purposes of bankruptcy law.

Although "executory contracts" are not defined in the Bankruptcy Code, they are commonly understood as contracts "'on which performance remains due to some extent on both sides.'"[5] Whether a contract is executory is measured as of the petition date.[6]

Section 365 of the Bankruptcy Code permits the debtor, subject to court approval, to assume, assume and assign, or reject an executory contract. Assuming a contract means simply that its existence is reinstated. The debtor chooses to be bound by its terms, and from the date of assumption forward, both parties must comply with its terms exactly as they would absent bankruptcy.

The debtor cannot assume a contract, however, without first meeting the statutory preconditions. First, the debtor must cure outstanding defaults under the contract (or "provide adequate assurance" that it will do so).[7] The debtor also must "provide adequate assurance of future performance."[8] Upon assumption, the contractual obligations become those of the estate (and, later, the post-reorganization debtor). So a breach of the contract by the debtor after the date of assumption will likely result in a post-petition claim for damages for breach of contract (treated as a first priority administrative claim under sections 507(a)(1) and 503, usually at 100 cents on the dollar), rather than a pre-petition claim for damages (which is payable only as set forth in the plan of reorganization).

Rejection is an approximate opposite of assumption: the debtor refuses to be bound further by the contract. Under sections 365(g) and 502(g) of the Code, rejection is deemed to be a breach by the debtor that gives rise to a pre-petition claim for damages for breach of contract. That damages claim, if allowed by the bankruptcy court, will be a general unsecured claim, which means the other party to the contract is simply a member of the general creditor body.[9] Specific performance is generally not an available remedy, even if it would be available absent bankruptcy.[10] Rejection of a trademark license has been held to be a material breach that, under normal contract principles, justifies the non-breaching party in suspending its performance.[11] A debtor may reject even a license to which it is not formally a party, if there is some possibility that it could be liable under the license.[12] But a debtor may not reject only part of an agreement; even if a transaction is reflected in several documents, if it is a single deal, it must be assumed or rejected in whole.[13]

Note, however, that in a Chapter 7 case there is a deadline. Under section 365(d)(1), if within sixty days of the petition (or conversion to Chapter 7) the trustee does not assume or assume and assign an executory contract, it is deem rejected.[14]

A debtor may alternatively assume and assign the contract. In order to do so, it must provide adequate assurance that the assignee can perform. "Adequate assurance" is a pragmatic test, focused on the ability of the proposed assignee to perform in the future.[15] As a general rule, the debtor may assign an executory contract even in the face of a contractual provision that prohibits or limits assignment.[16] But there are certain types of contracts that a debtor may not assign. For example, a personal services contract, which would not be assignable as a matter of common law, cannot be assigned.[17]

Substantial Performance and Effect on IP Licenses

Intellectual property licenses generally are executory contracts.[18] This includes licenses of method patents.[19] Trademark licenses are usually executory because the licensor will have continuing quality control obligations and the licensee will have payment and other continuing performance obligations.[20] But a recent Third Circuit case has highlighted some issues that make this a less-than-across-the-board rule.

In *In re Exide Technologies*,[21] the debtor had sold its industrial battery business to Enersys in 1991. The sale included a perpetual, royalty-free license permitting Enersys to use the "Exide" name in the battery business (Exide continued to use the Exide name in its other lines of business). Exide filed a Chapter 11 petition in 2002 and subsequently sought to reject the trademark license so that it could re-enter the industrial battery business in competition with Enersys. The bankruptcy court reasoned that the license was executory because material obligations existed on both sides: Exide was obligated to refrain from suing Enersys for infringement, and Enersys had certain continuing obligations under the network of agreements by which it had acquired the industrial battery business in 1991. The district court affirmed.

The Third Circuit, however, disagreed. It noted that the essence of the 1991 transaction was the sale of the industrial battery business to Enersys and that Enersys had substantially performed its side of the bargain by paying the purchase

price and operating the business for over ten years. Exide argued that Enersys had not substantially performed, because it had certain continuing obligations under the relevant documents, including the ongoing quality control obligations and the obligation not to use the Exide name outside the industrial battery business. The Third Circuit held that neither of these was a material obligation under the 1991 transaction, because the purpose of that agreement was to transfer the business in return for the purchase price. The trademark license could not be analyzed alone, but had to be viewed in its context as merely one piece in a much larger transaction—a larger transaction that was substantially complete and had been for years. Even with respect to the quality control obligations in the trademark license, the court noted that "Exide never provided Enersys with any quality standards.

Careful documentation and enforcement of quality control are absolutely essential if a licensor is to be able reliably to enforce its rights in bankruptcy proceedings.

The parties, in fact, do not ever seem to have discussed any such standards."[22] So the license was not executory and could not be rejected. Exide could not recover its own name for use in the industrial battery business.

This case highlights what readers will notice is a major theme in this presentation: careful documentation and enforcement of quality control are absolutely essential if a licensor is to be able to enforce its rights in bankruptcy proceedings. This is true whether the licensor is the debtor or the counterparty of the debtor. Gaps in paperwork can be fatal in bankruptcy—and given the ever-present danger of a finding of abandonment, this is a matter of acute concern for trademark owners. Besides being good business practice, good documentation and enforcement of quality control can mean, quite literally, the life or death of the franchise.

But even providing clear quality control, notice, and enforcement terms may not be enough if the license is part of a larger asset sale transaction. In *In re Interstate Bakeries Corp.*,[23] the debtor had sold some of its baking business to Lewis Brothers in 1996 pursuant to an antitrust divestiture order. As part of the sale transaction, Interstate granted to Lewis a perpetual license for several marks in defined geographical regions. The license agreement recited that failure by Lewis to maintain quality control standards would be a material breach; the quality control standards were set forth in the agreement as well, albeit vaguely.

Because the Interstate-Lewis license set forth quality control standards, and specifically defined failure of quality control as a material breach, a majority of the Eighth Circuit's three-judge panel held that those obligations by Lewis were material continuing obligations. Interstate, for its part, had various notice, forbearance, and defense-of-infringement obligations. So according to the panel majority, both sides owed continuing material performance, which meant that the license was executory and could be rejected. The dissent relied on *Exide*'s substantial performance rule to argue that a fully completed sale cannot be unraveled fourteen years later.

In June 2013 the Eighth Circuit granted en banc review of *Interstate*, and vacated the panel opinion. In June 2014 the en banc court reversed, invoking *Exide* as authority for its holding that a long-completed sale transaction was no longer executory because it had been substantially performed. Thus, the license had to be viewed as part of the overall transaction of which it was a part. Accordingly, the Eighth Circuit held en banc that the remaining obligations relating to quality control, enforcement, and notice were minor in the context of the overall transaction. So the license could no longer be rejected.

There was, however, a dissent. Three judges took the position that because of the nature of the transaction, the license went right to the heart of the deal. The very purpose of the divestiture transaction was to preserve the competitor and its brands. So the brands' licenses were part of the very essence of the deal—which means that there could not have been substantial performance.

These two decisions—*Exide* and *Interstate*—are perhaps best viewed as reflecting courts' reluctance to undo long-closed transactions. But this issue is obviously a difficult one, and it remains to be seen how other circuits will handle it.

Presumably the same issues of substantial performance will apply to transactions of which patent or copyright licenses are a part. Nevertheless, the issue has yet to come up. The case law has treated copyright licenses generally as executory, because the parties will have continuing obligations until the license expires.[24] The Ninth Circuit has stressed that the licensor's obligations under an exclusive software licensing agreement to refrain from suing for infringement was enough to make the license executory.[25] Some older case law in bankruptcy courts did not take account of the licensor's obligation not to sue for infringement, and thus held that if a licensor does no more than collect royalties the license is not executory.[26] Those cases probably are not good law.

Patent and technology licenses have followed a similar analysis: any material continuing obligation makes the contract executory. Thus, most patent and technology licenses will be deemed executory because of the owner's obligation to defend claims of infringement and to notify the licensee of infringement actions.[27] Other business terms, such as "most favored nation" clauses (under which the licensor agrees to adjust fees downward if it gives a better rate to another licensee) or exclusivity terms, will likewise result in a finding that the contract is executory.[28] This is true even if the license fees are prepaid: continuing obligations such as confidentiality, or support in the event of infringement actions, suffice to make the license executory.[29]

Even if the debtor materially breached the contract pre-petition, a licensing agreement is still executory, so long as the non-debtor party did not actually terminate it.[30]

Pre-Petition Versus Post-Petition Claims

The structure of a license can affect whether a debtor's obligations under it give rise to pre-petition or post-petition claims. Ordinarily, a debtor who uses another's property after the petition has to pay for its post-petition use—that is, the owner has an administrative claim, often at 100 cents on the dollar—even if the debtor later rejects the contract.[31] But in certain circumstances the licensor can be left with a general unsecured pre-petition claim even if after the petition, but before rejection, the debtor-licensee continued to use the licensed intellectual property. Microsoft Corp. learned this lesson the hard way.

In *In re DAK Industries, Inc.*,[32] the debtor was a computer manufacturer that had licensed Microsoft Word for installation on computers that it would resell to end users. Microsoft provided a master disk to DAK, which DAK then used to install Word on the hardware it sold. Under the license, DAK committed to a series of five payments that had to be made irrespective of how many units it sold, though the specified per-unit rate was $45. If it sold more units than were covered by the minimum commitment, DAK was obligated to pay $45 per unit to Microsoft.

DAK filed a voluntary petition after making the first three payments. After continuing for almost two years to sell computers with Microsoft Word preloaded, it rejected the license agreement. Microsoft claimed in the bankruptcy court that it had a post-petition administrative claim for the value of all the copies of Microsoft Word that DAK had sold between the date of the petition and the date DAK rejected the license. According to Microsoft, the license was in the nature of permission to use Microsoft's intellectual property; thus, DAK was using and benefiting from the copyrighted software for its own benefit after the petition, which Microsoft said required DAK to pay Microsoft 100 cents on the dollar for the units it sold.

The Ninth Circuit disagreed. According to the Ninth Circuit, "[t]he economic realities of this agreement indicate that it was basically a sale, not a license to use."[33] That meant Microsoft had not supplied any consideration to DAK post petition, which in turn meant that Microsoft was not entitled to an administrative priority claim. This case underscores the care with which bankruptcy courts scrutinize agreements to ascertain their "true" nature. Without new consideration flowing to the debtor after the petition, courts will be loath to deem a creditor's claim post petition, even if the debtor benefits post petition.

That does not mean a debtor can use others' property with impunity. If a debtor-licensee continues to use the licensor's trademark or other licensed property after the petition, the licensor will have a post-petition claim under section 503(b), for the value of the benefit that use of the mark conferred on the estate. Typically, the value of the benefit is measured by the royalty rate in the license.[34] If, however, the parties' contract is viewed as something other than a license or lease, the value of the benefit is evaluated separately and can be as little as zero.[35]

The licensor must be careful, however, to submit its administrative claim in a timely fashion, or be barred.[36] In addition, it must prove its claim by a preponderance of the evidence.[37]

A case from Texas illustrates the treatment of trademark licenses post petition.[38] Home Interiors & Gifts (HIG) used the BETTER HOMES AND GARDENS (BHG) trademark in its catalogs and interior design business, pursuant to a license from Meredith Corp., which owned the BHG mark. Meredith would review HIG's publications before they were used. Shortly after the last approvals, HIG filed a Chapter 11 petition. HIG continued post petition to use the BHG marks until after it rejected the license.

Meredith submitted an administrative claim for HIG's use of the BHG mark post petition and a general unsecured claim for rejection damages. HIG argued that Meredith had only a pre-petition claim for use of the mark because HIG was only using the mark pursuant to Meredith's pre-petition approval. The court disagreed. Because the essence of a trademark is use in commerce, the time of use is what determines whether the claim is pre- or post-petition. Use of the mark after the petition benefited the bankruptcy estate, so the charges for using the mark are post-petition claims.[39]

The administrative claim covered two post-petition periods: from petition to rejection, and post-rejection. For the period until rejection, the administrative claim is for the "reasonable value" of HIG's use of the property. Generally, the contract rate is presumed to be a reasonable price unless it is shown to be unreasonable.[40] Post rejection, the price for the unauthorized use is "fair market value." In the first instance, the pre-petition contract may supply evidence of fair market value.[41]

ISSUES IN LICENSOR BANKRUPTCIES

It should be obvious that section 365 can give a debtor-licensor enormous bargaining leverage, particularly if the licensee's business depends on the license and on support from the licensor, as in a franchise agreement. The courts will generally uphold the debtor's decision to assume or reject so long as it is a good-faith exercise of business judgment that may benefit the estate.[42] This means the debtor can use the threat of rejection to renegotiate the terms of licenses; or the debtor

can "cherry-pick" licensees in connection with a sale of the licensed property, by assigning only certain licenses to the buyer and rejecting the rest; or it can reject all existing licenses.[43]

Equitable Limitations on Licensor's Rejection Power

Although the "business judgment" test is a very deferential one that results in bankruptcy court approval of the vast majority of debtor decisions to assume or reject, it does not always lead to approval. Bankruptcy courts are courts of equity; a bankruptcy court can and will refuse to permit a debtor to reject a license if it believes that rejection will needlessly inflict great damage on the licensee, especially if not accompanied by some countervailing benefit to the estate.

For example, in *In re Petur U.S.A. Instrument Co.*,[44] the debtor, Petur U.S.A., licensed to Petur of Canada certain patents for geotechnical instruments, together with associated trademarks. Unlike Petur U.S.A., which suffered significant losses (ultimately leading to its bankruptcy), Petur of Canada was a successful, profitable concern. During its Chapter 11 case, Petur U.S.A. sought to reject the license, arguing that the license had been an improvident deal and that the income from sales of its instruments in Canada would benefit the estate going forward. But the court was unimpressed and refused to permit rejection.

The court's primary concern was that rejection would utterly destroy Petur of Canada's business, which was inequitable because the harm to Petur of Canada was vastly disproportionate to any benefit that creditors might receive—particularly in view of the court's doubts that Petur U.S.A. could effectively reorganize, much less manage the Canadian market in a competent way.[45]

In such "vast disproportion" cases, another consideration is that rejection will usually lead to an enormous pre-petition general unsecured claim that may crowd out other creditors—which gives the bankruptcy court another reason to deny rejection.[46]

Statutory Limitations on Licensor's Rejection Power: Section 365(n)

Although the equitable powers of the bankruptcy court do afford some protection to the licensee of a debtor, that protection appears to apply at the fringes,

in extreme cases of vast disproportion between the harm to the licensee and the benefit to the estate. Because equity considerations are generally fuzzy and ill defined, it is difficult to say precisely at what point the balance of harms and benefits becomes "disproportionate."

This difficulty came to the attention of Congress after the Fourth Circuit's 1985 decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*[47] The *Lubrizol* court applied the normal analysis that is used in any rejection case. The court first determined that the technology license at issue was executory. It then approved rejection under the "business judgment" standard, noting that so long as the debtor's decision to reject was neither taken in bad faith nor a gross abuse of business discretion, the court would approve rejection even if it disagreed with the decision on the merits.

The *Lubrizol* court recognized explicitly the difficulties that rejection imposes on licensees, and even noted that the prospect of possible rejection could have a "chilling effect" on intellectual property licensing by any companies other than the financially strongest. Nevertheless, the Fourth Circuit felt bound to apply the law as it then stood.

For intellectual property licensees, this is a harsh result. Under the *Lubrizol* rule, they are left with very little if the licensor-debtor rejects their license. Although upon rejection a licensee will have a pre-petition claim for contract damages, that is a pale remedy because intellectual property by definition is unique—the licensee cannot "cover" by obtaining similar rights elsewhere.

In response to *Lubrizol*, Congress enacted the Intellectual Property Bankruptcy Protection Act in 1988,[48] which amended section 365 to ameliorate some of the difficulties highlighted by *Lubrizol*. Instead of leaving the decision as to the future of the license solely in the hands of the debtor-licensor (subject to court approval), the new section 365(n) gave licensees of "intellectual property" (as defined in the Code) the option to retain certain rights under the license even in the face of the debtor-licensor's rejection. Under section 365(n), if the court approves rejection of the license, the licensee can either (i) treat the rejection as a breach giving rise to a potential claim for money damages under section 365(g), as with other rejected contracts, or (ii) retain the rights to the intellectual property covered by the license, including any exclusivity rights.[49] If the licensee elects to retain its rights under the agreement, the debtor must permit the licensee to exercise its rights and the licensee must continue to make all royalty payments due under the

contract.[50] The licensee retains this right to the licensed property for the remaining life of the license plus any as-of-right renewal or extension period. However, rejection relieves the debtor from performing any of its ongoing or future affirmative obligations under the contract.[51] The debtor is still bound by passive obligations—like maintaining confidentiality—that are necessary for the licensee to enjoy the benefits of the license.[52] The licensee is not entitled, however, to the benefits of a debtor's post-petition labors even if it elects under section 365(n) to retain its license rights; thus, a section 365(n) election will not entitle a patent licensee to any improvements the debtor developed post petition. Those belong to the debtor.[53] A licensee may make a section 365(n) election only if the license had not already terminated.[54] Whether the license has terminated is decided under state law.[55]

Notably for current purposes, section 365(n) applies only to licenses of "intellectual property" as defined in the Code. And the Code definition of "intellectual property" in section 101(35A) includes patents, copyrights, trade secrets, and semi-conductor chip mask works—but not trademarks. That is because Congress's concern over *Lubrizol* centered around new and unproven start-up companies in the computer software and biotechnology industries, which were heavily dependent on licensing.[56] The *Lubrizol* decision was perceived as a direct threat to the growth of these industries; Congress was concerned that potential licensees would shy away from dealing with financially unsteady startups for fear of having to invest substantial sums to commercialize a product only to lose the licenses upon the licensor's bankruptcy.

The legislative history indicates that Congress specifically did not intend, by amending section 365, to "bring every retail franchise involving a trademark within the purview of the legislation, thus extending the reach of the bill far beyond what appears necessary."[57] At least part of the reason is the unique legal issues that distinguish trademarks from the other forms of intellectual property addressed in section 365(n). Unlike copyrights and patents, trademark owners must take affirmative steps to control use of the mark in order to retain their continued rights. And by exercising control of the mark, the owner's rights potentially may last forever—in contrast to patents and copyrights, which have statutory expiration dates. This quality control requirement is at odds with section 365(n); the continuing obligation on the licensor is contrary to the purpose behind rejection, which is to free the debtor from its obligations under the rejected contract.[58]

Thus, Congress's exclusion of trademarks from the definition of "intellectual property" did not mean that Congress ignored the difficulties of trademark licensees.[59] All it means is Congress focused on what it viewed as the more pressing threat at the time: potential damage to technology licensing. Nevertheless, Congress explicitly encouraged the courts to develop and pursue equitable treatment of trademark licenses in the rejection context.[60] As the Senate report put it:

> 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.[61]

Until recently, conventional section 365 analysis usually prevailed in trademark license rejection cases.[62] One case refused to apply section 365(n) even to a perpetual, exclusive, royalty-free trademark license.[63] Some courts sought to ameliorate somewhat the harshness of the *Lubrizol* rule by approving a transition period upon rejection to allow for a controlled phase-out.[64] But the results of applying *Lubrizol* have occasionally been strange.[65] In one case, *In re Centura Software Corp.*,[66] a bankruptcy court refused to permit a licensee to use the debtor's trademarks after the debtor rejected the license, even though at the very same time, the licensee could continue using the debtor's related software copyrights post rejection, under section 365(n). At the very least, this decision creates the possibility of confusion as to source that could result from having products sold that use the debtor's copyrights but without branding them with the debtor's trademark.

On the other hand, just because a single contract may deal with both a license of intellectual property rights and other business arrangements such as distribution rights does not mean that the licensee can exercise a section 365(n) election as to all the rights in the contract. A recent case makes clear that section 365(n) applies only to the intellectual property license rights in a contract, not to the entire agreement.[67]

In recent years there has been some movement toward rethinking how *Lubrizol* and section 365(n) apply to trademarks. These new developments are discussed below.[68] But first, section 365(n) and its quirks merit some detailed discussion.

Difficulties in Application of Section 365(n)

Buyer's Inability to Control the Intellectual Property

Although there has not been a substantial amount of litigation under section 365(n), the small amount of case law that has implicated section 365(n) has highlighted some defects in the overall scheme of the statute.

One case decided in 2003, *In re Cellnet Data Systems, Inc.*,[69] used section 365(n) to separate ownership of intellectual property from the right to collect royalties for its use. In that case, the debtor sold many of its assets to Schlumberger Resource Management Services, Inc. pursuant to a section 363 sale, including ownership of certain intellectual property that the debtor had licensed to a joint venture. Although Schlumberger took title to the intellectual property, it declined to purchase the licenses the debtor had entered into with the joint venture (that is, it would not accept an assumption and assignment of the licenses).

After the purchase, the debtor moved to reject the licenses with the joint venture. Although the motion was granted, the joint venture elected to retain its rights under section 365(n) to continue using the property. That meant the joint venture had to continue paying royalties. But Schlumberger and the debtor could not agree who was entitled to the royalty stream: Schlumberger said that because it owned the intellectual property, the royalties belonged to Schlumberger. The debtor said that because Schlumberger had excluded the licenses from the assets it purchased, the royalty stream stayed with the bankruptcy estate.

The district court affirmed the bankruptcy court's determination that as a matter of contract law, the royalty stream belonged to the debtor. The Third Circuit affirmed. In its view, because Schlumberger had not bought the licenses, the royalty stream the joint venture had to pay for using the intellectual property belonged to estate. The court was unperturbed by the prospect that the owner of the intellectual property had no control over its use and no benefit from its use. A case in New Jersey reached exactly the same result; inexplicably, the buyer did not take adequate account of *Cellnet* in drafting the asset purchase agreement and was left owning a trademark on which it was not collecting royalties.[70]

Obviously, those who in the future might wish to purchase intellectual property from a bankruptcy estate should be sure to provide expressly for such situations in order to avoid the result in *Cellnet*. It appears that the contract between

Schlumberger and the debtor did not adequately account for what would happen if the licensee elected to retain its rights under section 365(n) post-rejection. Schlumberger apparently assumed, erroneously, that the royalties would follow the intellectual property. Instead, it ended up unable to control its intellectual property and uncompensated for the lack of control. By contrast, in a case where the asset purchase agreement does allocate assets and income streams to the purchaser, the court did enforce those terms.[71]

Unfortunately, section 365(n) can inhibit the flexibility of a potential buyer of intellectual property from an estate, because the licensee may elect to retain its right to use the intellectual property. That leaves the buyer with no way to be sure it will have control over the intellectual property it is buying (unless it is prepared to assume the debtor's license with the licensee, which it might not be willing to do).

The Conundrum of "Bundled Rights"

Section 365(n) also may have made it more difficult to reorganize a business that is built in part on intellectual property. In the modern economy, businesses or assets increasingly are composed of bundles of rights, some of them "intellectual property" and others not. These bundles can comprise some combination of licenses of various forms of intellectual property: marketing or distribution rights; rights for commercial tie-ins; rights of publicity; trade secrets; patents of business methods or new technology, processes, or know-how; and software copyrights. For example, pharmaceutical products are often based on a combination of patents, know-how, and trademarks. Motion picture rights can entail licenses of copyrights, trademarks, distribution rights, and rights of publicity. Website businesses can be composed of software (often copyrighted), trademarks, trade dress, good will, copyrighted content, perhaps a business method patent, and URLs (which, of course, are based upon registration agreements). In any particular business or part of a business, some of these constituent rights might be owned outright, some might be licensed, and others might be owned but contracted out to third parties.

A Gap in Section 365(n). This situation highlights an enormous gap in section 365(n). Section 365(n) presumes that each intellectual property license is a discrete entity rather than part of a larger, integrated set of rights. But this is a vast oversimplification of the way business life has to come to work. Often

the underpinnings of a line of business cannot be classified neatly as being either "intellectual property" under section 365(n) or not—often they comprise both.

What that means is that if a licensor files a Chapter 11 petition and seeks to recover a line of business from the hands of its licensees by rejecting the licenses, section 365(n) can lead to a standoff. The debtor-licensor would be able, through rejection, to recover some contract-based assets, but might not recover the copyright, patent, or trade secret–based part of the business. In conventional contract law, usually no one would say that part of a deal can remain in place while performance on another part is excused. That is because related documents that form part of a single transaction normally are construed together.[72] Related to this concept, a debtor cannot treat the constituent agreements of a single transaction as separate contracts in order to assume the favorable ones and reject the unfavorable ones.[73]

But here we are not talking about a case where a debtor tries to break up a transaction into pieces in order to keep the ones it likes and reject the ones it does not. Here, by definition, we are talking only about cases where the debtor rejects

"Section 365(n) may benefit from some legislative rethinking, because in its current form, section 365(n) takes inadequate account of the consequences of rejecting related licenses."

all parts of the deal. The problem arises not from the decision to reject, but from the different consequences of rejecting different types of contracts: for some, the licensee can keep its rights and for others it cannot. That can leave different parts of the same business in different hands. As a result, for debtor businesses that are a bundle of different but related rights, section 365 seems to drive the parties to a situation where the debtor must assume the contract, because it may be left with

no (or little) advantage from rejection. Of course, that creates real problems for a debtor without the resources to assume the license, or without the ability to find a buyer who will accept an assignment of the license.[74] Moreover, if the related agreements are viewed as parts of a single transaction, if the debtor does want to assume one of the agreements, he might be required to assume all of them—which, due to the cure requirements, may be quite burdensome.[75]

On the other hand, it does not give the licensee much comfort, either, because the licensee has no ready way to keep control of the assets it needs to carry on the business. Certainly this would provide a powerful incentive for both sides to get together to negotiate a business accommodation. And in a rational world, usually that should happen. But of course the world is not always rational. What happens if the parties cannot agree? What happens if enlightened self-interest does not prevail, or the business needs of the parties cannot be made to coincide?

Section 365(n) may benefit from some legislative rethinking, because in its current form, section 365(n) takes inadequate account of the consequences of rejecting related licenses. In *Centura Software*,[76] the licensee after rejection was able under section 365(n) to keep using the licensed copyrights, but could not use the associated trademarks that identified the source of their software. Obviously, this could raise all sorts of mischief under the Lanham Act (a possible effect that appears not to have been considered). Section 365(n) also can operate to give a stubborn licensee an effective veto over sale of a debtor's line of business or entire business.

More recently, the circuits split as to the continuing viability of *Lubrizol* as applied to trademark licenses and, accordingly, the degree to which the *Centura Software* problem persists. The split should be resolved by the Supreme Court in its current term.[77]

Circuit Split: The Seventh Circuit's Rethinking of *Lubrizol*. In 2012, the Seventh Circuit decided *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*,[78] which calls into question the very underpinning of section 365(n). In *Sunbeam*, the debtor, Lakewood, had licensed Chicago American Manufacturing (CAM) to manufacture and sell fans using Lakewood's patents and trademarks. After Lakewood entered bankruptcy, its trustee elected to sell the fan business, including the patents and trademarks. In connection with the sale, the trustee rejected the license to CAM. CAM nevertheless continued to manufacture and sell fans using Lakewood's trademark and patents. The buyer sued.

The main issue before the Third Circuit was the effect of rejection on CAM's ability to continue using Lakewood's trademarks. (The patents were not really an issue because of section 365(n).) The Seventh Circuit held that under section 365(g), rejection was nothing more than a breach of contract by the debtor. A licensor that breaches a license outside bankruptcy cannot use its own breach as a basis for preventing the licensee from using the licensed intellectual property. So a breach by a bankrupt licensor should have no different effect. Thus, the sole effect of rejection was that the debtor breached the contract: rejection did not terminate the contract, nor did it affect the non-breaching party's right to the benefit of the contract.

In other words, according to the Seventh Circuit, *Lubrizol* was wrong—and, implicitly, section 365(n) was unnecessary. The licensee does not lose its rights when the debtor-licensor rejects the license. Breach of a contract is not necessarily a termination of the contract, so rejection is not a termination either.

But *Sunbeam* does leave open some important issues. If the debtor is no longer obligated to perform under the license after rejection, must it continue to honor an exclusivity provision? How about quality control: Is the debtor left with no ability to discipline the licensee if the licensee uses the mark in unauthorized or defective ways? *Sunbeam* does not provide answers. So we must wait to see how subsequent case law develops. The first indications were pro-licensee, but the First Circuit recently reaffirmed *Lubrizol* with respect to trademarks.

Post-*Sunbeam* in Lower Courts. With the Seventh Circuit's decision in *Sunbeam* (discussed in the paragraphs directly preceding), it appears that trademark licensees whose licenses are rejected might retain their license rights even without trademarks being covered by section 365(n). But the subsequent case law is split.

In *In re Crumbs Bake Shop, Inc.*,[79] the bankruptcy court relied on the concurrence in *Exide* and the Senate report on section 365(n) to hold that bankruptcy courts must make a case-by-case equitable analysis to determine whether section 365(n) applies to any particular trademark. In that case, the debtor sold to a buyer (LFAC) substantially all its assets, including certain trademarks, under section 363—that is, free and clear of liens, claims, encumbrances, and interests. The day after the sale was approved, the debtor moved to reject the trademark licenses. The licensees claimed the protection of section 365(n), so that they could elect to continue their license rights. LFAC argued not only that section 365(n) did

not apply to trademarks, but that the section 363 sale conveyed the marks to the buyer free of any licenses, so that the licensees had no continuing rights to use the mark in any event.

The court ruled for the licensees. First, it noted that, when Congress adopted section 365(n) and excluded trademarks from the definition of "intellectual property," the Senate report specifically noted that the courts were free to adopt equitable rules governing when trademark licenses would be covered.[80] The *Crumbs* court viewed this as an invitation to examine the equities in each case to decide whether or not to permit trademark licenses to make a section 365(n) election. In the *Crumbs* case, much of the monetary value of the estate was to be paid to secured creditors and administrative claimants, so the usual primary concern of the bankruptcy process—ensuring recoveries for unsecured creditors—did not come into play in the court's view. The licensees' equitable claims, however, deserved some deference. The court found further support in the Seventh Circuit's ruling in *Sunbeam* that even without section 365(n), a rejection was just a breach of contract that did not terminate the non-breaching party's rights. Finally, the court held that as a matter of statutory construction, section 365(n) controlled over the "free and clear" sale provisions in section 363(f). The reason is that section 363(f) is a general provision that governs all assets sold out of a bankruptcy estate. Section 365(n), on the other hand, is a specific and narrow provision, aimed at the narrow subset of intellectual property contracts/assets. In the *Crumbs* court's view, the specific had to control over the general—so the licensees' ability to elect to retain their license rights took precedence over the "free and clear" provisions of section 363. The upshot is that trademark licensees could invoke section 365(n).

Note, however, that the *Crumbs* decision appears to have been driven in large part by the particular facts of the *Crumbs* case. The notice of the section 363 sale motion appears to have been opaquely drafted such that licensees would have a difficult time discerning that the sale would strip them of their licenses—so much so that the court decided it was tantamount to no notice at all. So this case may well be less momentous than it appears, because a basic prerequisite for a section 363 "free and clear" sale—notice to those affected—was missing.

The First Circuit Disagrees with *Sunbeam*. In November 2016, the Bankruptcy Appellate Panel (BAP) for the First Circuit held in *In re Tempnology LLC*[81] that (a) a trademark licensee could not make a section 365(n) election

because section 365(n) does not cover trademarks, but (b) under *Sunbeam*, the licensee nevertheless could retain its rights. The BAP held that section 365(n) was unambiguous, so there was no occasion to consider the legislative history that contemplated courts would make equitable rules for rejected trademark licenses. In addition, equitable considerations could not create new rights not provided for in the statute. But because section 365(g) provides that rejection of a contract is a breach, the First Circuit BAP followed *Sunbeam*'s analysis as to the effect of the rejection-based breach—that is, it does not deprive the non-breaching party of its rights.

But on appeal, the U.S. Court of Appeals for the First Circuit disagreed with the BAP, in an opinion issued in January 2018.[82] The First Circuit focused on the unique nature of trademarks. A trademark owner must exercise quality control. As the First Circuit put it:

> Trademarks, unlike patents, are public-facing messages to consumers about the relationship between the goods and the trademark owner. They signal uniform quality and also protect a business from competitors who attempt to profit from its developed goodwill. The licensor's monitoring and control thus serve to ensure that the public is not deceived as to the nature or quality of the good sold.[83]

This obligation to ensure quality control—which provides information to the public and without which the trademark may be deemed abandoned—is utterly inconsistent with rejection:

> Congress's principal aim in providing for rejection was to "release the debtor's estate from burdensome obligations that can impede a successful reorganization."[84] *Sunbeam* therefore largely rests on the unstated premise that it is possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark. *See Sunbeam*, 686 F.3d at 377.[85]

In the First Circuit's view, this premise is wrong: rejection means no further obligations for the debtor, period. That the licensee loses its rights in such an event is unfortunate, but the First Circuit saw no stopping point: If the licensee could retain use rights, why not also exclusivity or other rights? The only logical approach, therefore, is to apply *Lubrizol* to trademark licenses.[86]

So we now have a growing circuit split: the First and Fourth Circuits on one side, and the Seventh on the other. We are likely find out soon who is right, though: the Supreme Court on October 26, 2018, granted certiorari in the *Tempnology* case to resolve the split.[87]

Asset Sales in Licensor Bankruptcies

Effect of Sale of Intellectual Property on Licensee

A common way for debtors to raise cash is by selling assets. Under Bankruptcy Code section 363, a debtor can sell assets not in the ordinary course of business only upon notice and a hearing.[88] For a purchaser of assets from a debtor, a section 363 sale is highly advantageous, because under section 363(f), the asset usually is sold "free and clear of any interest in such property other than the estate."[89] After a section 363 asset sale, the holder of the adverse interest has an interest in the proceeds of the sale rather than in the sold asset. It is important to note, though, that before a section 363 sale can be approved, the debtor must establish that it does indeed own what it is trying to sell.[90]

In a 2002 case, the Seventh Circuit held that an intellectual property license can be extinguished in a section 363 sale of property. In the court's view, the license is an interest in the intellectual property, and a sale under section 363 is made free and clear of all such interests. In that case, *Futuresource LLC v. Reuters Ltd.*,[91] the Seventh Circuit relied on the licensee's failure to object to the section 363 sales. This is an important point because under section 363(e), the court may require that the debtor provide adequate protection for the interest of an entity that will be adversely affected by the asset sale, if that entity so requests. In addition, failing to object to an asset sale is tantamount to consent;[92] under section 363(f), consent by an entity whose interests are affected by an asset sale means that the sale can occur free and clear of the adverse interest. If the licensee objects, though, the court may issue an order requiring that the intellectual property remain subject to the license even after transfer.[93]

This means that a licensee whose licensor plans to sell an asset must take steps to make sure that the sale transaction takes account of the licensee's needs. Otherwise, the licensee should object to the sale and demand adequate protection. Failure to do so could leave the licensee with no license. On the other hand, this

result can obtain only if the licensee received adequate notice that its interest would be eliminated in the sale. Without proper notice, the license will continue in effect.[94]

But some recent case law has raised questions about whether an asset sale is always free and clear if the asset being sold is intellectual property that is subject to a license. In 2014, in *In re Crumbs Bake Shop, Inc.*,[95] discussed above, the bankruptcy court held that, in the absence of licensee consent, a trademark license survived a section 363 asset sale.

According to the *Crumbs* court, the licensee's right to elect to keep its license rights under section 365(n) would be nullified if the debtor were permitted to sell intellectual property assets under section 363 free and clear of licenses. (As discussed above, the court applied section 365(n) to a trademark license.) The court held that section 363(f) is a "general" provision that must give way when the "specific" provision of section 365(n) points to a different result. The court in effect skipped a step: it assumed that the debtor would reject the licenses after the sale and that the licensees would elect to retain their license rights. That may be a valid prediction, but it does not follow inexorably. Even if it did, though, this holding underscores that section 365(n) can interfere with the debtor's ability to raise money through asset sales, because the licensees' ability to retain their rights will almost inevitably push down the price in the asset sale.

Note, however, that a post-petition amendment to a license might insulate the license from being extinguished in a section 363 sale. In *A&L Laboratories, Inc. v. Bou-Matic LLC*,[96] the debtor and licensee entered into an amendment to the license, which was intended to operate as an interim license during the bankruptcy. After the trademarks were later sold, the buyer refused to permit the licensee to use them, on the theory that the sale was free and clear of adverse interests under section 363. The Eighth Circuit held that, because the bankruptcy court had approved the amended license, only another specific order of the bankruptcy court could annul it (apparently the Eighth Circuit did not think the section 363 order was enough by itself to extinguish the amended license). Therefore, the license survived the section 363 sale and the licensee could continue to use the marks.

Effect of Section 363 Sale on Copyright Registrations

Under section 204 of the Copyright Act, a transfer of ownership of a copyright "other than by operation of law" must be evidenced by a writing. A sale of assets under section 363 ordinarily is based upon an asset purchase agreement and then approved by order of the bankruptcy court after the transaction is first subjected to the possibility of higher and better offers. The Eighth Circuit has held that a sale of a copyright under section 363 pursuant to an order approving the sale is a transfer by operation of law for purposes of section 204(a).[97] That means an order approving a section 363 sale operates as a substitute for the "instrument of conveyance, or a note or memorandum of the transfer" required by section 204(a).

Role of Section 365(n) in Foreign Bankruptcies

Section 365(n) can protect licensees even if the licensor is a foreign company that seeks bankruptcy court assistance under Chapter 15. Chapter 15 was enacted in 2005 to provide a mechanism for dealing effectively with cross-border insolvencies.[98] Under Chapter 15, the debtor's representative in a foreign insolvency proceeding can petition the bankruptcy court for recognition of the foreign proceeding. Upon recognition, the bankruptcy court may, under section 1521(a), afford to the foreign representative various forms of relief, including the automatic stay and the right to continue operation of the debtor's business under section 363. But section 1522(a) provides that relief under section 1521 "only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected."

The Fourth Circuit in 2013 held that, for licensees of intellectual property, the opportunity to elect to retain their license rights was "sufficient protection" of their interest. In *Jaffe v. Samsung Electronics Co., Ltd.*,[99] bankruptcy court recognized the foreign insolvency proceeding of Qimonda AG, a German company that owned a large number of computer-related patents. After recognition was granted, the German insolvency trustee sought to invalidate all of the debtor's licenses under German law (in effect, rejecting them). German law has no section 365(n) equivalent, so rejection would have left the licensees with nothing but a pre-petition unsecured claim. After several rounds of litigation, the bankruptcy court held that the licensees' interests could not be deemed "sufficiently protected" under section 1522 unless they were able to keep their rights under section 365(n). In fact, the bankruptcy court went further—because section

365(n) reflected a legislative judgment about the importance of protecting the biotechnology and computer industries, failure to protect licensees under section 365(n) would violate U.S. public policy; under section 1506 of the Bankruptcy Code, the bankruptcy court may refuse to permit actions that would violate U.S. public policy.

The Fourth Circuit affirmed, holding that the bankruptcy court was fully empowered under section 1522(a) to condition any relief it granted to the foreign representative upon proper protection of the licensees. Though the Fourth Circuit did not also hold that the public policy provision of section 1506 justified the bankruptcy court's order, it did note that the order furthered the public interest embodied in section 365(n).

Issues Raised by Bankruptcy of a Licensee

When the debtor is a licensee, many of the issues are similar to those raised when the debtor is licensor—but the perspective is markedly different. A licensor whose licensee becomes a Chapter 11 debtor is faced with potential harm to its rights in the licensed property. The danger is perhaps greater for trademark owners because of quality control concerns, but there are also risks for owners of patents and copyrights.

Owner's Risks from Licensee Bankruptcy

Although the non-debtor licensor must continue to perform under the license agreement, the automatic stay prevents it from enforcing the agreement against the debtor without going through the bankruptcy court.[100] For a trademark owner, this could have adverse consequences since it limits the licensor's ability to control its mark. Failure to control a mark may lead (if all the requisite elements are shown) to a finding that the mark has been abandoned[101]—yet because the automatic stay restricts the licensor's ability to enforce the license against the debtor, unsupervised or nonconforming merchandise might enter the stream of commerce despite the licensor's desires and efforts.[102] Thus, in addition to the normal concerns of any person who deals with a company that files a bankruptcy petition, the trademark licensor also has the problem of—quite literally—"protecting the franchise." In addition to the danger of possible abandonment-related litigation, there is the danger of injury to the licensor's reputation, since inferior goods could be sold bearing the licensor's mark.

For patent and copyright owners, the risks are often somewhat less drastic, though they are no less real. The main risks are in the quality of debtor's performance under the license and in the inherent uncertainties of the bankruptcy process. Depending on the particular property being licensed, and the business needs of the licensor, the business impact may be no less great than the impact on trademark owners. It is clear, however, that until a copyright license is assumed or rejected, the debtor may continue to use the licensed property, and if the debtor sells copies of the work, the "first sale" rule of Copyright Act section 109 applies.[103]

The licensor has several ways to protect itself, none of them perfect. The licensor may move in bankruptcy court to compel the debtor to assume or reject the license agreement; alternatively it may seek to lift the stay so that it may terminate the license. A licensor may want to prevent the licensee from assigning the license to an undesirable assignee in order to force the debtor to give up the license. The first step, however, is to determine whether the license has already been terminated pre-petition.

Code Treatment of License Termination

The question of whether the license has already terminated is crucial because the answer determines whether the debtor has power to assume it at some time in the future, and thus to use it until the decision to assume or reject is made. A licensor cannot unilaterally terminate post petition.[104]

The automatic stay does not by itself prevent the termination of a license. If a license is supposed to expire by its own terms, but before the expiration date the licensee files a bankruptcy petition, the automatic stay has no effect: at the end of the license term the license will terminate. In the words of the Seventh Circuit, "[t]he automatic stay does not toll the mere running of time under a contract, and thus it does not prevent automatic termination of the contract."[105]

If, however, the license is not simply expiring, but rather is expiring if the licensee does not cure defaults by a certain date, then the license will not terminate even if the licensee did not cure by the prescribed date. The intervening bankruptcy petition, and the automatic stay that comes along with it, operates to freeze the parties' rights in their posture as of the moment of filing.[106] Thus, if the contract had already terminated at the petition date, it cannot be revived.[107] For example, a renewal option that had not been exercised properly before the

petition cannot be exercised post petition if the license does not permit it.[108] Conversely, so long as the licensee retains any rights under the license whatsoever, the license becomes part of the estate under section 541; it is subject to possible assumption under section 365; and the automatic stay applies under section 362.[109] Even the pendency of an ex parte temporary restraining order against termination, which may ultimately turn out to have been improvidently granted, is enough to make the license part of the estate.[110] So long as there is the possibility of cure, the stay prevents termination.[111] Anything short of an explicit notice of termination may be viewed as leaving the debtor with some interest in the license that could be preserved in bankruptcy. Thus, extending a cure period without expressly providing that the license will terminate at the end of the extension leaves the license unterminated.[112]

Because violating the automatic stay carries contempt-like sanctions, it is advisable for a licensor who believes the license validly terminated pre-petition to seek a declaration of rights from the bankruptcy court nevertheless, even in relatively clear-cut cases.[113] If the debtor is continuing to use the licensed property after what the licensor believes was a pre-petition expiration, it will be necessary to seek bankruptcy court relief in any event because the stay prohibits the commencement of any actions against the debtor that could have been brought before the petition.[114]

It is important to remember, though, that a pre-petition breach may not by itself terminate the license, even if the breach is material. Under New York law, for example, if notice and cure are applicable, the contract remains viable.[115]

If the bankruptcy court does find that the license expired before the petition, it will lift the stay to permit the licensor to pursue in state court its remedies, other than collecting a money judgment.[116]

Intellectual property licenses often are part of a web of agreements. This is especially so in franchise situations, where a license might be coupled with a real estate lease or with supply contracts or other business arrangements. As a drafting matter, licensor's counsel might be well advised to provide in each of the related documents that termination of the trademark license automatically terminates the related agreements. Without such a provision, it is possible for a bankruptcy court to decide that the lease, for example, did not terminate even though the license did.

This actually happened in *In re 717 Grand Street Corp.*[117] This case involved Baskin Robbins and Dunkin' Donuts franchises. The court held that even though the lease said the property could be used only for a Dunkin' Donuts store, the lease was not part of a single indivisible transaction with the license, because the debtor could still assume and assign the lease to some other person who would operate a Dunkin' Donuts store at the location. As a result, the franchisor was able to terminate the license, but could not recover the leased property.

Motion to Compel Assumption or Rejection

If the license is still in existence, the licensor may seek to compel the debtor to assume or reject the contract. A motion to compel the debtor to assume or reject an executory contract is precisely what its name says it is. It is basically a mechanism for reducing uncertainty.

If the debtor is unable to cure its defaults, then the license may necessarily be rejected.[118] If the motion is granted, then under section 365(d)(2) the court may order the debtor to elect within a court-specified time whether to assume the license or reject it. That amount of time may be relatively short or relatively long, according to the equities of the situation.[119] In Chapter 7 cases, the trustee must elect to assume or reject executory contracts within sixty days after the petition (or such longer period as the court may order for cause). In Chapter 7, a contract that is not assumed timely is deemed rejected.[120]

Early in a Chapter 11 case, bankruptcy courts can be hesitant to compel the debtor to make a decision about assumption or rejection, especially when the contract in question may be critical to the debtor's business. After noting that "[c]ourts rarely force a debtor into assuming or rejecting a contract . . . ,"[121] the court supervising KMart's Chapter 11 case denied a motion to compel the debtor to assume or reject a license on grounds that forcing the debtor to decide would harm the debtor:

> The Court finds that Kmart will be harmed if it is forced to decide now whether to assume or reject the License Agreement. Forcing Kmart will prematurely box Kmart into focusing its attention and resources on one contract over a multitude of contracts. Moreover, as a general proposition it is unrealistic and imprudent to require Kmart to make decisions on executory contracts in a vacuum on a piecemeal basis. This is particularly true in a

> bankruptcy case of this magnitude and complexity that has only reached its first anniversary.[122]

If the court grants the motion, the consequences are the same as set forth above in the discussions of licensor rejection and assumption. If the license is rejected both parties are freed from performance and the non-debtor party (here the licensor) will gain an unsecured prepetition claim for damages for breach of contract. If the license is assumed the debtor must cure past defaults and provide adequate assurance of future performance.

"Bundled Rights" Issues in Licensee Bankruptcies

Another issue relating to bundled rights has come up outside the section 365(n) context. Typically, under section 365(d)(2), unless the bankruptcy court issues an order compelling the debtor to assume or reject a contract, the debtor may assume or reject a contract at any time during a Chapter 11 case, until a plan has been confirmed. But for leases of nonresidential property, section 365(d)(4) requires the debtor to assume the lease within 120 days after the petition or else the lease is rejected (a single ninety-day extension is permitted). In *A&F Enterprises, Inc. v. IHOP Franchising LLC*,[123] the debtor owned several IHOP franchises. Its agreements included franchise agreements, equipment leases, and real estate leases. These agreements contained cross-default provisions, so that breach of one also breached another.

The debtors failed to assume the leases within 120 days (and also failed to seek an extension), so IHOP took the position that the leases were automatically rejected—which meant, according to IHOP, that the remaining agreements could not be assumed as a result of the cross-default provisions and thus were rejected as well. The opposing litigation positions lined up behind different subsections of section 365(d). IHOP's position was that the entire franchising relationship had to be subject to the 120-day assumption deadline because it could not persist without the lease, while the debtors' stance was that the 120-day deadline did not apply because the other contracts to which the leases were tied did not have to be assumed or rejected until the end of the case.

The bankruptcy court sided with IHOP. The debtors sought a stay pending appeal, which the district court denied but the Seventh Circuit granted. In granting the stay, the Seventh Circuit was careful to say that it was not deciding

the underlying merits, but it did note lower court decisions that treated the franchise agreement as the primary agreement.[124] These cases held the lease assumption period open, to track with the period applicable to the remaining agreements. Finding that "the legal issue does not have a clear-cut answer,"[125] the Seventh Circuit decided the motion for a stay on the basis of the balance of harms and held for the debtor.[126]

Motion to Lift Stay to Permit Termination

Another way a licensor may seek to protect itself is by moving to lift the automatic stay in order to permit the licensor to terminate the license.

The most likely vehicle by which the licensor will seek to have the stay lifted is section 362(d)(1), which authorizes the bankruptcy court to lift the stay "for cause." Although "cause" is not defined, the statute does specify that "cause" includes "lack of adequate protection of an interest in property of such party in interest." What constitutes "adequate protection"? Although "adequate protection" is not defined in the Code, section 361 sets forth several non-exclusive ways that adequate protection may be provided, such as through cash payments, replacement liens, or other relief that (in the words of section 361) "will result in the realization by such entity of the indubitable equivalent of such entity's interest in such property." In the words of one court, "[o]n a motion for relief from the stay, adequate protection is meant to preserve the status quo of the entity with an interest in the debtor's property during a reasonable length of time. The rights of the creditor are frozen, but not changed."[127]

The need to terminate immediately or else gain assurance of compliance is felt most keenly by trademark licensors. Their instinctive reaction should be that they can never be adequately protected against debtor non-compliance with the terms of the license, because the licensor's rights in the trademark are tied to controlling the mark.

As a practical matter, courts usually cut the debtor some slack early in a Chapter 11 case, particularly where the trademark license is the linchpin of the debtor's business. But if, as the case wears on, the debtor continues not to comply with the provisions of the license, the licensor's argument that its interest is not being adequately protected and that the mark is being harmed gains credibility. Generally speaking, the bankruptcy courts will accept such an argument if the licensor

can demonstrate real harm and if the court does not perceive that the desire to terminate is really motivated by the fact that the debtor owes pre-petition royalty or license payments.[128] But a mere claim for damages for past infringement does not present "cause" that warrants lifting the stay. [129] On the other hand, the court may lift the stay if there is no possibility that the license can be assumed.[130]

Thus, the court will deny a motion to lift the stay in a case where the court is not convinced that there is a real quality control concern. Delays in asserting quality control are particularly damning.[131] In fact, one district court has held that upon assumption, nonmonetary defaults need not be cured under section 365(b)(2)(D).[132] This case law underscores for licensors the importance of vigilance and a good paper record of consistent quality control.[133] It also argues in favor of moving promptly for relief from the stay as soon as there is a hint that the licensee is not complying.

One case of lack of adequate protection can be where the debtor is not making post-petition payments. In one such case the court added the observation that "the property in this case, the use of trademarks and service marks, is of such a type that money may never adequately protect the movant. The movant's reputation to the general public is at stake."[134] The licensor obtained the relief from stay it was seeking.[135]

The general rule here appears to be that an ongoing injury that casts doubt on the licensee's ability to cure will justify termination. In other words, the less likely it is that the debtor's breach can be cured, the more likely it is that the harm to the licensor will continue and that the licensor will not be "adequately protected," leading to relief being granted from the automatic stay. Thus, a licensor who can show that there was an incurable default may be granted relief from the stay.[136]

Limitations on Licensee's Ability to Assume and Assign

Adequate Assurance

In order to assume and assign an executory contract, the debtor must provide adequate assurance that the assignee can perform. "Adequate assurance" does not mean ironclad assurance: "the assurance of future performance is adequate if performance is likely (i.e. more probable than not); the degree of assurance necessarily falls considerably short of an absolute guaranty."[137] Indeed, at least one bankruptcy court has approved giving the debtor a two-year payment plan on

which to cure its defaults under a patent license, finding that the debtor's business prospects were bright enough to adequately assure performance in the future and cure past defaults.[138]

Impact of Section 363 Procedures Regarding Sales of Estate Property

Although a debtor-licensee may assume and assign the license under section 365(f), it must show that the assignee will comply with the terms of the license. This requirement cannot be circumvented by disguising the assumption and assignment in the garb of a sale of the license under section 363. As one court put it, the debtor "cannot sell the assets of a debtor's business, including the right to use a trademark, free of the obligations to pay a royalty for the trademark use."[139] Assuming and assigning the contract is an absolute precondition to a licensee's selling a license.[140]

The courts recognize that assumption and assignment of an intellectual property license is conceptually similar to a sale. That is because a license is not just an executory contract—it also is property of the estate.[141] Thus, just as a license can be sold only by complying with the rules in section 365 for assumption and assignment, an assumption and assignment must also comply with the rules in section 363 for a sale.[142] As the Third Circuit put it in *Krebs Chrysler-Plymouth, Inc. v. Valley Motors, Inc.*:

> Trademarks are property, and franchises are licenses to use such property. Thus, under [state] law, these franchises are interests in property, and as such are property of the estate under [Bankruptcy Code] section 541. They also are covered by section 363, although the procedure for their transfer is delineated by section 365.[143]

Because section 363 applies to sale of a license, once the bankruptcy court grants a licensee's motion to assume and assign, a disgruntled licensor will be required to obtain a stay pending appeal if he wishes to retain the right to try to undo the transfer. Section 363(m) provides that if there is no stay pending appeal, a sale to a good-faith purchaser cannot be undone even if the order approving the sale is reversed on appeal. Thus, unless some relief other than undoing the sale is available, failing to obtain a stay will ordinarily moot the appeal.[144]

Under section 363(m), an entity can be a "good faith purchaser" even if it knew of the pendency of the appeal. This can often mean that the purchaser's

"good faith" is really the only issue that can lead to effective relief on appeal. However, "good faith" means simply that the winning bidder paid value and was not involved in fraud, collusion or unfair advantage in the bidding process.[145]

Non-Assignable Contracts

Effect of Section 365(c). Under section 365(f), most contracts can be assumed and assigned irrespective of whether the contract itself restricts assignment. The main exception to this rule is set forth in section 365(c)(1), under which the debtor cannot assign a contract if, even in the absence of a contract clause restricting assignment, the other party would not be required to accept performance from someone other than the debtor.[146] The prototype of such a contract is a personal services contract, where what is bargained for is a specific person's performance. In such cases, the non-debtor party to the contract cannot be forced to accept performance from someone else.

What constitutes a personal service contract is a matter of nuance. Simply reciting in the contract that a specific person's services are being bargained for is not dispositive.[147] The courts look, instead, to whether the "contracted-for duties involved the exercise of special knowledge, judgment, taste, skill, or ability."[148] The results of this test are not readily predictable. The Third Circuit held that an automobile dealership could possibly be a personal services contract, depending on how the factual record developed.[149] But one bankruptcy court held it takes no special skill to run a Burger King franchise,[150] and another held that choosing patterns for ties to be sold under Bill Blass's name was not an exercise of unique taste or judgment.[151]

Outside the personal services area, the issue of whether a contract is such that the non-debtor is excused from accepting an assignee's performance comes up often in connection with automobile dealerships, in which rights and duties are heavily subject to state regulation. Under the majority rule, state statutes that restrict assignment of motor vehicle dealerships are law that excuses the non-debtor franchisor from accepting performance from an assignee against his will.[152]

Contractual provisions that limit the universe of assignees, rather than prohibit assignment altogether, may remove the contract from the scope of section 365(c). These cases reason that the non-debtor party is by the terms of the contract required to accept performance from someone other than the debtor. Therefore, assignment is permitted by the contract (albeit not all assignments),

and section 365(c) does not apply. As a matter of bankruptcy law, such a contract is assignable.[153]

Under the case law, a non-exclusive patent license is a non-assignable executory contract. Under longstanding federal law, a non-exclusive patent license is not a property right; it is a personal right of the licensee and cannot be assigned unless the license provides for assignment.[154] Under this principle, the Ninth Circuit held in the *Catapult* case[155] that a non-exclusive patent license cannot be assigned over the licensor's objections.[156] Other case law is in accord.[157] Notably, however, bankruptcy courts have held that, as a matter of federal patent law, even an exclusive patent license cannot be assigned without the licenser's consent.[158]

On similar reasoning to *Catapult*, bankruptcy courts have held that a debtor-licensee cannot assume and assign a non-exclusive copyright license without the licensor's consent because a non-exclusive copyright licensee's rights are purely personal; he does not acquire any property interest in the copyright.[159] But one case has held that territorial exclusivity is sufficient exclusivity to support assumption and assignment.[160]

A bankruptcy case in 2002 stated in dictum that non-exclusive trademark licenses also are personal to the licensee and therefore are not assignable without the licensee's consent.[161] This dictum is based entirely on case law relating to patents and copyrights.[162] But that dictum later became the basis for a holding by the district court in Nevada that a non-exclusive trademark license is personal to the licensee and thus is not assignable without the licensor's consent[163] and a similar holding in another case in Florida.[164] This holding has now reached the court of appeals level: in 2011 the Seventh Circuit weighed in and held that trademark licenses generally are not assignable without the licensor's consent unless the license expressly permits it.[165] The bankruptcy court in Delaware has gone further and held that neither exclusive nor non-exclusive trademarks are assignable.[166] There is substantial contrary authority, though,[167] and it remains to be seen how the law will resolve itself.

Where the licensor is a governmental entity, as in the case of a cable franchise agreement, there may be local ordinances that authorized the license and restrict assignment. These ordinances might not be viewed as "applicable law" that excuses the non-debtor from accepting performance from someone other than the debtor. To come within section 365(c), the debtor's duty must be genuinely

non-delegable, and the law restricting assignment must be of general application, independent of the restrictions in the franchise agreement.[168]

Section 365(c) does not outright block assignments, though; it simply gives the non-debtor power to withhold consent to an assignment. Therefore, if the relevant license permits assignment under specified conditions, an assignment that complies with those conditions will be permitted.[169] Notably, though, the Fourth Circuit has held that a provision that allows the licensee to transfer the license to a successor in interest does not operate as consent to permit a debtor-licensee to assume the contract, even if the other conditions for assignment otherwise were met.[170] This case does not appear to have considered whether the debtor should be viewed as a successor to the pre-petition debtor. A provision that consent to transfer cannot be unreasonably withheld does not by itself entitle the debtor to assign over the non-debtor's objection.[171]

Circuit Split Regarding Assumability of Non-Assignable Contracts. Whether or not a license is assignable is significant for other reasons as well. The circuits are split concerning whether a debtor can assume an executory contract that is not assignable. The language of section 365(c) seems to suggest that a debtor may not do so:

> The [debtor] may not assume or assign any executory contract . . . whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if . . . 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. . . ."

The Ninth Circuit's and Third Circuit's view is that this language requires application of the so-called hypothetical test: if hypothetically the debtor could not assign the license without the non-debtor party's consent, then the debtor cannot assume it either—even if the debtor has no intention of assigning the license, but rather wants to perform under it, as with any other assumed contract.[172] Applying this test, the Ninth Circuit in *In re Catapult Entertainment* refused to permit the debtor to assume certain non-exclusive patent licenses. The Fourth Circuit follows the hypothetical test as well.[173] In 2015, the U.S. Bankruptcy Court for the District of Delaware followed the Seventh Circuit's holding in *In re XMH Corp.*[174] (discussed in the previous section) that trademark licenses are not assignable and held under the hypothetical test that the licenses could not be assumed, either—

which meant the automatic would stay be lifted to permit the licensor to terminate the license.[175]

The First Circuit, however, takes a different view. In *Institut Pasteur v. Cambridge Biotech Corp.*,[176] the First Circuit applied the "actual test": that the license is not assignable is relevant only if the debtor actually is trying to cause the non-debtor to accept performance from someone other than the debtor. If that is not happening, the debtor may assume the contract. The reason is that without an actual transaction to evaluate, there is no way to know whether applicable law would prohibit assignment.

The Ninth and Third Circuits have both said that they believe the Eleventh Circuit follows the hypothetical test, because in *In re James Cable Partners, Inc.*,[177] the Eleventh Circuit said that section 365(c) asks a "hypothetical question." However, *James Cable* affirmed a district court opinion that rejected the hypothetical test and adopted the actual test,[178] so it appears the Eleventh Circuit may in fact follow the First Circuit's rule rather than that of the Ninth and Third Circuits. The Fifth Circuit in 2006 followed the First Circuit and adopted the actual test in *In re Mirant Corp.*[179]

The Ninth Circuit has observed in *Catapult* that the weight of lower court authority favors the actual test.[180] Other lower court case law has tended as well toward the actual test.[181]

The hypothetical test creates severe difficulties for a debtor-licensee whose business depends on the ability to use a patent or copyright under a non-exclusive license. Although the hypothetical test may comport better with the statutory language than the actual test, there is little logic to the result, and it appears contrary to the overall statutory scheme. No one has yet explained why a debtor should not be able to continue in its business by assuming a license merely because it cannot be sold to a third party. That the debtor might not have the right to sell the license should not logically affect whether he has the right to keep it.[182]

One bankruptcy court has offered a way to sidestep the circuit split through a creative reading of section 365(c). In *In re Footstar, Inc.*,[183] the bankruptcy court considered the language in section 365(c)(1) that a "trustee may not assume or assign any executory contract" when "applicable law excuses a party, other than the debtor to such contract . . . from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession." Under

the "hypothetical" test, the court would look at the plain language of the statute and conclude that a non-assignable contract is also non-assumable. If the statute is read that way, then the hypothetical test makes sense. But that is only true if "trustee" as used in section 365(c) also means "debtor in possession." But in the context of section 365(c), there is no reason to read the statute that way. It is one thing to say that a trustee, who is indeed a "person other than the debtor," may not assume a legally unassignable contract; it is quite another, and very illogical, to say that the debtor in possession many not assume a contract to which it is already a party. So the *Footstar* court read the section 365(c) restriction or assumption as applying only to a trustee and not a debtor-in-possession. Under *Footstar* therefore, a court may reach the same result as under the "actual" test, but by a different route.

One debtor came up with what it thought was a way to end-run the harsh effects of the hypothetical test. In *In re Hernandez*,[184] the court had found that the patent license in question was not assignable and therefore, under the hypothetical test, was not assumable either. But in a later opinion in the same case,[185] the court refused to require the debtor to reject the license. The debtor in fact announced its intention never to reject the license and instead to just let it "ride through" the bankruptcy unaffected. The court found that nothing in the Code required rejection[186] and that a debtor could indeed choose to let a contract "ride through."

This decision has not been examined on appeal or cited in other case law. Obviously, if this decision gains wide currency, it has the potential to undercut the hypothetical test and, indeed, to affect the debtor's decision in every case whether to assume or reject a license. (Whether *Hernandez* misapplies the "ride through" doctrine and what the consequences of "riding through" are likely to be are issues beyond the scope of this article.)

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NOTES

1. 11 U.S.C. § 301.
2. *See id.* § 541.
3. *See id.* §§ 1107, 1108.
4. *See id.* §§ 701–04.
5. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522 n.6 (1984), quoting H.R. Rep. No. 95-595 at 347 (1977). The most commonly used working definition of an executory contract is the so-called Countryman definition, which defines an executory contract as "a contract under which the obligations of both the bankrupt and the other party are so far unperformed that failure of either to complete performance would constitute a material breach excusing the performance of the other." Countryman, *Executory Contracts in Bankruptcy Law: Part I*, 57 Minn. L. Rev. 439 (1973). Whether a contract is executory is measured as of the petition date.
6. *See, e.g.*, *In re* Exide Techs., 607 F.3d 957, 962 (3d Cir. 2010); *In re* Spansion, Inc., 2011 WL 3268084, slip op. at 9 (D. Del. July 28, 2011), *aff'd*, 507 F. App'x 125 (3d Cir. 2012).
7. The debtor must also make whole any third parties that suffered losses as a result of the defaults. 11 U.S.C. § 365(b)(1)(B).
8. *Id.* § 365(b)(1).
9. Although the claim for breach is a pre-petition claim, that does not necessarily mean the breach is deemed to have occurred pre-petition. *See, e.g.*, A&L Labs. v. Bou-Matic LLP, 429 F.3d 775 (8th Cir. 2005).
10. Lubrizol Enters., Inc. v. Richmond Metal Finishers Inc., 756 F.2d 1043, 1048 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986); *In re* EI Int'l, 123 B.R. 64 (Bankr. D. Idaho 1991).
11. *See* Beckerman v. M. Hidary & Co., 324 B.R. 434, 443–44 (D. Conn. 2005).
12. *In re* Fieldstone Mortg. Co., 427 B.R. 364, 373–74 (Bankr. D. Md. 2010). In this case the court held that, once the debtor rejected the license, the court still was required under section 502 to rule on the validity of the non-debtor's claim for breach. Because the debtor was not the party to the license, the claim against the estate was held invalid. *Id.* at 378–79.
13. *In re* Physiotherapy Holdings, Inc., 538 B.R. 225 (Bankr. D. Del. 2015).
14. *In re* Provider Meds, LLC, 907 F.3d 845, 856–58 (5th Cir. 2018).
15. *See In re* Glycogenesys, Inc., 352 B.R. 568, 578 (D. Mass. 2006); *In re* Jennifer Convertibles, Inc., 447 B.R. 713, 719–20 (Bankr. S.D.N.Y. 2011).
16. 11 U.S.C. § 365(e).
17. *Id.* § 365(c). Non-assignable contracts are discussed farther below in this article beginning in the text after note 145.
18. *See, e.g.*, RCI Tech. Corp. v. Sunterra Corp., 361 F.3d 257 (4th Cir. 2004); *In re* Buildnet, Inc., Nos. 01-82293 *et seq.*, slip op. at 3, 2002 WL 31103235 (Bankr. M.D.N.C. Sept. 20, 2002).
19. *In re* Provider Meds, LLC, 907 F.3d 845, 852–56 (5th Cir. 2018).

20. *In re* HQ Glob. Holdings, Inc., 290 B.R. 507, 510–11 (Bankr. D. Del. 2003); *In re* Travelot Co., 286 B.R. 447, 454 (Bankr. S.D. Ga. 2003); *In re* Blackstone Potato Chip Co., 109 B.R. 557, 560 (Bankr. D.R.I. 1990); *In re* Chipwich, Inc., 54 B.R. 427 (Bankr. S.D.N.Y. 1985).
21. *In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010).
22. *Id*. at 964.
23. *In re* Interstate Bakeries Corp., 690 F.3d 1069 (8th Cir. 2012), *rev'd en banc*, 751 F.3d 955 (8th Cir. 2014).
24. *See, e.g.*, *In re* Qintex Entm't, Inc, 950 F.2d 1492 (9th Cir. 1991); *In re* KMart Corp., 290 B.R. 614, 618 (Bankr. N.D. Ill. 2003); *Buildnet,* 2002 WL 31103235.
25. *See, e.g.*, *In re* Select-A-Seat Corp., 625 F.2d 290 (9th Cir. 1980).
26. *In re* Stein & Day, Inc., 81 B.R. 263 (Bankr. S.D.N.Y. 1988); *In re* Learning Publ'ns, Inc., 94 B.R. 963 (Bankr. M.D. Fla. 1988).
27. *See, e.g.*, *In re* Szombathy, 1986 Bankr. LEXIS 888, slip op. at 21 (Bankr. N.D. Ill. 1996), *rev'd on other grounds*, 1997 U.S. Dist. LEXIS 5168 (N.D. Ill. 1997).
28. *See, e.g.*, Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986) (license executory because of licensor's obligation to notify of infringement actions and to grant lowest available rate); *In re* Biopolymers, Inc., 136 B.R. 28 (D. Conn. 1992) (executory because of exclusivity obligation).
29. *In re* Aerobox Composite Structures, LLC, 373 B.R. 135, 139 (Bankr. D.N.M. 2007).
30. *In re* Kemeta LLC, 470 B.R. 304 (Bankr. D. Del. 2012).
31. *In re* Shreyas Hosp., LLC, 2010 WL 2836751, slip op. at 4 (Bankr. C.D. Ill. July 15, 2010); *In re* Diomed, Inc., 394 B.R. 260, 267, 271–72 (Bankr. D. Mass. 2008).
32. *In re* DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995).
33. *Id*. at 1096.
34. *In re* Shreyas Hosp., LLC, slip op. at 4; *In re* Beverage Canners Int'l Corp., 255 B.R. 89 (Bankr. S.D. Fla. 2000).
35. *See, e.g.*, *In re* CMB Int'l, Inc., 307 B.R. 363, 371–72 (Bankr. W.D.N.Y. 2004).
36. *See*. *e.g.*, Hayes Lemmerz Int'l, Inc. v. Epilogics Grp., 531 F. Supp. 2d 789, 803 (E.D. Mich. 2007).
37. *Id*.
38. *In re* Home Interiors & Gifts, Inc., 2008 WL 4772102 (Bankr. N.D. Tex. Oct. 9, 2008).
39. *Id*., slip op. at 6–8.
40. *Id*., slip op. at 9–10.
41. *Id*., slip op. at 12–13.
42. *See, e.g.,* NLRB v. Bildisco & Bildisco, 465 U.S. 513 (1984) (collective bargaining agreement); Lubrizol Enters. v. Richmond Metal Finishers, 756 F.2d 1043, 1045 (4th Cir. 1985) (technology license); *In re* G Survivor Corp., 171 B.R. 755 (Bankr. S.D.N.Y. 1994) (trademark license); *In re* Blackstone Potato Chip Co., 109 B.R. 557, 560 (Bankr. D.R.I. 1990); *In re* Chipwich, Inc., 54 B.R. 427, 430–31 (Bankr. S.D.N.Y. 1985).
43. *Cf. In re* Gucci, 126 F.3d 380 (2d Cir. 1997) (purchase of mark from estate made conditional on debtor's first rejecting all licenses).
44. *In re* Petur U.S.A. Instrument Co., 35 B.R. 561 (Bankr. W.D. Wash. 1983).

45. To similar effect, see *In re* S. Cal. Sound Sys., Inc., 69 B.R. 893 (Bankr. S.D. Cal. 1987); *In re* Midwest Polychem, Ltd., 61 B.R. 559 (Bankr. N.D. Ill. 1986).
46. *See, e.g., S. Cal. Sound*, 69 B.R. 893; *In re* Ron Matusalem, 158 B.R. 514 (Bankr. S.D. Fla. 1993).
47. Lubrizol Enters. v. Richmond Metal Finishers, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986).
48. Pub. L. No. 100-506, 102 Stat. 2538 (amending 11 U.S.C. §§ 101, 365).
49. The right to enforce an exclusivity provision is an exception to the general rule proscribing specific performance as a remedy for the debtor's breach of the license.
50. 11 U.S.C. § 365(n)(1)(B). One issue that has come up under section 365(n) is which payments are to be treated as "royalties" that the licensee must continue to pay after rejection by the debtor licensee. In *In re* Prize Frize, 32 F.3d 426 (9th Cir. 1994), the Ninth Circuit held, in essence, that all monies a licensee must pay for the right to use the licensed property (in that case, patents and technology for a french fry vending machine) were section 365(n) "royalties" that had to be paid even after rejection. The court rejected the licensee's argument that "license fees" and "royalties" were distinct; the licensee had wanted to pay only royalties (percentage of sales) but not license fees (in that case fixed sums payable over a prescribed time).
51. 11 U.S.C. § 365(n)(2)(C) provides that a licensee who elects to retain rights under section 365(n) is deemed to waive the right of setoff against royalty payments and the right to collect administrative expenses; the licensee may still seek damages from the debtor, but only as a general unsecured creditor.
52. *In re* Szombathy, 1996 Bankr. LEXIS 888, slip op. at 31–32 (Bankr. N.D. Ill. 1996) (citing S. Rep. No. 100-505), *rev'd on other grounds*, 1997 U.S. Dist. LEXIS 5168 (N.D. Ill. 1997).
53. *In re* Szombathy, 1997 Bankr. LEXIS 888, slip op. at 9–10 (N.D. Ill. 1997).
54. *See In re* Read-Rite Corp., 2006 WL 1214839 (N.D. Cal. May 5, 2006).
55. *See id.*
56. *See Intellectual Property Contracts in Bankruptcy: Hearings on H.R. 4657 Before the Subcomm. on Monopolies and Commercial Law of the H. Comm. on the Judiciary,* 100th Cong. 2d Sess. (June 3, 1988) [hereinafter House Hearings] (statement of James Burger, Chief-Counsel—Government, Apple Computer Inc.); *A Bill to Keep Secure the Rights of Intellectual Property Licensors and Licensees Which Come Under the Protection of Title 11 of the United States Code, the Bankruptcy Code: Hearings on S.1626 Before the Subcomm. on Courts and Administrative Practice of the S. Comm. on the Judiciary*, 100th Cong. 1st Sess. (June 10, 1988) [hereinafter Senate Hearings] (statement of John L. Pickitt, President, Computer and Business Equipment Manufacturers Association).
57. Senate Hearings, *supra* note 56, statement of George A. Hahn on behalf of the National Bankruptcy Conference at 4; *see also* Letter by George A. Hahn on behalf of the National Bankruptcy Conference (July 14, 1988), *in The American Bankruptcy Institute Survey* at 344 ("[t]he Conference supports this legislation on a semi-emergency basis in order to further the activities of American research and development companies in the world race for technological leadership. The Conference sees no such emergency for and has no

particular interest in, extending such protection to trademarks connected with traditional distributorships and retail businesses at this time.”).

58. S. Rep. No. 100-505, 2d Sess. (1988); *see also* Senate Hearings, *supra* note 56, at 4.
59. To the contrary, the legislative history reflects clear awareness of the problem. *See* S. Rep. No. 100-505 (“While such rejection [of a trademark license] is of concern because of the interpretation of § 365 by the *Lubrizol* court and others [citations omitted], such contracts raise issues beyond the scope of this legislation.”).
60. S. Rep. No. 100-505 at 5.
61. *Id*.
62. *See, e.g.*, *In re* Gucci, 126 F.3d 380, 394 (2d Cir. 1997); *In re* Davidson Hydrant Techs., Inc., 2012 WL 987620, slip op. at 8 (Bankr. N.D. Ga. Jan. 20, 2012); *In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009), *aff’d*, 2010 WL 3566908 (S.D.N.Y. Sept. 14, 2010), *aff’d*, 420 F. App’x 89 (2d Cir. 2011); *In re* HQ Glob. Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003); *In re* Centura Software Corp., 281 B.R. 660, 668–73 (N.D. Cal. 2002); *In re* Blackstone Potato Chip Co., 109 B.R. 557 (Bankr. D.R.I. 1990).
63. *In re* Exide Techs., 340 B.R. 222, 249–50 (Bankr. D. Del. 2006), *rev’d on other grounds*, 607 F.3d 957 (3d Cir. 2010).
64. *See, e.g., id.* at 250–51 (two-year transition); *HQ Global*, 290 B.R. at 514 (thirty days).
65. The circuit split about the continued validity of *Lubrizol* is discussed farther below in this article, beginning in the text after note 77.
66. *In re* Centura Software Corp., 281 B.R. 660 (Bankr. N.D. Cal. 2002).
67. *See In re* Tempnology, LLC, 541 B.R. 1 (Bankr. D.N.H. 2015), *aff’d*, 879 F.3d 389 (1st Cir.), *cert. granted on other grounds*, 139 S. Ct. 397 (2018).
68. See the discussion of *Lubrizol* farther below in this article, beginning in the text after note 77.
69. *In re* Cellnet Data Sys., Inc., 327 F.3d 242 (3d Cir. 2003).
70. *In re* Crumbs Bake Shop, Inc., 522 B.R. 766, 779–80 (Bankr. D.N.J. 2014).
71. *In re* A.B. Dick Co., 338 B.R. 230 (D. Del. 2006).
72. *See, e.g.,* Donoghue v. IBC USA (Publ’ns), Inc., 70 F.3d 206, 212 (1st Cir. 1995); Gordon v. Vincent Youmans, Inc., 358 F.2d 261, 263 (2d Cir. 1965); Stetzer v. Dunkin’ Donuts, Inc., 87 F. Supp. 2d 104, 110 (D. Conn. 2000); Bloor v. Shapiro, 32 B.R. 993, 999 (S.D.N.Y. 1983); Restatement (Second) of Contracts § 202(2).
73. *See, e.g.*, *In re* T&H Diner, Inc., 108 B.R. 448 (D.N.J. 1989); *In re* Holland, 25 B.R. 301, 303 (E.D.N.C. 1982) (conditional assignment cannot be rejected separately from lease); *In re* Texstone Venture, Ltd., 54 B.R. 54 (Bankr. S.D. Tex. 1985); *In re* Shelter Dev. Grp., Inc., 50 B.R. 588 (Bankr. S.D. Fla. 1985) (rejection of lease required rejection of mortgages).
74. Another issue is the effect of the rule against assignments in gross. Suppose the trademark license is merely one part of a larger set of rights, and the trademark by itself, without the other associated contracts and licenses, cannot as a practical matter be used. That would arguably violate the rule against assignments in gross: as a result of the rejection, the debtor would be receiving back a trademark that has no goodwill associated with it, which in turn could mean the trademark is invalid. *See* 15 U.S.C. § 1060. To the author’s knowledge, this issue has not come up so far. It is worth noting, however, that bankruptcy courts have

tended to strain to find some kind of goodwill passing along with the trademark. *See, e.g.*, *In re* Roman Cleanser, Inc., 802 F.2d 207 (6th Cir. 1986).

75. *See, e.g.*, *In re* FPSDAI, LLC, 450 B.R. 392, 398 (Bankr. E.D.N.Y. 2011) (debtor could not assume lease without also assuming and curing defaults in related franchise agreement).
76. *In re* Centura Software Corp., 281 B.R. 660 (Bankr. N.D. Cal. 2002), discussed above in the text at note 66.
77. See the discussion farther below beginning in the text at note 81.
78. Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372 (7th Cir.), *cert. denied*, 568 U.S. 1076 (2012).
79. *In re* Crumbs Bake Shop, Inc., 522 B.R. 766 (Bankr. D.N.J. 2014).
80. The legislative history of section 365(n) is discussed farther above in this article, beginning in the text at notes 56–61.
81. *In re* Tempnology LLC, 559 B.R. 809 (B.A.P. 1st Cir. 2016).
82. *In re* Tempnology LLC, 879 F.3d 389 (1st Cir.), *cert. granted*, 139 S. Ct. 397 (2018).
83. *Id.* at 402 (citation omitted).
84. *Citing* NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984).
85. *Tempnology*, 879 F.3d at 402.
86. In dissent, one First Circuit judge advocated using the "equitable development" principle in the *Exide* concurrence to let the licensee keep its rights.
87. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 397 (2018).
88. 11 U.S.C. § 363(b).
89. *Id.* § 363(f).
90. *In re* Aries Assocs., Inc., 2012 WL 1744733 (Bankr. S.D. Cal. Apr. 27, 2012).
91. Futuresource LLC v. Reuters Ltd., 312 F.3d 281, 285–86 (7th Cir. 2002).
92. *Id.*
93. *See, e.g.*, *In re* Dynamic Tooling Sys., Inc., 349 B.R. 847, 856 (Bankr. D. Kan. 2006).
94. *In re* Crumbs Bake Shop, Inc., 522 B.R. 766, 774–77 (Bankr. D.N.J. 2014).
95. *Id.*
96. A&L Labs., Inc. v. Bou-Matic LLC, 429 F.3d 775 (8th Cir. 2005).
97. Taylor Corp. v. Four Seasons Greetings, LLC, 403 F.3d 958, 964 (8th Cir. 2005).
98. The 2005 legislation implements the Model Law on Cross-Border Insolvency, *see* 11 U.S.C. § 1501(a), and replaces former section 304 of the Bankruptcy Code.
99. Jaffe v. Samsung Elecs. Co., 737 F.3d 14 (4th Cir. 2013).
100. It should be noted, though, that the licensor would obtain a first-priority claim for the value of the debtor's obligation to perform post petition, including the obligation to pay royalties. 11 U.S.C. §§ 503(b), 507(a)(1).
101. *See*, *e.g.*, Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (3d Cir. 1978); Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 293 F. Supp. 892 (S.D.N.Y. 1968), *aff'd*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971).
102. *See* Health Indus., Inc. v. European Health Spas, 489 F. Supp. 860 (D.S.D. 1980).
103. *In re* Valley Media, Inc., 279 B.R. 105, 138–39 (Bankr. D. Del. 2002).
104. *See, e.g.*, *In re* Deppe, 110 B.R. 898, 902 (Bankr. D. Minn. 1990); *In re* Quinones Ruiz, 98 B.R. 636 (Bankr. D.P.R. 1988).

105. Moody v. Amoco Oil Co., 734 F.2d 1200, 1213 (7th Cir.), *cert. denied*, 469 U.S. 982 (1984); *see also In re* Diversified Washes of Vandalia, Inc., 147 B.R. 23 (Bankr. S.D. Ohio 1992); *In re* Anne Cara Oil Co., 32 B.R. 643, 647 (Bankr. D. Mass. 1983); *In re* M&E Enters., Inc., 23 B.R. 820 (Bankr. S.D. Fla. 1982); *In re* Benrus Watch Co., 13 B.R. 331 (Bankr. S.D.N.Y. 1981).
106. *See, e.g.*, City Auto, Inc. v. Exxon Co., 806 F. Supp. 567, 569 (E.D. Va. 1992); *In re* Tudor Motor Lodge Assocs., L.P., 102 B.R. 936, 951 (Bankr. D.N.J. 1989).
107. *See, e.g.*, *City Auto*, 806 F. Supp. at 569; *In re* AGI Software, Inc., 199 B.R. 850, 860 (Bankr. D.N.J. 1995); *In re* Gainesville P-H Props., Inc., 77 B.R. 285 (Bankr. M.D. Fla. 1987).
108. *See In re* Roswog, 48 B.R. 689 (Bankr. N.D. Pa. 1985).
109. *See, e.g.*, *In re* ERA Cent. Reg'l Servs., Inc., 39 B.R. 738, 740–41 (Bankr. C.D. Ill. 1984); *In re* Vylene Enters., 90 F.3d 1472, 1496 (9th Cir. 1986) (all rights in existence on petition date are part of estate).
110. *See, e.g.*, *In re* Wills Motors, Inc., 133 B.R. 297 (Bankr. S.D.N.Y. 1991).
111. The converse is also true: if cure is impossible, the licensor may terminate, with bankruptcy court approval. *See, e.g.*, *In re* Deppe, 110 B.R. 898, 904 (Bankr. D. Minn. 1990); *In re* Best Film & Video Corp., 46 B.R. 861 (Bankr. S.D.N.Y. 1985).
112. *In re* RMH Holdings, Inc., 590 B.R. 655 (Bankr. D. Del. 2018).
113. *See, e.g.,* City Auto, Inc. v. Exxon Co., 806 F. Supp. 567 (E.D. Va. 1992); *In re* 717 Grand St. Corp., 259 B.R. 1 (Bankr. E.D.N.Y. 2000).
114. 11 U.S.C. § 362(a).
115. *In re* 4Kids Entm't, Inc., 463 B.R. 610, 682–83 (Bankr. S.D.N.Y. 2011).
116. *In re* 717 Grand St. Corp., 259 B.R. 1, 5–6 (Bankr. E.D.N.Y. 2000).
117. *Id.*
118. *See, e.g.*, *In re* Nu-Corp Int'l Techs., Inc., 362 B.R. 308 (Bankr. N.D. Miss. 2007).
119. In *In re* N.Y.C. Shoes, 84 B.R. 947 (Bankr. E.D. Pa. 1988), for example, the court determined that rejection was the most likely outcome—but so as not to predetermine the debtor's judgment, the court gave the debtor ten days in which to decide whether to assume or reject, or else the court would deem the license rejected. *See also In re* CNB Int'l, Inc., 307 B.R. 363, 366 (Bankr. W.D.N.Y. 2004) (motion made on July 2, 1999; court gave debtor until October 31, 1999, to assume or reject).
120. 11 U.S.C. § 365(d)(1).
121. *In re* Kmart Corp., 290 B.R. 614, 620 (Bankr. N.D. Ill. 2003).
122. *Id.*
123. A&F Enters., Inc. v. IHOP Franchising LLC, 742 F.3d 763 (7th Cir. 2014).
124. *In re* FPSDA I, LLC, 450 B.R. 392 (Bankr. E.D.N.Y. 2011); *In re* Harrison, 117 B.R. 570 (Bankr. C.D. Cal. 1990).
125. *A&F Enterprises*, 742 F.3d at 768.
126. The reported decisions end after the grant of the stay. The appeal apparently never was completed or decided.
127. *In re* Tudor Motor Lodge Assocs., L.P., 102 B.R. 936, 954 (Bankr. D.N.J. 1989).

128. Inability of the debtor to make *post*-petition payments, however, is an indicium of lack of adequate protection and may be a basis for lifting the automatic stay to permit termination. *See infra*.
129. *In re* Telegroup, Inc., 237 B.R. 87 (Bankr. D.N.J. 1999).
130. *See, e.g.*, *In re* Trump Entm't Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015).
131. *See In re* Indep. Mgmt. Assocs., Inc., 108 B.R. 456 (Bankr. D.N.J. 1989).
132. *In re* Claremont Acquisition Corp., 186 B.R. 977 (C.D. Cal. 1995), *aff'd*, 113 F.3d 1029 (9th Cir. 1997).
133. Other cases where relief from stay was denied because the court perceived no genuine quality control concern are *In re* Rooster, Inc., 100 B.R. 228 (Bankr. E.D. Pa. 1989); *In re* Specialty Foods of Pittsburgh, Inc., 91 B.R. 364 (Bankr. W.D. Pa. 1988).
134. *In re* B-K of Kan., Inc., 69 B.R. 812, 815 (Bankr. D. Kan. 1989).
135. *See also In re* Tudor Motor Lodge Assocs., L.P., 102 B.R. 936 (Bankr. D.N.J. 1989).
136. *See, e.g.*, *In re* Ruiz, 98 B.R. 636 (Bankr. D.P.R. 1988) (misbranding of fuel); *In re* Joyner, 55 B.R. 242 (Bankr. M.D. Ga. 1985) (same); *In re* Lee W. Enters., Inc., 179 B.R. 204 (Bankr. C.D. Cal. 1995) (closure of auto dealership for extended period). *But see In re* Tom Stimus Chrysler-Plymouth, Inc., 134 B.R. 676 (Bankr. M.D. Fla. 1991) (permitting assumption despite closure of auto dealership).
137. *In re* Prime Motor Inns, Inc., 166 B.R. 993, 997 (Bankr. S.D. Fla. 1994).
138. *See In re* Ehrenfried Techs., Inc., 1998 Bankr. LEXIS 804 (Bankr. E.D. Va. 1998).
139. *In re* Dartmouth Audio, Inc., 42 B.R. 871, 875 (Bankr. D.N.H. 1984).
140. *In re* Access Beyond Techs., Inc., 237 B.R.32, 47 (Bankr. D. Del. 1999) ("until [an xecutory contract] is assumed under section 365, the debtor has nothing to sell under section 363").
141. *See, e.g.*, *In re* Qintex Entm't, Inc., 950 F.2d 1492, 1495 (9th Cir. 1991).
142. *See, e.g.*, *In re* Glob. Home Prods. LLC, 369 B.R. 770 (D. Del. 2007).
143. Krebs Chrysler-Plymouth, Inc. v. Valley Motors, Inc., 141 F.3d 490, 498 (3d Cir. 1998).
144. *Id*. at 499; *Global Home*, 369 B.R. 770 (once sale closes, appeal is moot).
145. *In re* Gucci, 126 F.3d 380, 390 (2d Cir. 1997).
146. 11 U.S.C. § 365(c)(1) provides as follows:

    (c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

    (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession whether or not such contract, or lease, prohibits or restricts assignment of rights or delegation of duties; and

    (B) such party does not consent to such assumption or assignment.
147. *See, e.g.*, *In re* Headquarters Dodge, Inc., 13 F.3d 674 (3d Cir. 1993).
148. *In re* Rooster, Inc., 100 B.R. 228, 232 (Bankr. E.D. Pa. 1989); *see also, e.g.*, *In re* Sunrise Rests., Inc., 135 B.R. 149, 153 (Bankr. M.D. Fla. 1991).
149. *Headquarters Dodge*, 13 F.3d 674.
150. *Sunrise Restaurants*, 135 B.R. 149.
151. *Rooster*, 100 B.R. 228.

152. *See, e.g.,* Pioneer Ford Sales, Inc., 729 F.2d 27 (1st Cir. 1984); *In re* Claremont Acquisition Corp., 186 B.R. 977 (C.D. Cal. 1995), *aff'd*, 113 F.3d 1029 (9th Cir. 1997); *In re* Van Ness Auto Plaza, Inc., 120 B.R. 545 (Bankr. N.D. Cal. 1990). *But see In re* Tom Stimus Chrysler-Plymouth, Inc., 134 B.R. 676 (Bankr. M.D. Fla. 1991).
153. *See, e.g.*, *In re* Glycogenesys, Inc., 352 B.R. 568 (Bankr. D. Mass. 2006).
154. See cases cited in *In re* CFLC, Inc., 89 F.3d 673 (9th Cir. 1996).
155. *In re* Catapult Entm't, Inc., 165 F.3d 747 (9th Cir. 1999).
156. *Id.*; Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489 (1st Cir. 1997); *In re* CFLC, Inc., 89 F.3d 673 (9th Cir. 1996); *In re* Access Beyond Techs., 1999 Bankr. LEXIS 878, slip op. at 42 (Bankr. D. Del. July 23, 1999).
157. *See, e.g.*, *In re* Access Beyond Techs., Inc., 237 B.R.32, 45 (Bankr. D. Del. 1999); *In re* Alltech Plastics, Inc., 71 B.R. 686 (Bankr. W.D. Tenn. 1987).
158. *In re* Aerobox Composite Structures, LLC, 373 B.R. 135, 141 (Bankr. D.N.M. 2007); *In re* Hernandez, 285 B.R. 435, 440 (Bankr. D. Ariz. 2002).
159. *In re* Buildnet, Inc., 2002 WL 31103235 (Bankr. M.D.N.C. 2002); *In re* Patient Educ. Media, Inc., 210 B.R. 237 (Bankr. S.D.N.Y. 1997).
160. *In re* GT Brands Holding LLC, 2005 WL 3763535 (Bankr. S.D.N.Y. Sept. 2, 2005).
161. *In re* Travelot Co., 286 B.R. 447, 454 (Bankr. S.D. Ga. 2002).
162. *Id.*
163. *In re* N.C.P. Mktg. Grp., Inc., 337 B.R. 230 (D. Nev. 2005), *aff'd*, 279 F. App'x 561 (9th Cir. 2008).
164. *In re* Wellington Vision, Inc., 364 B.R. 129, 135 (S.D. Fla. 2007).
165. *In re* XMH Corp., 647 F.3d 690, 695 (7th Cir. 2011).
166. *In re* Rupari Holding Corp., 573 B.R. 111 (Bankr. D. Del. 2017); *In re* Trump Entm't Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015).
167. *See, e.g.*, *Sunrise Restaurants*, 135 B.R. 149; *Rooster*, 100 B.R. 228.
168. *In re* Adelphia Commc'ns Sys., Inc., 359 B.R. 65, 77 (Bankr. S.D.N.Y. 2007).
169. *In re* Quantegy, Inc., 326 B.R. 467 (Bankr. M.D. Ala. 2005).
170. RCI Tech. Corp. v. Sunterra Corp., 361 F.3d 257, 271 (4th Cir. 2004).
171. *Wellington Vision*, 364 B.R. at 136.
172. *See, e.g.*, *In re* Catapult Entm't, Inc., 165 F.3d 747, 749–50 (9th Cir. 1999); *In re* W. Elecs., Inc., 852 F.2d 79, 83 (3d Cir. 1988); *In re* Trump Entm't Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015).
173. *RCI*, 367 F.3d 257.
174. *In re* XMH Corp., 647 F. 3d 690 (7th Cir. 2011).
175. *Trump*, 526 B.R. at 127.
176. Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493 (1st Cir.), *cert. denied*, 521 U.S. 1120 (1997).
177. *In re* James Cable Partners, Inc., 27 F.3d 534, 537 (11th Cir. 1994).
178. *In re* James Cable Partners, L.P., 154 B.R. 813, 815 (M.D. Ga. 1993).
179. *In re* Mirant Corp., 440 F.3d 238 (5th Cir. 2006).
180. *Catapult*, 165 F.3d at 750 n.2. The Ninth Circuit cited to the following cases: Texaco Inc. v. La. Land & Expl. Co., 136 B.R. 658, 668–71 (M.D. La. 1992); *In re* GP Express Airlines,

Inc., 200 B.R. 222, 231–33 (Bankr. D. Neb. 1996); *In re* Am. Ship Bldg. Co., 164 B.R. 358, 362–63 (Bankr. M.D. Fla. 1994); *In re* Fastrax, 129 B.R. 274, 277 (Bankr. M.D. Fla. 1991); *In re* Hartec Enters., Inc., 117 B.R. 865, 871–73 (Bankr. W.D. Tex. 1990), *vacated on other grounds*, 130 B.R. 929 (W.D. Tex. 1991); *In re* Cardinal Indus., Inc., 116 B.R. 964, 976–82 (Bankr. S.D. Ohio 1990).

181. *See, e.g.*, *In re* Jacobsen, 465 B.R. 102 (Bankr N.D. Miss. 2011); *In re* Shreyas Hosp., LLC, 2010 WL 2836751 (Bankr. N.D. Ill. July 15, 2010).
182. It is true that for certain purposes the debtor and debtor in possession are separate juridical entities, so that an assumption in reality can be viewed as an assignment. But then every assumption would be an assignment. Yet the Code views assumption and assignment as different ways of handling executory contracts. *Cf. In re* Footstar, Inc., 323 B.R. 566 (Bankr. S.D.N.Y. 2005).
183. *Footstar*, 323 B.R. 566.
184. *In re* Hernandez, 285 B.R. 435 (Bankr. D. Ariz. 2002).
185. *In re* Hernandez, 287 B.R. 795 (Bankr. D. Ariz. 2002).
186. *Id*. at 803–06.