



Question Q241

National Group: United States of America

Title: **IP licensing and insolvency**

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Questions

I. Current law and practice

Groups are invited to answer the following questions under their national laws. If both national and regional laws apply to a set of questions, please answer the questions separately for each set of laws.

Please number your answers with the same numbers used for the corresponding questions.

1) Does your country have a registration system for IP licenses? If yes, please describe this system.

RESPONSE: The U.S. does not have a registration system for IP licenses. However, licenses for patents, trademarks or copyrights may be recorded with the United States Patent and Trademark Office ("USPTO") or the United States Copyright Office ("USCO"), respectively.

The USPTO will record documents affecting title to patent applications, applications to register a trademark, patents, and trademark registrations. Recordation requires submission of the documents affecting title, together with a cover sheet providing certain pertinent information. This recordation is not a determination of the validity of the document or the effect of the document. Instead, such documents are recorded for public notice purposes. A patent or a trademark license is thus effective between the licensing parties, or against third parties, even absent recordation of the license at the USPTO.

The USCO will record transfers of copyright ownership, including exclusive licenses, and documents pertaining to a copyright, including both exclusive and non-exclusive licenses. Security interests may also be recorded for registered copyrights. Security interests in unregistered copyrights may be recorded with local state government offices under state Uniform Commercial Code laws. To be recorded, a document must meet certain minimum requirements. Recordation provides constructive notice of the contents of the documents. Between two conflicting transfers, the first executed prevails if timely recorded prior to the execution of the second transfer. Otherwise, the second transfer prevails if timely recorded and taken in good-faith for value and without notice of the earlier transfer. A non-exclusive

license prevails over a transfer of ownership if taken before execution of the transfer or if taken in good faith and without notice before recordation of the transfer.

2) Describe the type or types of bankruptcy and insolvency proceedings that are available in your country.

RESPONSE: The Bankruptcy Code of 1978, as subsequently amended and codified in title 11 of the United States Code (the "Code"), is the uniform federal law governing bankruptcy cases. In most cases, the debtor initiates the bankruptcy proceeding by filing a bankruptcy petition with the bankruptcy court. This creates a separate legal entity, the bankruptcy estate, which holds the debtor's property, with certain limitations. An involuntary bankruptcy proceeding may also be filed by three or more creditors. The filing also triggers an automatic stay enjoining actions against the estate by creditors and requiring continued performance of obligations if non-performance would damage the debtor's estate. A bankruptcy trustee or debtor-in-possession is then appointed having the authority to assume or reject any executory contracts or unexpired leases of the debtor. Contracts assumed by the trustee or debtor in possession may be assigned, if they are assignable. Rejection breaches the contract, making the counterparty to the contract an unsecured creditor of the estate. The claims of creditors may be satisfied using the assets of the estate. Typically, secured creditors are paid the amount of their security interest from the balance of the estate before unsecured creditors are paid. Unsecured creditors may be divided into classes, with senior classes paid in full before junior classes are compensated.

Six chapters of the Code define six different bankruptcy proceedings:

- Chapter 7 proceedings contemplate a liquidation of the estate by the sale of the debtor's non-exempt assets and the payment of creditors from the proceeds in accordance with the provisions of the Code. Once the estate is liquidated, an individual debtor will typically receive a discharge of certain debts.
- Chapter 9 proceedings govern bankruptcy proceedings by municipalities. Such proceedings provide a municipality protection from its creditors while negotiating a debt adjustment plan. Discharge requires confirmation of the debt adjustment plan, deposit of any consideration to be distributed under the plan, and validation by the court of this consideration.
- Chapter 11 proceedings generally permit the debtor to retain possession of the estate and continue operations, in the hopes of emerging from bankruptcy with a viable business. Within a certain time, the debtor in possession or a trustee must propose a plan of reorganization designating classes of claims and interests for treatment under the reorganization. The Bankruptcy Court may then confirm the plan. Confirmation of the plan generally discharges any debt that arose before the date of confirmation.
- Chapter 12 proceedings pertain to family farmers and family fishermen with regular annual income. Under this chapter, debtors may repay debts in instalments under a repayment plan over a period of time. Upon completion of all payments under the plan, the debtor may receive a discharge of all debts provided for in the plan or disallowed.
- Chapter 13 proceedings enable individuals to repay all or part of their debts in instalments under a repayment plan over a period of time. Upon completion of all payments under the plan, the debtor may receive a discharge of all debts provided for in the plan or disallowed.

- Chapter 15 addresses proceedings concerning parties in interest in more than one country. A case brought under Chapter 15 is typically ancillary to a proceeding brought in another country. This ancillary proceeding is brought by a “foreign representative” filing for recognition of a foreign bankruptcy proceeding. Recognition of the foreign proceeding as a “foreign main proceeding” triggers the automatic stay and other proceedings of the Code and authorizes the foreign representative to operate the debtor’s business in the ordinary course. The jurisdiction of the bankruptcy court is generally limited to the debtor’s assets located in the United States. U.S. bankruptcy laws apply to these U.S. debtor’s assets.

3) Does the law that governs bankruptcy and insolvency proceedings in your country address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights? If yes, is the law statutory, regulatory, or based on precedent? Please identify any relevant statutes or regulations.

RESPONSE: By statute, IP rights or licenses are treated as distinct from other types of contracts, assets and property rights. In general, the Bankruptcy Code (the “Code”) at 11 U.S.C. § 365(a), gives the trustee or the debtor-in-possession the discretion to assume or reject a debtor’s executory contracts. However, section 365(c) limits this authority. Depending on the applicable non-bankruptcy law or the particular contract, the courts may prevent the trustee or debtor from assigning the contract. Where the applicable law or contract prohibits such assignment, the courts may even prohibit the trustee or debtor from assuming the contract. For example, software licenses are copyright licenses that may only be assigned by permission of the copyright owner-Licensor.

In the context of intellectual property, the courts have typically found IP licenses to be executory contracts, since such licenses typically contemplate ongoing licensee obligations (e.g. royalty payments) and licensor obligations (e.g. duty to provide notice of infringing or other use of the licensed technology, inherent duty to forebear from suing for infringement). However, the courts have typically found non-exclusive licenses to be personal to the Licensee and thus not assignable. The courts are split regarding whether exclusive IP licenses may be assigned.

Furthermore, the Intellectual Property Bankruptcy Protection Act, enacted in 1988 and codified at 11 U.S.C. § 365(n) (the “Act”), proscribes the effect of bankruptcies on contracts concerning IP rights. This section applies only to licenses of “intellectual property,” defined in the Code to include patents, copyrights, trade secrets and semi-conductor chip mask works. It addresses the rejection of an IP contract by a debtor-Licensor. Under section 365(n), the Licensee may elect to treat the rejection as a breach of contract giving rise to an unsecured claim for damages. When the executory contract is rejected, the whole contract is rejected, including the damage provisions. The Licensee may alternatively elect to retain the IP rights granted under the licensing agreement. The Licensee must then continue to pay any royalties due and to enforce any exclusivity provision under the agreement. The debtor-Licensor also retains obligations, but no longer has any warranty, indemnification, or support obligations. It must deliver the IP to the Licensee as provided under the contract and must not interfere with the rights of the Licensee. Because the definition of “intellectual property” does not encompass trademarks, the courts are split on whether the Licensee of a trademark may retain such rights. For example, in one bankruptcy proceeding, a court held that rejection of a licensing contract covering trademarks did not terminate the Licensee’s rights as to those trademarks. More recently, this section, rather than applicable foreign law, has been recognized to govern rejection of U.S. patent licenses during a Chapter 15 bankruptcy proceeding.

4) Please answer the following sub-questions based upon the law and jurisprudence in your country that governs bankruptcy and insolvency proceedings:

a) Describe the law and its effects on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license.

RESPONSE: Generally speaking, 11 U.S.C. § 365 controls the rights of parties to an executory contract involved in a bankruptcy. An IP license is considered one type of executory contract falling within this statute. Section 365(n) defines the rights of the bankruptcy administrator specifically with regard to an IP license. The law permits the bankruptcy administrator, acting on behalf of the debtor, three options with regard to executory contracts of the bankrupt party. Subject to the approval of court, the trustee in bankruptcy appointed by the court may:

- assume (i.e., continue) performance under the contract (if assumable);
- assume and then assign the contract (if assignable), or
- reject (i.e., terminate) the executory contract.

Although a debtor has the right to terminate a license in bankruptcy, section 365(n) provides an option to the Licensee to retain certain rights under the license in the event the court approves rejection of a license by a debtor-Licensors. In the case of rejection, the Licensee can either

- treat the rejection as a breach giving rise to money damages under section 365(g), as with other rejected contracts, or
- retain the IP rights granted under the license.

The debtor's ability to assign its rights under an executory contract is not unconditional. Under federal common law, IP licenses are treated in a manner similar to contracts for personal services. In the case where the Licensee is the bankrupt party, it may not assign its rights under a non-exclusive patent, copyright or trademark license without the Licensors consent. If the Licensors is the bankrupt party, it can assign only if it assumes the license and provides adequate assurance of Assignee's future performance under the contract.

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). Under this section, even if the contract does not contain a clause restricting assignment, the debtor cannot assign the contract if the other party to the contract would not be required to accept performance from an entity other than the debtor.

b) Are equitable or public policy considerations relevant to how an IP license is treated?

RESPONSE: Yes. A bankruptcy court is a court of equity. The court may factor in equitable and public policy considerations. For example, a trustee may reject a license when performance would be too burdensome to the insolvent company.

c) Is the law different for different types of bankruptcy and insolvency proceedings in your country?

RESPONSE: The law is the same regardless of the type of bankruptcy proceeding, such as Chapter 7 liquidation or Chapter 11 reorganization. However, the timelines for determining whether to assume or reject an IP license are different and the outcomes may be different depending on whether the insolvent company is being reorganized or liquidated.

d) Does the law require, or give preference to, IP licenses that have been registered according to a registration scheme?

RESPONSE: No preference is given merely to an IP license that has been registered at the U.S. Patent and Trademark Office or at the U.S. Copyright Office. However, a registered security interest in an IP License may be given preference because of the secured interest.

e) Would the existence of a pledge of or security interest in the IP rights for the benefit of the licensee affect application of the law in the case of an insolvent licensor?

RESPONSE: Yes. If a Licensor's bankruptcy cannot be prevented, the Licensee gains substantial leverage by having a security interest in the licensed property even though the substantive legal rights of the Licensor do not change. A security interest removes any economic incentive for the IP Licensor to reject a license in bankruptcy, for the following reason. A rejection is treated as a pre-bankruptcy breach, for which the IP Licensee would have (but for the security interest) an unsecured claim for damages for its lost value, which is likely paid at less than 100 cents on the dollar. In contrast, if the Licensee has a security interest, it is entitled to the full value of its collateral. Therefore, any money the Licensor receives from a new Licensee must be paid 100% to the rejected Licensee to satisfy its damages claim. The Licensor cannot profit from a rejection and resale, and therefore, should not attempt it.

f) Is the law limited to or applied differently among certain types of IP rights (e.g., patents versus trademarks or copyrights)? If yes, please explain.

RESPONSE: Yes. The Intellectual Property Bankruptcy Protection Act at 11 U.S.C. § 365(n) specifically addresses the effect of bankruptcies on contracts concerning IP rights. However, it should be noted that this section applies only to licenses of "intellectual property" as that term is defined in the Bankruptcy Code. "Intellectual Property" is defined in 11 U.S.C. § 101 as including patents, copyrights, trade secrets and semi-conductor chip mask works. It does not include trademarks, foreign patents or foreign copyrights.

g) Does the law apply differently to sub-licenses versus "main" licenses?

RESPONSE: Yes. The law does not apply to sub-licenses directly. The sub-Licensee and the IP owner do not have a direct contractual relationship, except to the extent that the IP license specifically references the sub-Licensee or the sub-Licensee is a third-party beneficiary of the IP license. Therefore, the sub-Licensee cannot directly participate in the IP owner's bankruptcy. The Licensee/sub-Licensor must assert its own licensed rights vigorously under the "main" license to protect the sub-license.

h) Does the law apply differently to sole or exclusive licenses versus non-exclusive licenses?

RESPONSE: Yes. U.S. courts hold that a bankrupt Licensee cannot transfer its rights in a non-exclusive IP license without the Licensor's consent. The law is less settled on exclusive IP licenses in bankruptcy. The U.S. courts have noted that exclusive licensees have quasi-ownership rights in the licensed property because they can prevent the Licensor itself from using it. Some courts hold that these rights are sufficient to allow the Licensee to transfer the license without obtaining consent. The majority view, however, is that an exclusive Licensee is still not the IP owner and, therefore, needs the IP owner's consent to transfer its license in bankruptcy.

- i) Does the law apply differently if the bankrupt party is the licensee versus the licensor?**

RESPONSE: Yes. A bankrupt Licensor may be given the option to assume (i.e., continue) the license or reject (i.e., terminate) the license. In order to assume the license, the bankrupt Licensor must have cured defaults and be able to show the trustee/court that it will be able to perform under the terms of the license (assurances). If the bankrupt Licensor rejects the license, the license may be treated as terminated. However, under 11 U.S.C. § 365(n), even if the bankrupt Licensor rejects the license, a Licensee can choose to retain its rights including exclusivity provisions, provided they continue making royalty payments.

A bankrupt Licensee may unilaterally reject (i.e., terminate) a license. The Licensor cannot prevent the termination, but can then retrieve the IP and seek damages for the termination.

- j) Please explain any other pertinent aspects of this law that have not been addressed in the sub-questions above.**

- 5) Would a choice of law provision in an IP license agreement be considered during a bankruptcy or insolvency proceeding in your country? Is this affected by the nationalities of the parties to the IP license or by the physical location of the assets involved?**

RESPONSE: Generally, if a party files for bankruptcy protection in the U.S., then the U.S. bankruptcy laws will apply regardless of any choice of law provisions in the IP license agreement. This is true even if one or more of the parties are foreign entities. Also, the U.S. bankruptcy law would apply to the debtor-Licensor's IP assets in the U.S., even if the principal insolvency proceeding is conducted outside the U.S.

- 6) Would a clause providing the solvent party in an IP license agreement the right to terminate or alter an IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country? Would the answer be different if the clause provides for automatic termination as opposed to an optional right to terminate?**

RESPONSE: Provisions that purport to terminate the IP license agreement automatically if one party enters bankruptcy are invalid in bankruptcy. Under 11 U.S.C. § 365(e), such clauses are nullified in executory contracts in bankruptcy proceedings. Other termination clauses that terminate license agreements based on a change of control or based on performance criteria (but *not* based on "solvency") may be more useful.

- 7) Would a clause in an IP license agreement that restricts or prohibits transfer or assignment of the IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country?**

RESPONSE: No. An insolvent company may assign most contracts even if the contract states that it is not assignable. However, to assign the contract, the insolvent company must first assume the agreement and cure all defaults and pay damages. The insolvent company must also provide adequate assurance of performing under the terms of the contract. However, many courts have held that IP licenses are inherently non-assignable without the Licensor's consent.

- 8) In the event of a transfer or assignment of an IP license resulting from a bankruptcy or insolvency proceeding, what are the rights and obligations between**

the transferee and the remaining, original party or parties to the IP license? Does it matter if the insolvent party is a licensor, a licensee, or a sub-licensee?

RESPONSE: In the U.S., if the IP license is transferred or assigned, the Transferee must abide by the rights and obligations defined in the IP license. A debtor-Licensee or sub-Licensee is not able to assign or transfer the IP license unless such rights are specifically provided in the IP license.

Courts have held that the IP owner has to consent to an assignment of rights, and non-exclusive licenses are generally non-assignable.

9) In the event an IP license is terminated during a bankruptcy or insolvency proceeding in your country, would the licensee be able to continue using the underlying IP rights (and if so, are there any limitations on such use)? Does the (former) licensee have a claim to obtaining a new license?

RESPONSE: Yes, the Licensee can continue using the underlying IP rights, provided they keep to the terms of the license. However, the Licensor is relieved of its warranty, indemnification, and support obligations. An automatic stay arises when a party to a license files for bankruptcy. The stay is in effect until lifted by the court or until the debtor is out of bankruptcy. The other party(ies) to the license cannot terminate the license during the period when the stay is in effect. In fact, terminating a license during a stay may result in being held in contempt. The former Licensee has no right to file a claim for a new license.

10) If IP rights that are jointly owned by two parties have been licensed to a licensee by one or both of the joint owners, and one of the joint owners becomes insolvent, how would the IP license be treated in a bankruptcy or insolvency proceeding in your country? Could the IP license be terminated even if this would result in termination of an agreement between the solvent, joint rights owner and the solvent licensee?

RESPONSE: Similar to the above, as long as the stay is in effect, the license can't be terminated. Some agreements contain provisions intended to terminate a license once a party files for bankruptcy. However, these provisions are usually held ipso facto invalid as opposed to those with a termination trigger based upon non-performance, specific performance criteria, change of control of Licensee – i.e. provisions directed to an effect of or trigger for bankruptcy and not the actual bankruptcy proceedings.

11) Are there non-statutory based steps that licensors and licensees should consider in your country to protect themselves in insolvency scenarios, e.g., the creation of a dedicated IP holding company, creation of a pledge or security interest in the licensed IP for the benefit of the licensee, registration of the license, and/or inclusion of certain transfer or license clauses?

RESPONSE: IP Licensees guard against debtor-Licensor bankruptcy by seeking contractual protection. For example, this protection may include a computer source code or other technology escrow arrangement in the event the debtor-Licensor rejects the IP license. This protection may also include a waiver of non-solicitation and hiring prohibitions of Licensor's technical staff, waiver of any reverse-engineering prohibition in the IP license, a computer source code or other technology license upon Licensee's election to retain the license, and a grant of rights under Section 117 of the Copyright laws. Licensees should also seek by contract a reduction in license fees to reflect the reduction of the licensor's obligations in the event the licensor rejects the license and the licensee elects to retain the license. The IP Licensor should also contemplate the potential need for the Licensor to assume the license in bankruptcy and possibly assign the license. These permissions should be agreed upon by

contract before a bankruptcy to the extent the law permits to avoid inequitable or unfair consequences from the refusal to assume or assign the license.

II. Policy considerations and proposals for improvements to your current system

12) If your country has a registration system for IP licenses, is it considered useful? Is it considered burdensome? Are there aspects of the system that could be improved?

RESPONSE: The U.S. does not have a registration system for IP licenses. However, the U.S. Patent and Trademark Office and U.S. Copyright Office do allow a party, at their discretion, to record licenses against the underlying patents, trademarks and copyrights for the purpose of providing notice to the public. This system is considered useful and not burdensome. Presently the system is optional and there is current discussion of whether to make it a mandatory requirement to record patent assignments and certain licenses of patents.

13) If the law that governs bankruptcy and insolvency proceedings in your country does not address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights, should it do so? If yes, should the law be statutory?

RESPONSE: The current U.S. bankruptcy laws already provide a statutory scheme that treats IP licenses, to the extent they are executory contracts, as distinct from other types of contracts.

14) With regard to a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license under the current law of your country, are there aspects of this law that could or should be improved to limit this ability? Should equitable or public policy considerations be taken into account?

RESPONSE: There is no need to improve the abilities of the bankruptcy administrator under U.S. bankruptcy laws. Bankruptcy trustees have the right, with the Court's approval, to assume, assign or reject executory contracts to which the debtor is a party where it is in the best interests of the debtor, but must assume or reject the entire IP license. Trustees cannot assume or assign an executory contract if the Licensor does not consent to such assignment.

In the U.S., the trustee and the Courts should and do have the authority based on equitable or public policy considerations to provide a fair, just and equitable result, within limits imposed by substantive IP laws governing the subject of the license.

15) Are there other changes to the law in your country that you believe would be advisable to protect IP licenses in bankruptcy? If yes, please explain.

RESPONSE: Under the U.S. law, Licensees do not have the right to reject an IP license without breaching the license. This right to reject licenses is limited to Licensors. Licensees protect themselves by contract provision. No changes to U.S. bankruptcy law are needed.

III. Proposals for substantive harmonisation

The Groups are invited to put forward proposals for the adoption of harmonised laws in relation to treatment of IP licenses in bankruptcy and insolvency proceedings. More specifically, the Groups are invited to answer the following questions *without* regard to their existing national laws.

16) Is harmonization of laws relating to treatment of IP licensing in bankruptcy and insolvency proceedings desirable?

RESPONSE: Yes.

17) Please provide a standard that you consider to be best in each of the following areas:

- a) What restrictions, if any, should be placed on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy of a party to that license? Should these restrictions be statutory?

RESPONSE: The Code provides certain rights and obligations under section 365(n). These rights and obligation are, and should be, statutory.

- b) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon pre-bankruptcy registration of the IP license?

RESPONSE: These restrictions should not depend upon pre-bankruptcy registration of the IP license.

- c) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the bankrupt party is the licensor or a licensee?

RESPONSE: These restrictions should depend on whether the bankrupt party is a Licensor or Licensee. Only a debtor-Licensor should have the ability to modify the license, but a Licensee should be able to retain the rights granted under 11 U.S.C. § 365(n) to continue using the IP should a debtor-Licensor reject the license.

- d) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the licensee has a security interest in the underlying IP rights?

RESPONSE: A security interest tied to the underlying asset should limit the ability to assign or transfer the IP license.

- e) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is a sub-license or a "main" license?

RESPONSE: Similar to rejection of a sublease under 11 U.S.C. § 365(h), the rejection of a license and sublicense by a debtor-sub-Licensor should not necessarily extinguish the rights of a non-debtor sub-Licensee in the license. Instead, the various rights and obligations of the non-debtor Licensor and the non-debtor sub-Licensee should be adjudicated according to applicable non-bankruptcy law.

Regarding a debtor-Licensor, only the sub-Licensor should be able to assert rights under section 11 U.S.C. § 365(n). The sub-Licensee should be obligated to rely upon the efforts of the sub-Licensor.

- f) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is sole, exclusive or non-exclusive?

RESPONSE: To the extent the sole and exclusive license is not deemed to be an assignment or transfer, the rights of the trustee should not depend on the type of license.

- g) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the type or types of IP rights that are licensed in the IP license?**

RESPONSE: The abilities of the trustee should not depend on the type of IP right involved, subject to the substantive laws governing the underlying IP rights.

- h) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon equitable or public policy considerations?**

RESPONSE: The powers of the trustee should be limited by equitable and public policy considerations to ensure that the interests of the creditors and other interested parties, including the debtor, are sufficiently protected and to ensure that the actions of the trustee are not manifestly contrary to the public policy.

- i) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the language of the license itself, e.g., a right to terminate upon insolvency or a prohibition against assignment?**

RESPONSE: Clauses asserting the right to terminate upon insolvency should be unenforceable, but a prohibition against assignment should be enforceable.

- j) In the event a bankruptcy or insolvency proceeding in your country involves treatment of an IP license between a domestic entity and a foreign entity, which national bankruptcy laws should be applied? Should this depend on the choice of law clause in the IP license? Should this depend on the physical location of the entities or the assets involved?**

RESPONSE: A bankruptcy proceeding in the U.S. should follow U.S. law for the treatment of the IP license, unless the choice of law clause requires application of a foreign law, so long as the foreign law is not repugnant to the public policy of the U.S. This should not depend on the physical location of the assets involved.

- 18) To the extent not already stated above, please propose any other standards that you believe would be appropriate for harmonization of laws relating to treatment of IP licenses in bankruptcy and insolvency proceedings.**

RESPONSE: 11 U.S.C. § 365(n) should serve as a model for global harmonization of laws relating to the treatment of IP licenses in bankruptcy and insolvency proceedings.

Summary:

Under the United States law governing bankruptcy (i.e., insolvency), a trustee representing a bankrupt Licensor has the right to assume (i.e., continue) performance of an IP license, to assign the IP license (if assignable), or to reject (i.e., terminate) the IP license. If the IP license is rejected, then the Licensee may either treat the rejection as a breach of contract resulting in monetary damages or retain the IP rights. If the Licensee retains the rejected license, it must continue to pay royalties and meet its contractual obligations, whereas the bankrupt Licensor may be relieved of some of its obligations. A bankrupt Licensee may unilaterally reject an IP license, and the Licensor cannot prevent the termination but may seek monetary damages. Provisions in an IP license that automatically terminate the license upon bankruptcy are usually not enforceable. Trademark rights do not expressly fall under the definition of IP rights in U.S. bankruptcy law, but some bankruptcy courts may offer the same options for trademark licenses.