Intellectual Property in Bankruptcies:

Drafting and Negotiating Issues for Licensors and Licensees

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I. In negotiating a patent license, it is important to analyze the consequences if a party to the license files a bankruptcy case. Often, bankruptcy fundamentally alters the parties' rights and remedies. It is therefore often in the interest of a party to a license or other contract to raise the threat of a bankruptcy filing in order to extract concession or re-negotiate key terms. Whether the gambit will be successful depends in substantial part on whether the other party considered bankruptcy issues when negotiating the license.

A. During the license negotiations, a licensor should be attuned to what may happen if the licensee files bankruptcy. While some risks – that the licensee will reject and terminate the license, for example – cannot be controlled, other risks can be substantially reduced by forethought in the negotiation and drafting phase.

B. Likewise, especially where a license contemplates continuing performance by the licensor (updates, technical support, etc.), the licensee must be attuned to the risks it will face if the licensor files bankruptcy and should negotiate appropriate protections. In addition, most licensees face the possibility of the need for a financial reorganization in the future: unless the licensee focuses on certain issues in the negotiating phase, it is likely the license will "explode" if the licensee ever files a bankruptcy case.

II. This Paper focuses on the effect of a bankruptcy filing on the parties to a patent license. It must be noted, however, that the effect of bankruptcy on copyrights and trademark licenses can be markedly different.

ISSUES FOR LICENSORS

What will we do the licensee files bankruptcy?

I. If the licensee files a bankruptcy case, the licensor must focus on three potential dangers: the prospect of (1) an indefinite suspension of performance by the licensee, (2) rejection of the license, and (3) assignment of the license.

A. Ultimately in the course of its bankruptcy case, the licensee must assume, assign or reject the license.

B. Unfortunately, there is no self-executing mechanism to require the licensee to continue to perform under the license until it decides whether to assume, assign or reject it, nor any incentive for the licensee to reach a prompt decision.

II. Suspension of Performance: Following the commencement of a Chapter 11 bankruptcy case, a licensee may continue to use the license. In many cases, however, after filing bankruptcy the debtor/licensee will choose to suspend performance of its obligations to the licensor; e.g., cease making royalty payments.

A. During the period from the beginning of the licensee's bankruptcy case until the licensee finally decides whether to reject or attempt to assume or assign the license, the licensor runs the risk that the licensee will continue to use the license but fail to make royalty payments unless the licensor takes action in the Bankruptcy Court.

1. During this period, the debtor can generally enforce an executory contract (such as a license) against the other party to the contract. Matter of Whitcomb & Keller Mortgage Co., Inc., 715 F.2d. 375, 378 (7th Cir. 1983).

2. The licensor may not unilaterally enforce the contract against a debtor licensee without permission from the bankruptcy court. *See* Computer Communications, Inc. v. Codex, 824 F.2d. 725 (9th Cir. 1987) (affirming a judgment for damages and an award of $250,000 of punitive damages against a party to a supply contract who exercised its right to terminate on 60-days notice in response to the seller's bankruptcy filing without first obtaining relief from stay from the seller's bankruptcy court.)

3. *Compare*, Larami Ltd. v. Yes! Entertainment Corporation, 244 B.R. 56 (D.N.J. 2000) (Holding: an action to enjoin patent infringement by the debtor does not violate the automatic stay because it merely requires the debtor to conduct its business lawfully. The court nonetheless transferred the infringement action to the bankruptcy court, reasoning that the fact that "a court has the raw power to do something does not imply that it should.")

B. Rather, the licensor's only remedy if the licensee suspends performance/payment post-bankruptcy is to file a motion in the bankruptcy court requesting that the bankruptcy court (1) require the licensee to provide "adequate protection" for the licensor's interests until the license is assumed, assigned or rejected, and (2) set a deadline for the debtor to decide whether to assume, reject or assign the license.

1. The Bankruptcy Code generally provides that the non-debtor party to an executory contract must be provided, upon request, "adequate protection" for its interest in the contract. See, 11 U.S.C. §363(e). The objective of "adequate protection" is to fashion a fair basis on which both parties can "tread water" until a final decision is made regarding the contract. See, 11 U.S.C. §361. Adequate protection with respect to a patent license may, but need not, include the resumption of payments on account of royalty obligations.

   ➪ **Drafting Tip: It may be helpful to include recitals of fact in the license to the effect that the value of the licensed property will deteriorate if the licensee does not actively prosecute and implement it.**

2. In setting a deadline to assume or reject the license, the court will weigh the debtor's need for additional time to evaluate key decisions about its business and reorganization before making an irrevocable commitment about the license against any truly urgent need for decision by the licensor.

➪ **Drafting Tip: Consider including in the license provisions which specifically acknowledge the possibility of a bankruptcy filing and provide that "adequate protection" in the event of such a filing shall include continued performance by the licensee pending assumption or rejection *and* a decision on assumption or rejection within, say, 60-days following the commencement of the bankruptcy case. (Do not expect such provisions to be blindly enforced by the bankruptcy court; rather, anticipate that they may incrementally improve the licensor's position.)**

C. These concerns about an indefinite suspension of performance are not significant in a Chapter

7 (liquidation) case. In Chapter 7 cases, business operations ordinarily cease when the case is filed and a trustee is appointed to liquidate the assets of the debtor.

1. A trustee is unlikely to exploit the license post-bankruptcy. A trustee is also unlikely to make royalty payments post-bankruptcy, unless ordered to do so by the Bankruptcy Court.

2. Unless the Trustee obtains an extension of time within that 60 day period, all licenses and other executory contracts are automatically rejected on the 60th day after the bankruptcy filing (or conversion from Chapter 11 to Chapter 7). 11 U.S.C. §365(d)(1).

3. Thus, the issue will ordinarily "solve itself" 60 days after the bankruptcy filing in a Chapter 7 case.

III. ***Rejection***: Ultimately, the licensee must decide to assume, assign or reject the license. In a Chapter 7 (liquidating) bankruptcy case, the license will be automatically rejected 60 days after the filing unless the trustee obtains an order extending that period. 11 U.S.C. §365(d)(1). In a Chapter 11 case, the licensee has an indefinite period of time to decide, unless the bankruptcy court sets a deadline.

A. The licensor cannot prevent the licensee from rejecting – terminating – the license.

1. The limitations on rejection established by §365(n) have no application to a licensee in bankruptcy. A licensee is always free to reject a license.

2. The right to reject is subject to a "business judgment" test, but as a practical matter, that test will afford no protection to the licensor.

B. If the license is rejected, the licensee may no longer use or enjoy any benefit from the licensed property, but all of the licensor's losses and damages will be treated as a general unsecured pre-bankruptcy claim, ordinarily yielding little recovery to the licensor.

C. After a license is rejected, the licensor may fear the prospect of infringement by the debtor/licensee, who now argues that it has independently developed a "similar" property.

1. The licensor will find the prospect of engaging in post-rejection infringement litigation unappealing, since the debtor/licensee is overwhelmingly unlikely to be able to respond to damages if the licensor prevails.

2. Incorporating a covenant not to compete in the license will not solve the problem, because rejecting the license will result in rejecting the covenant as well.

   ➪ Drafting Tip: Recitals of fact contained in the license which broadly describe the licensed property may prove helpful. Such recitals will ordinarily be treated as persuasive evidence; e.g., Cal. Evid. Code §622 ("The facts recited in a written instrument are conclusively presumed to be true as between the parties thereto..."); Fed. R. Evid. 302 (applying presumptions arising under state law); and see, Fed. R. Evid. 803(15) (statements in writings involving interests in property constitute an exception to the hearsay rule). If it is obvious that a Debtor is engaged in patent infringement, the Bankruptcy Court may be persuaded summarily to stop the infringement.

3. The licensor should be able to proceed with a patent infringement action against the debtor/licensee in any appropriate court; Larami Ltd. v. Yes! Entertainment Corporation, 244 B.R. 56 (D.N.J. 2000) (an action to enjoin patent infringement by the debtor does not violate the bankruptcy automatic stay because it merely requires the debtor to conduct its business lawfully), but a more cautious approach would be to commence the action in the Bankruptcy Court, thereby avoiding complaints about violations of the automatic stay.

IV. Assignment: A different concern is that the licensee might attempt to sell its rights to the highest bidder. The licensee's ability to transfer his rights will depend substantially on whether the license is non-exclusive or the licensor has in some other legally enforceable manner made it clear that the identity of the licensee is essential.

A. The general rule in bankruptcy is that executory contracts, such as licenses, are freely assignable, and that the right of a bankruptcy estate to assign a contract overrides most contractual and state law restrictions. 11 U.S.C. §365(f).

   1. For example, Chapter 11 cases are often used to sell a retail chain and assign all of its leaseholds to the buyer, notwithstanding contractual provisions restricting lease assignments.

2. The bankruptcy policy permitting sales of executory contracts is so strong that lease provisions conditioning assignment on providing the landlord with a portion of any "bonus rent" obtained through the sale of the leasehold have been treated as unenforceable efforts to circumvent the Bankruptcy Code. In re Standor Jewelers, 129 B.R. 200 (BAP 9th Cir. 1991)

B. There are three limitations on the right to assign executory contracts:

1. As part of the assignment, all contractual arrearages must be brought current; 11 U.S.C. §365(f)(2)(A) and (b)(1)(A).

2. The assignee must provide "adequate assurances of future performance." 11 U.S.C. §365(f)(2)(B).

3. The executory contract may not be assumed or assigned if otherwise applicable law would excuse the other party to the contract "from accepting performance from or rendering performance to" a trustee or assignee (the "Otherwise Applicable Law Restriction"). 11 U.S.C. §365(e)(2)(A).

a. The leading example of a contract which falls within the Otherwise Applicable Law Restriction is a "personal service contract," in which the identity of the person providing the service is essential to the contract.

C. Within the past few years the courts have read the Otherwise Applicable Law Restriction broadly to prohibit the assignment of non-exclusive intellectual property licenses.

1. The courts have held that a non-exclusive license is not assignable under federal common law, and hence the Otherwise Applicable Law Restriction applies. In re CFLC, 89 F.3d. 673 (9th Cir. 1996)

a. Note that federal common law does not override contractual provisions: If the license permits assignment, federal common law will not prohibit it. Unarco Industries, Inc. v. Kelley Co., Inc., 465 F.2d. 1303, 1306 (7th Cir. 1972) *cert. den*. 93 S. Ct. 1365 (1973).

b. Arguably, if the license permits assignment but establishes limiting conditions for the assignment, that permission will take the license out of the "Otherwise Applicable Law Restriction"; but the bankruptcy court may override the limiting conditions. In re Pioneer Ford Sales, Inc., 729 F.2d. 27, 29 (1st Cir. 1984) (Bankruptcy Code overrides restrictions on assignment "only when the contract is *not* silent about assignment." emphasis in original.); In re CFLC, Inc., 89 F.3d. 673, 676 (9th Cir. 1996) (same, Otherwise Applicable Law Restriction applies where prohibition on assignment arises when contract is silent); In re Standor Jewelers, 129 B.R. 200 (BAP 9th Cir. 1991) (contractual provisions conditioning assignment on providing the landlord with a portion of any "bonus rent" obtained through the sale of the leasehold may be overridden as violative of Bankruptcy Code policies).

D. Alternative approach to restricting assignment: While recent case law has focused on federal common law respecting non-exclusive licenses in the abstract, a more certain method of preventing assignment may be to focus on "personal" nature of the license in the drafting process.

1. The analysis on which the current case law is premised on the conclusion that "Only if the [Otherwise Applicable Law] prohibits assignment on the rationale that the identity of the contracting party is material to the agreement will" the contract be non-assignable. In re Catapult Entertainment, Inc. 165 F. 3d. 747, 752 (9th Cir. 1999) *cert. dismissed* 120 S. Ct. 369 (1999).

2. Although federal common law presumes that the identity of the licensee is material to a non-exclusive license, the licensor's position will be bolstered if the identity of the licensee is in fact material to the license, allowing the licensor to assert the "Otherwise Applicable Law Restriction", even in jurisdictions like the First Circuit which have rejected the "Hypothetical Test" in favor of the "Actual Test", discussed below.

➭ **Drafting Tip: If the unique identity of the licensee is important for a business reason, the contract should include recitals of fact which describe those business reasons and explain why the identity of the licensee is critical to the licensor.**

V. ***Assumption***: The ordinary rule is that a debtor may assume an executory contract, even over the objection of the other party to the contract, if it satisfies certain requirements of the Bankruptcy Code.

A. The Bankruptcy Code generally requires the Debtor to cure all breaches and to provide adequate assurances of future performance. 11 U.S.C. §365(b).

1. As a consequence, if the other party to the contract opposes assumption, it ordinarily argues either that the debtor has not tendered a sufficient cure or that the debtor will be unable to comply with the contract in the foreseeable future.

2. Where the lease or the license is very valuable, the other party's economic interest in destroying the debtor's rights will often color the Court's perceptions.

B. As discussed above in the context of assignment, many courts have recently extended the Otherwise Applicable Law Restriction, to a broad class of "non-assignable" contracts. The effect of these decisions is that non-exclusive licenses, which are deemed non-assignable under federal common law, cannot be assumed and instead automatically explode when the licensee files bankruptcy.

1. These cases evaluate whether the contract is of a type which cannot be assigned (the "Hypothetical Test") and, if so, determine that the language of the Otherwise Applicable Law Restriction prevents the contract from being assumed.

2. The "Hypothetical Test" has been adopted in the Third, Fourth, Ninth and Eleventh Circuits: In re Catapult Entertainment, Inc. 165 F. 3d. 747, 750 (9th Cir. 1999) *cert. dismissed* 120 S. Ct. 369 (1999) (federal common law renders non-exclusive license non-assignable); In re James Cable Partners, LP 27 F. 3d 534 (11th Cir. 1994) (City contract with cable company can be assigned, notwithstanding ordinance to the contrary; had it been otherwise, the contract would explode); In re West Electronics, Inc. 852 F. 2d 79 (3rd Cir. 1988) (government military procurement contract is statutorily non-assignable; bankruptcy court abused its discretion when it did not permit government to cancel the contract post-bankruptcy); In re Catron, 158 B.R. 629 (E.D. Va. 1993), *aff'd w/out op.*, 25 F.3d 1038 (4th Cir. 1994) (rights of a partner in a real estate partnership are not assignable under Virginia partnership law; debtor subjected to mandatory buy-out upon bankruptcy provision) ; In re Access Beyond Technologies, n/k/a Hayes Corporation, 237 B.R. 32 (Bkrtcy D. Del. 1999) (patent license not assignable under federal common law; following West Electronics as the law of its Circuit).

3. A minority of courts, led by the First Circuit, apply the "Actual Test", which looks to whether the licensor has actually been required to accept performance by a substantively different licensee. Institut Pasteur the Cambridge Biotech Corp. 104 F.3d

489 (1st Cir. 1997) (Although Plan of Reorganization transferred all stock in the licensee to a competitor of the licensor, since the corporate identity remained the same, there was no "actual" assignment); Summit Invest. & Devel. Corp. 69 F. 3d 608 (1st Cir. 1995) (debtors in possession were essentially the same as debtors; partnership had no cause to complain about an actual assignment); In re G P Express Airlines, Inc. 200 BR 222, 231-33 (Bkrtcy. D. Neb. 1996) (debtor in possession local airline could assume interline contract with large carrier, no actual change of identity).

4. In jurisdictions where the Hypothetical Test is applied, licensors ought be able to obtain a determination that the license has been destroyed by a bankruptcy filing by the licensee. Where the Actual Test is applied, the licensor must demonstrate an actual change in the identity of the licensee in order to terminate the license. This requirement will ordinarily not be met if the license is assumed by the debtor in possession, apparently even if the ownership of the debtor changes materially or completely. See, Institut Pasteur, *supra*.

- ➩ **Bankruptcy Tip: In jurisdictions which apply the Hypothetical Test, the licensor should file a motion seeking to terminate the license immediately after the licensee files a bankruptcy case. The licensor can always enter into a settlement which preserves the license, but by using this powerful lever at the outset, the licensor can resolve its involvement in the bankruptcy case quickly and favorably**

LICENSEE ISSUES:

What will we do the licensor files bankruptcy?

I. ***Rejection***: The risk that the license will be "rejected" – unilaterally terminated – in a licensor bankruptcy is now very limited.

A. Under an orthodox bankruptcy analysis, a patent license is an "executory contract" which may be assumed or rejected. 11 U.S.C. §365.

1. Rejection is a pervasive and a complete breach of the contract, giving rise to a general unsecured claim for damages (which will get paid "pennies on the dollar" in "the sweet

bye and bye"), but terminating all rights to enforce the contract.

a. Under a traditional bankruptcy analysis, a licensor can reject a license subject only to a "reasonable business judgment" test… and then sell it to the licensee a second time.

b. This traditional analysis was applied to intellectual property licenses in Lubrizol Ent., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d. 1043 (4th Cir. 1985).

2. In response to Lubrizol and similar cases, Congress enacted 11 U.S.C. §365(n) which limits a licensor's right to reject licenses of intellectual property.

a. Under 11 U.S.C. §365(n), if a licensor rejects a license, the licensee may choose either to agree and allow the license to terminate or to retain its rights under the license. As discussed below, when the licensee chooses to retain its rights notwithstanding rejection by the licensor, the licensor is excused from future performance but the licensee is required to continue to perform.

b. Note that 11 U.S.C. §365(n) does not restrict *licensees* who wish to reject their licenses in bankruptcy. Also, 11 U.S.C. §365(n) does not apply to trademark licenses at all.

II. Suspension of Performance by Licensor: The principal dangers to the licensee from a licensor bankruptcy are that the licensor will suspend performance or will use rejection to breach the license.

A. In the case of a rejection, the licensor may suspend all affirmative performance, such as technical support, updates, upgrades, infringement litigation indemnities, warranties, etc. The licensee is then put to the choice of accepting rejection and a termination of the license or retaining its rights under the license.

1. If the licensee accepts rejection, it will have a general unsecured claim in the licensor's bankruptcy case for its damages, but may not make any further use of the licensed property.

2. If the licensee retains its rights under the license notwithstanding rejection, it may

continue to use the licensed property and to enforce exclusivity provisions, but it may not require any affirmative performance by the licensor.

a. In order to retain its rights under the license notwithstanding rejection by the licensor, the licensee must continue to make royalty payments and may not offset damages against the royalty obligation

1. Royalty obligations will be broadly defined to include all licensing fees, whether based on a flat rate or a percentage of sale. In re Prize Frize, Inc. 32 F.3d. 426 (9th Cir. 1994).

2. On the other hand, §365(n) only addresses license royalties. Where the transaction was in fact a sale, it will be analyzed as such. See, In re DAK Industries, Inc., 66 F.3d. 1091 (9th Cir. 1995) ("license" which permitted computer manufacturer to install Microsoft Word on computers and charge a "per computer sold" royalty was in fact a contract for sale rather than a license for use of the intellectual property, and so could not be analyzed as an executory contract).

B. The licensor's decision whether to reject the license, and the licensee's decision whether to retain rights under the license will turn on an economic analysis.

1. If the licensor's cost of performing under the license (e.g., support, updating, etc.) is substantial, or if the licensor has an incentive to terminate the license (e.g., to re-license to another person on more favorable terms), the licensor will likely reject the license. The licensee will then be required either to surrender the license or to pay the royalties without requiring the licensor to perform.

2. If the value of the license without support or continuing performance by the licensor exceeds the royalty cost, the licensee will retain rights under the license under §365(n).

III. Drafting and Structural Issues: Where continuing performance by the licensor is a significant component of the transaction, the licensee should focus on minimizing its loss if the license is ultimately rejected and on making breach or rejection financially undesirable to the licensor.

A. In order to minimize the risk, the licensee should "unbundle" the transaction, placing the license for the use of intellectual property and the obligations for continuing performance by the licensor in separate and severable contracts.

1. "Bundling" all the obligations together can have disastrous consequences for the licensee.

    a. In Prize Frize, supra, the licensor (a) transferred the technology and materials to manufacture french fry making vending machines to the licensee, (b) licensed all of the associated patents and intellectual property to the licensee, and (c) agreed to repair or redesign if the machinery or any of its components proved defective, all in a single bundled contract. Applying §365(n), the Ninth Circuit held that the licensee must fund all required payments as royalties following rejection, even though the licensor was excused from all further performance obligations and the licensee contended that there were design defects which must be repaired.

    b. Had the intellectual property license been a separate contract with a separate royalty, the licensee's cost to retain the license would have been limited to paying that separate royalty; any fees associated with a separate repair and redesign contract would be waived upon rejection of that contract.

➪ Drafting Tip: If continuing performance by a licensor is important, establish that obligation in a separate and severable contract and shift the bulk of the payments to be received by the licensor from license royalties to fees for separate services.

2. The licensee will invariably be best served by unbundling the various components of the transaction, and placing the licensor's continuing performance obligations in a separate contract with a separate associated set of payments.

    a. If much of the licensor's income stream is in a separate contract covering its performance obligations, it may have an economic incentive to continue to perform those obligations post-bankruptcy.

    b. In any event, if the license is ultimately rejected by the licensor, the licensee will only be required to pay the amounts allocated to the intellectual property license and will be excused from paying any amounts attributable to the (rejected) performance obligations.

3. Note: Care must be taken in drafting the separate contracts, since bankruptcy courts are not required to accept the documents at face value, and may either combine separate documents to constitute a single contract, or divide a single document into separate contracts, as they deem appropriate. See, generally, St. James, Michael "Slicing and Dicing Executory Contracts", 22 Cal. Bankr. L. J. 1.

B. Another method of encouraging the licensor to perform and not reject or breach the license involves the licensee taking a security interest in the underlying property, to secure performance of the license by the licensor. If the security interest is enforceable, the licensee may be entitled to take ownership of the underlying property in the event of a breach. This, in turn, may substantially reduce the licensor's incentive to breach or threaten to breach the license agreement.

1. A security interest will be enforceable in bankruptcy only if it is "perfected".

2. A security interest in a patent is perfected by the filing of a UCC-1 with the Secretary of State. In Re Cybernetic Services, Inc. 239 B.R. 917, 920 (BAP 9th Cir. 1999); City Bank & Trust Co. v Otto Fabric, Inc. 83 B.R. 780 (D. Kan. 1988).

a. But *see* In Re Transportation Design and Technology, Inc. 48 B.R. 635, 639 (S.D. Cal. 1985) (Holder of a UCC-1 filing prevails over a bankruptcy trustee, but does not prevail over subsequent bona fide purchaser or creditor who records a lien or ownership interest in the Patent and Trademark Office); cited with approval in Cybernetic Services, *supra*, at ftnt. 8.

b. In response to this analysis, cautious creditors record liens with both the state and the federal authorities.

IV. Trademarks: Take special care with transactions in which a patent license is coupled with a trademark license. Section 365(n) does not apply to trademarks and so a licensor in bankruptcy is free to reject the trademark license and re-sell it.

A. By "unbundling" the transaction into separate licenses, the licensee can limit its risk to rejection of the trademark license alone.

B. Attempt to eliminate the economic incentive to reject the trademark license:

1. Allocate licensee payments to trademark license royalties to give the licensor an economic incentive to preserve the license.

2. Take a security interest in the licensor's property, securing the licensor's continued performance of the trademark license, giving the licensor an economic incentive not to reject the license.

LICENSEE ISSUES

What if we might someday need to reorganize?

I. ***The Issue***: Every licensee should negotiate leaving open the possibility that it might one day need to reorganize under the Bankruptcy Code. Unless the licensee obtains certain protections in the negotiating process, it runs the risk that the license will explode upon the bankruptcy filing. It is important that the licensee not allow its company's ability to reorganize to be held hostage by one essential licensor.

II. ***Assumption***: The premise is that the licensee who seeks to reorganize will wish to retain – assume – the license. The ordinary rule is that a debtor may assume an executory contract, even over the objection of the other party to the contract, if it satisfies certain requirements of the Bankruptcy Code.

A. The Bankruptcy Code generally requires the Debtor to cure all breaches and to provide adequate assurances of future performance. 11 U.S.C. §365(b).

1. As a consequence, if the other party to the contract opposes assumption, it ordinarily argues either that the debtor has not tendered a sufficient cure or that the debtor will be unable to comply with the contract in the foreseeable future.

2. Where the lease or the license is very valuable, the other party's economic interest in destroying the debtor's rights will often color the Court's perceptions.

III. ***Prohibition on Assumption***: An executory contract, such as a license, may not be assumed, however, if otherwise applicable law would excuse the other party to the contract "from accepting performance from or rendering performance to" a trustee or assignee (the "Otherwise Applicable Law Restriction"). 11 U.S.C. §365(e)(2)(A).

A. The leading example of a contract which falls within the Otherwise Applicable Law Restriction is a "personal service contract," in which the identity of the individual performing the services is essential to the contract.

B. Within the past few years the courts have read the Otherwise Applicable Law Restriction to prohibit the assignment of non-exclusive licenses.

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change in the identity of the licensee in order to terminate the license. This requirement will ordinarily not be met if the license is assumed by the debtor in possession, apparently even if the ownership of the debtor changes materially or completely. See, Institut Pasteur, *supra*.

a. This test presumably would allow assumption, unless ownership of the licensee changes substantially as a result of the bankruptcy filing.

➭ **Drafting Tip: This issue -- which threatens to destroy the license automatically upon the licensee's bankruptcy filing -- can be completely eliminated by a provision in the license which permits the licensee freely to assign the license to a successor of the continuing business enterprise. Arguably, however, clauses which permit transfers provided that there is no change in ownership or control will prove inadequate, because a bankruptcy filing in some real sense transfers material elements of ownership and control from shareholders to creditors.**) Compare, In re Catron, 158 B.R. 629, 637-8 (E.D. Va. 1993), *aff'd w/out op.*, 25 F.3d 1038 (4th Cir. 1994) (noting that a debtor in possession's loyalties differ from the debtor's, making it appropriate to prevent assumption of a non-assignable contract.), with Summit Investment and Development Corporation v. Leroux, 69 F.3d. 608 (1st Cir. 1995) (debtor in possession is substantially the same as the debtor, but a trustee might be different).