IP Licensing & Bankruptcy:

An Issue Spotting Checklist for Analyzing Questions Regarding Assumption, Rejection, and/or Assignment of IP Licenses in Bankruptcy

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IP LICENSING & BANKRUPTCY: AN ISSUE SPOTTING CHECKLIST

A. **First Question:** Is the Debtor the Licensor or Licensee of the IP?

B. **Key Follow-Up Questions** (Regardless of Whether the Debtor is Licensor or Licensee):

1. **What type of IP is at issue (i.e., TM, Patent, ©, Know-How, Software)? Is it Code-defined “intellectual property” [Sec. 101(35)(A)]?**

2. **Is the contract executory or not?**
   a) **Was it a sale instead of a license?**
   b) **Are the so-called “executory” provisions more in the nature of conditions than in the nature of affirmative duties of performance?**

3. **Is the license exclusive or non-exclusive?**

4. **Is recordation of the license required with the USPTO or Copyright Office to perfect one’s IP rights?**

5. **Does any party hold a security interest in the license, and is it validly perfected? Are there valuation or adequate protection issues of concern?**

6. **Is the IP “property of the estate” or has it been placed in a trust (e.g., a “special purpose entity”)?**

7. **What claims or causes of action (legal or equitable) do the debtor and non-debtor potentially have against the other (including potential avoidance actions by the Debtor)?**
C. *Questions Specific to the Debtor as Licensee*:

1. **Does the license contain an express restriction on assignment?**

2. **Is there an *ipso facto* clause that terminates the agreement upon a bankruptcy filing?**

3. **If the Debtor seeks to assume a license without the licensor’s consent, will the Court adopt the “hypothetical” test of the 3rd, 4th, 5th, 9th, & 11th Circuits (*i.e.*, license not assumable if applicable non-bankruptcy law precludes assignment) or “actual” test of the 1st Circuit (*i.e.*, license can be assumed if no assignment is contemplated)? Consider in this analysis whether the license is exclusive or non-exclusive.

4. **If the Debtor can assume the license under applicable non-bankruptcy law and further seeks to assign it:**
   a) **Does applicable federal or state non-bankruptcy law permit such assignment?**
   b) **Does applicable bankruptcy law permit such assignment (*e.g.*, are there any arrearages or other material breaches that need to be cured; can adequate assurance of future performance be provided; how enforceable is an “*ipso facto*” clause)?**

5. **Has the Debtor exercised appropriate “business judgment” in determining to assume or reject the license? Is heightened scrutiny warranted because the transaction is with an insider?**

6. **What’s the timing of the decision to assume or reject the license, and can or should that decision be accelerated?**

7. **Is the Debtor continuing to use (and pay for) the IP during the postpetition period?**
D. **Questions Specific to the Debtor as Licensor:**

1. **Is the IP covered by the special provisions of Bankruptcy Code Section 365(n) (e.g., patents are covered; trademarks aren’t)?**

2. **What is the nature and scope of the existing licensed IP rights as of the case filing?**

3. **What improvements, if any, are contemplated in respect of the IP, and what’s the license worth if those improvements aren’t available?**

4. **Is the licensee better off treating the license as rejected given the limitations on rights to improvements and the requirement that the licensee waive claims and setoff rights?**