

## The Effect of Corporate Acquisitions on the Target Company's License Rights

By Elaine D. Ziff\*

Nearly every acquisition transaction poses the question of whether the target company's intellectual property license rights will remain intact after the closing. General principles of contract law provide that rights under agreements are presumed assignable unless the agreement, a statute, or public policy provides otherwise, or there are material adverse consequences to the other party.<sup>1</sup> In the case of certain intellectual property licenses, however, "federal policies" favoring a licensor's ability to control the identity of its licensee have persuaded courts to treat such agreements as analogous to personal services contracts. Thus, free alienability of the licensee's rights has generally been disfavored, unless the contract expressly permits assignment.

How a particular acquisition transaction will affect the target company's rights as a licensee depends on many factors. First and foremost is the nature of the transaction. All things being equal, the sale of the target company's assets to the acquiror is more likely to be considered as an assignment of the target company's contract rights, than is a sale of the target company's stock or a merger.

Also of primary importance are the provisions of the license agreement, if any, that address its transferability. Is the license expressly "non-transferable"? Does it specifically prohibit transfers occurring "by operation of law" or by merger? Does it contain specific language regarding changes of control? The anti-transfer provisions of the contract, if any, may be triggered by certain types of acquisition structures but not by others. A provision permitting sublicensing, for example, may suggest that the licensor did not intend to restrict enjoyment of its rights to a particular entity.<sup>2</sup>

\* Elaine D. Ziff is a counsel at Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. She can be reached at EZiff@Skadden.com.

1. See 3 E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS §§ 11.2, 11.4, at 61, 82-84 (2d ed. 1998); 3 RESTATEMENT (SECOND) OF CONTRACTS § 317(2) (1981); see also U.C.C. § 2-210(2) (2001); N.Y. U.C.C. LAW § 2-210 (McKinney 1993).

2. See *Sentry Data, Inc. v. Control Data Corp.* (*In re Sentry Data, Inc.*), 87 B.R. 943, 948 (Bankr. N.D. Ill. 1988); *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732, 741 (Cal. 1957); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 494-95 (1st Cir. 1997) (licensee's option to share licensed rights with affiliates supported continuation of license after licensee's change of control). *But see Verson Corp. v. Verson Int'l Group PLC*, 899 F. Supp. 358, 363 (N.D. Ill. 1995) (finding right to sublicense is not equivalent to right to assign the license).

Another relevant factor is the nature of the intellectual property involved and the exclusivity of the license agreement. The law is clearest as to non-exclusive patent licenses, which have virtually unanimously been found to be violated by an asset sale or merger, absent specific language permitting assignment.<sup>3</sup> Similar findings have been made with respect to non-exclusive copyright licenses, by analogy to patent licenses.<sup>4</sup>

Equitable considerations have also influenced courts in resolving ambiguities as to the parties' intent to permit transfer in the particular circumstance. For example, courts have been disinclined to approve transfers that adversely affect the commercial interests of the licensor, such as where a competitor of the licensor will become its licensee<sup>5</sup> or where the proposed transferee is an undesirable one.<sup>6</sup> The potential adverse effects on the other parties of a transfer of contract rights is a basic consideration under contract law generally<sup>7</sup> and is just as relevant where intellectual property licenses are concerned. Yet, the negative effect on the licensee caused by the non-transferability of its rights has, surprisingly, not appeared to be as significant as the licensor's interest in controlling the identity of its licensees or is overcome by other factors.<sup>8</sup>

The extent to which the acquiror will effectively continue the business of the old licensee and retain the same management has played a part in the determination of whether a transaction will have a practical effect on the licensor.<sup>9</sup> Even

3. See *infra* note 19.

4. *SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at \*6 (N.D. Cal. Dec. 18, 1991).

5. *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 45 (Bankr. D. Del. 1999); *In re Alltech Plastics, Inc.*, 5 U.S.P.Q.2d (BNA) 1806, 1810-13 (Bankr. W.D. Tenn. 1987); *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1096-97 (6th Cir. 1979); see also UNIF. COMPUTER INFO. TRANSACTIONS ACT (UCITA) § 503 cmt. 3(b) (2001), available at <http://www.law.upenn.edu/bll/u/c/ucita/ucita01.htm> (stating non-consensual transfer could place copyrighted information in the hands of a person to which the licensor never agreed).

6. See *In re Van Ness Auto Plaza, Inc.*, 120 B.R. 545, 550 (Bankr. N.D. Cal. 1990); *In re Alltech Plastics, Inc.*, 71 B.R. 686, 688-90 (Bankr. W.D. Tenn. 1987); *Nat'l Bank of Canada v. Interbank Card Ass'n*, 507 F. Supp. 1113, 1124 (S.D.N.Y. 1980); *aff'd* 666 F.2d 6 (2d Cir. 1981) (holding considerably larger size of successor entity justified licensor's objection to transaction).

7. See 3 RESTATEMENT (SECOND) OF CONTRACTS § 317(2)(a) (1981) (stating contract rights are freely assignable except to the extent that the assignment would materially alter the rights or the burdens of the non-assigning party or violate a statute, public policy, or a provision of the contract); see also U.C.C. § 2-210(2) (2001).

8. See, e.g., *In re Luce Indus., Inc.*, 14 B.R. 529, 530-32 (Bankr. S.D.N.Y. 1981); *Schokbeton Indus., Inc. v. Schokbeton Prods. Corp.*, 466 F.2d 171, 174, 176-77 (5th Cir. 1972). *In re Alltech Plastics, Inc.*, 71 B.R. 686 (Bankr. W.D. Tenn. 1987). At first blush, this seems inconsistent with the protections accorded to licensees under section 365(n) of the U.S. Bankruptcy Code. These provisions, which enable a licensee to continue its rights under an "intellectual property" license agreement in the event of the "rejection" of the license by the licensor's bankruptcy trustee, 11 U.S.C. § 365(n) (2000), were enacted in response to the inequitable effects of such rejection on the licensee's business. See, e.g., *In re Logical Software, Inc.*, 66 B.R. 683, 686 (Bankr. D. Mass. 1986). However, the distinction here is that in the context of a *transfer* of the license, it is typically the licensee that is bankrupt, not the licensor. Moreover, section 365(n) merely preserves the status quo as to the licensee's identity. It allows for continuation of the license by the original licensee and does not speak to its transfer.

9. See, e.g., *Synergy Methods, Inc. v. Kelly Energy Sys., Inc.*, 695 F. Supp. 1362, 1364-65 (D.R.I. 1988).

the acquiror's motives in making the acquisition have been considered in determining whether the transaction affects the licensed rights.<sup>10</sup>

## ASSET SALES

Where the acquiror is purchasing the target company's assets, there is no threshold issue as to whether the transaction constitutes an assignment of the target company's license rights, as would be the case of a sale of stock or merger. Likewise, there is little question that an asset sale transaction would violate a license agreement clause prohibiting the "assignment" of the licensee's rights, even if the licensee's entire business is sold.<sup>11</sup>

Where the license agreement is silent as to its assignability, the intent of the parties, rules of contract construction, and/or any policies which would favor or disfavor assignment can all play a part in determining the transferability of the licensed rights.<sup>12</sup> Although modern license agreements are rarely silent on such an important point as assignability, the impact of a "silent" license on its transferability is regularly addressed by courts in the context of the licensee's bankruptcy.

In order to maximize the value of the debtor's estate for the benefit of its creditors, the Bankruptcy Code permits a bankruptcy trustee to assign the debtor's "executory contracts," even if the contract itself forbids assignment.<sup>13</sup> License agreements are nearly always considered "executory" because each party generally has duties yet to be performed, such as the licensor's duty to refrain from suing the licensee for infringement or the licensee's duty to pay royalties or indemnify the licensor.<sup>14</sup> Thus, assignment restrictions are essentially "read out" of the debtor's executory agreements by the Bankruptcy Code.

10. See *Review Directories, Inc. v. McLeodusa Publ'n Co.*, No.1:99-CV-958, 2001 U.S. Dist. LEXIS 9807, at \*9 (W.D. Mich. July 9, 2001) (acquisition not made solely to obtain licensed trademark); see also *Westinghouse Elec. & Mfg. Co. v. Radio-Craft Co.*, 291 F. 169, 173 (D.N.J. 1923) (transaction structured as a stock purchase to avoid non-transferrable license provisions).

11. See, e.g., *McCullough v. Dairy Queen of Mich., Inc.*, 121 U.S.P.Q. (BNA) 302, 302-04 (W.D. Mich. 1959); see generally 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 25:33, at 25-68 (4th ed. 2001) ("[A] person who buys the business of a trademark licensee does not automatically obtain thereby the right to continue use of [the licensed marks].").

12. See, e.g., *Gardner v. Nike, Inc.* No. 00-56404, 2002 U.S. App. LEXIS 1431, at \*16-\*18 (9th Cir. Jan. 31, 2002); *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 45-47 (Bankr. D. Del. 1999); *Verson Corp. v. Verson Int'l Group PLC*, 899 F. Supp. 358, 363-64 (N.D. Ill. 1995); *Sentry Data, Inc. v. Control Data Corp.* (*In re Sentry Data, Inc.*), 87 B.R. 943, 947-50 (Bankr. N.D. Ill. 1988); see also *PPG Indus. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1095 (6th Cir. 1979) (license agreement addressed assignment but was silent as to mergers); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 492-95 (1st Cir. 1997) (finding license agreement silent on changes in control).

13. See 11 U.S.C. § 365(f)(1) (2000).

14. *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311 (Bankr. D. Del. 2001). Courts have generally found intellectual property licenses to be executory within the meaning of section 365(c) because each party to the license has the material duty to refrain from suing the other for infringement of any of the intellectual property covered by the license. *Id.* at 314. Other duties that have been found sufficient to render a license executory are the licensee's duty to pay royalties, provide notice of infringement suits, reduce royalties under a "most favored nations" clause, and provide indemnification

Where, however, “applicable law” excuses the other party to the contract from accepting performance from anyone other than the original licensee, section 365(c)(1) of the Bankruptcy Code provides that the assumption or assignment of the agreement will not be allowed, whether or not the contract prohibits assignment, unless the licensor consents.<sup>15</sup> It is this exception that has opened the door to arguments that intellectual property licenses are, by nature, non-assignable under “applicable law.” Indeed, in a recent bankruptcy court case, the fact that the license agreement expressly stated that it was to be considered a license of the type subject to section 365 of Bankruptcy Code was noted in the court’s decision that the license rights could not be assigned.<sup>16</sup>

The doctrine that a bankrupt licensee’s contractual rights cannot be assigned if contrary to “applicable law” has also been applied, in some cases, to prevent the initial “assumption” of such rights by the licensee as a “debtor-in-possession.”<sup>17</sup> Where courts have deemed this initial assumption as analogous to an assignment of the license rights to a third party, and impermissible under “applicable law,” they have not even considered the acquisition transaction proposed by the bankrupt licensee to ultimately dispose of its license rights.<sup>18</sup>

for breaches of representations and warranties. See *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 43-44 (Bankr. D. Del. 1999); *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.* (*In re Richmond Metal Finishers, Inc.*), 756 F.2d 1043, 1045 (4th Cir. 1985); see also *Univ. of Conn. Research & Dev. Corp. v. Germain* (*In re Biopolymers, Inc.*), 136 B.R. 28, 29-30 (Bankr. D. Conn. 1992); see generally Madlyn Gleich Primoff & Erica G. Weinberger, *E-Commerce and Dot-Com Bankruptcies: Assumption, Assignment and Rejection of Executory Contracts, Including Intellectual Property Agreements* [sic], and Related Issues Under Sections 365(c), 365(e) and 365(n) of the Bankruptcy Code, 8 AM. BANKR. INST. L. REV. 307, 316-17 (2000). Trademark licenses contain an additional duty on the licensor’s part to control the licensee’s goods and services sold under the licensed mark. See *Blackstone Potato Chip Co. v. Mr. Popper, Inc.* (*In re Blackstone Potato Chip Co.*), 109 B.R. 557, 560 (Bankr. D.R.I. 1990).

15. See 11 U.S.C. § 365(c)(1)(A), (B) (2000). The theory of this exception is to prevent the bankruptcy trustee from assigning contracts of the sort that contract law would make unassignable if the contract were silent. See *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27, 31 (1st Cir. 1984); *In re CFLC, Inc.*, 174 B.R. 119, 121 (N.D. Cal. 1994). An analogous approach has been taken under revised Article 9 of the Uniform Commercial Code, effective in a number of states as of July 1, 2001. In order to facilitate the grant of security interests in contracts, anti-assignment clauses, which might be breached by the lien grant, are deemed non-enforceable. U.C.C. § 9-407(a) (2001). The other party to the contract, however, need not recognize the secured party or its assignee as a substitute obligor, if the anti-assignment clause was otherwise enforceable. U.C.C. § 9-408(d).

16. *In re Golden Books Family Entm’t*, 269 B.R. 300, 303-04 (Bankr. D. Del. 2001).

17. See, e.g., *Perlman v. Catapult Entm’t* (*In re Catapult Entm’t, Inc.*), 165 F.3d 747, 750 (9th Cir. 1999) (citation omitted); *In re W. Elects., Inc.* 852 F.2d 79, 82-83 (3d Cir. 1988); see generally Stuart M. Riback, *Intellectual Property Licenses: The Impact of Bankruptcy*, in *Understanding the Intellectual Property License 1999*, at 211 nn.67-68 (PLI Patents, Copyrights, Trademarks & Literary Prop. Course, Handbook Series No. 60-0077, 1999).

18. See, e.g., *In re Catapult Entm’t, Inc.*, 165 F.3d at 749 (court did not consider whether reverse triangular merger violated the license agreement because it found that the initial assumption of the license agreement by the licensee’s trustee was an impermissible assignment); *In re Access Beyond Techs.*, 237 B.R. 32, 49 n.18 (Bankr. D. Del. 1999) (suggesting, in dicta, that since debtors/trustee cannot assume the license, any proposed sale of the licensee’s stock will not include the license rights). Compare *id.* with *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 493 (1st Cir. 1997) (“[B]ankruptcy court cannot simply presume as a matter of law that the debtor-in-possession is a legal entity materially distinct from the pre-petition debtor with whom the non-debtor party [ ] contracted.”).

## PATENT LICENSES

Non-exclusive patent licenses which are silent (or deemed, by virtue of the Bankruptcy Code, to be silent) as to prohibitions on assignment have virtually unanimously been found not assignable.<sup>19</sup> Because of the profound importance of a patent holder's right to choose who, if anyone, may use the patented invention, such patent license agreements have been deemed "personal" to the licensee, as a matter of federal law.<sup>20</sup>

Support for this federal policy derives from the United States Constitution. Inventors and authors enjoy a Constitutional basis for the protection of their proprietary rights. Article I, Section 8 provides that Congress can "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>21</sup> Rewarding inventors is thought to have a "positive effect on society through the introduction of new products and processes of manufacture into the economy, [with the result] of increased employment and better lives for our citizens."<sup>22</sup>

It follows that limiting the assignability of patent licenses to those agreements "in which the patent holder expressly agrees to assignment aids the patent holder in exploiting the patent and thus 'rewards' the patent holder."<sup>23</sup> This, in turn, serves the important federal policy underlying patent law which is "to 'foster and reward invention' [which] is primarily accomplished by granting a 17 year monopoly for the patent holder to exploit."<sup>24</sup> Free assignability of a patent license, without the consent of the patent holder, is inconsistent with patent monopoly and thus inconsistent with federal policy, because, as the U.S. Court of Appeals for the Ninth Circuit stated in *In re CFLC*:

In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents. . . . Thus, any license a patent holder granted . . . would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party whom the patent holder itself might be absolutely unwilling to license.<sup>25</sup>

19. See, e.g., *In re CFLC, Inc.*, 174 B.R. at 121; *Gilson v. Republic of Ir.*, 787 F.2d 655, 658 (D.C. Cir. 1986); *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1093 (6th Cir. 1979); *Unarco Indus., Inc. v. Kelley Co.*, 465 F.2d 1303, 1306-07 (7th Cir. 1972); *Verson Corp. v. Verson Int'l Group PLC*, 899 F. Supp. 358, 363 (N.D. Ill. 1995). But see *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732, 738-41 (Cal. 1957) (regarding transferability of patent licenses governed by state contract law principles, not federal law).

20. See *In re Access Beyond Techs.*, 237 B.R. at 45-46; see also *Hapgood v. Hewitt*, 119 U.S. 226, 232-34 (1886) (holding patent license to be a purely personal right which is extinguished with the dissolution of the corporation).

21. U.S. CONST. art. I, § 8, cl. 8.

22. See *In re Alltech Plastics, Inc.*, 71 B.R. 686, 688-89 (Bankr. W.D. Tenn. 1987) (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974)).

23. *In re CFLC, Inc.*, 174 B.R. at 123.

24. *Id.*

25. *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996).

This sentiment was echoed in *In re Access Beyond Technologies*,<sup>26</sup> wherein the Delaware Bankruptcy Court noted that allowing the proposed assignee, a direct competitor of the licensor, access to the licensed technology eliminated any competitive advantage that the licensor may have as a result of the technology—exactly what the patent laws were designed to prevent.<sup>27</sup>

This constitutional analysis is not without its critics. In a recent article in the *Virginia Journal of Law and Technology*, Aaron Fellmeth contends that the assignability of licenses is not germane enough to the constitutional protection accorded to inventions and works of authorship to justify the preemption of state contract law, without examining whether there is an actual conflict.<sup>28</sup> The author posits that state law, which applies to other disputes under license agreements, would generally provide adequate protection to patent and copyright owners by disfavoring the assignment of license rights if such rights are genuinely personal, if the license agreement forbids assignment, or if the assignment materially impairs the licensor's chances of obtaining the expected performance.<sup>29</sup>

Most, if not all, of the cases applying federal law to prohibit the assignment of patent license rights involve non-exclusive licenses.<sup>30</sup> There are few cases considering the assignability of exclusive patent licenses.<sup>31</sup> Indeed, the Ninth Circuit expressly stated in a recent bankruptcy case that “we express no opinion regarding the assignability of *exclusive* patent licenses under federal law, and . . . we expressed no opinion on this subject in [the] *Everex* [case].”<sup>32</sup> The U.S. District Court for the Middle District of Louisiana was recently presented with the opportunity to determine whether the federal common law principles applicable to

26. 237 B.R. 32 (Bankr. D. Del. 1999).

27. *Id.* at 45.

28. Aaron Xavier Fellmeth, *Control Without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License*, 6 VA. J.L. & TECH. 8 (Spring 2001). Notwithstanding Fellmeth's arguments, the trend may be toward expanding federal common law in the area of patent licensing. In *Rhone-Poulenc Argo, S.A. v. DeKalb Genetics Corp.*, 271 F.3d 1081 (Fed. Cir. 2001), the Federal Circuit, relying on the license assignment cases, applied federal common law to the “related question” of whether an assignee of a non-exclusive sublicense was a “bona fide purchaser” for purposes of asserting a defense to an infringement claim made by the alleged true owner of the licensed patent. Compare *id.* with *Moldo v. Matsco, Inc. (In re Cybernetic Servs.)*, 252 F.3d 1039, 1058 (9th Cir. 2001) (holding that state U.C.C. law, not federal patent law, governs the perfection of security interests in patents).

29. Fellmeth, *supra* note 28, ¶ 53; see, e.g., *Foad Consulting Group v. Musil Govan Azzalino*, No. 98-56017, 2001 U.S. App. LEXIS 23402, at \*14 (9th Cir. Oct. 30, 2001) (finding state contract law, not federal copyright law, governs whether or not a non-exclusive copyright license was properly granted). In fact, several older state court decisions applying state law have permitted assignment of the licensee's rights over the licensor's objection. See, e.g., *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732, 741 (Cal. 1957); cf. *Rosenthal Paper Co. v. Nat'l Folding Box & Paper Co.*, 123 N.E. 766, 770 (N.Y. 1919) (stating assignment of the licensor's rights under patent license agreement did not involve an impermissible assignment of personal rights).

30. See *supra* note 19; see also *In re Golden Books Family Entm't*, 269 B.R. 311, 317-18 (Bankr. D. Del. 2001).

31. JAY DRATLER, JR., LICENSING OF INTELLECTUAL PROPERTY § 1.06[2], at 1-55 (2001) (“The extension of these nonassignability and nonassumption principles to *exclusive* licenses, even for patents, is still open.”) (footnotes omitted).

32. *Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't, Inc.)*, 165 F.3d 747, 750 n.3 (9th Cir. 1999) (citing *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996)).

non-exclusive patent licenses should apply to exclusive patent licenses, but decided the case on other grounds.<sup>33</sup>

It is possible that a more balanced approach to assignability which accords more deference to the licensee's interest would be justified in the context of an exclusive license. In such situations, the licensee has typically built a significant business around the license and the arrangement may be viewed as more of a "property interest" than as a personal covenant not to sue, which is frequently the characterization placed on non-exclusive licenses.<sup>34</sup> Several cases, however, have dismissed the asserted damaging effect on a bankrupt licensee in denying the transfer of its license rights.<sup>35</sup>

There is some theoretical support for distinguishing exclusive patent licenses from non-exclusive licenses as regards their transfer. An exclusive patent license, unlike a non-exclusive license, has two essential attributes of property: it confers (i) the right to exclude and (ii) standing to contest infringement, either because the exclusive license represents a transfer of "all substantial rights" in the patent or because an exclusive patent licensee has the legal right to compel the patent owner to join in the claim.<sup>36</sup> Moreover, the patent statute treats exclusive licenses similarly to assignments by stating that:

[a]pplications for patent, patents *or any interest therein*, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an *exclusive right* under his application for patent, or patents, to the whole or any specified part of the United States.<sup>37</sup>

A recent U.S. Court of Appeals for the Federal Circuit case, in another context, indirectly equated exclusive licenses with assignments by noting that the statutory

33. Murray v. Franke-Misal Techs. Group, LLC (*In re Supernatural Foods, LLC*) 268 B.R. 759, 803-05 (Bankr. M.D. La. 2001).

34. *In re CFLC, Inc.*, 89 F.3d 673, 679 (9th Cir. 1996) (stating non-exclusive patent licensee has only a personal right and not a property interest and is not assignable unless license itself permits assignment) (citing *Gilson v. Republic of Ir.*, 787 F.2d 655, 658 (D.C. Cir. 1986). *Compare id. with In re Supernatural Foods*, 268 B.R. at 802 (suggesting all licenses are personal agreements not to sue). *See generally* DRATLER, *supra* note 31, § 1.06[1].

35. *See also In re Patient Educ. Media*, 210 B.R. 237, 243 (S.D.N.Y. 1997) (finding goal of maximizing creditors' rights must give way to countervailing considerations under copyright law); *In re Alltech Plastics*, 71 B.R. 686, 690 (Bankr. W.D. Tenn. 1987) (loss to Chapter 7 debtor's estate due to non-transferability of patent license was "regrettable," but did not change result); *Schokkbeton Indus., Inc. v. Schokkbeton Prods. Corp.*, 466 F.2d 171, 177 (5th Cir. 1972) (finding transfer of trademark license not permitted despite "referee's findings of fact that the loss of the exclusive franchise will seriously jeopardize [d]ebtor's competitive position and cause it irreparable injury"); *see also In re Luce Indus., Inc.*, 14 B.R. 529, 531 (Bankr. S.D.N.Y. 1981) (stating although "FRUIT OF THE LOOM" mark is valuable to both parties, there is no proof that continued use is "vital" to licensees' business or so exclusive that loss of the license would put the licensee out of business); *Council of Better Bus. Bureaus, Inc. v. Better Bus. Bureau, Inc.*, No. 99-CV-282, 1999 WL 288669, at \*3, \*6 (N.D.N.Y. Mar. 30, 1999) (holding merger resulted in impermissible assignment of non-exclusive trademark license which was the sole basis for the licensee's business).

36. DRATLER, *supra* note 31, §§ 1.06[1], at 1-56, 8.06[1][d], at 8-58.13.

37. 35 U.S.C. § 261 (1994 & Supp. V 1999) (emphasis added). Although this statutory reference to "exclusive rights" covers only geographic exclusivity, it does equate exclusive patent license rights with property rights. DRATLER, *supra* note 31, § 1.06[2], at 1-56.

requirement that assignments be recorded in the U.S. Patent and Treatment Office clearly “does not apply to non-exclusive licenses.”<sup>38</sup> However, an even more recent federal district court case, which extensively considered the historical and practical differences between patent licenses and assignments, concluded that any transaction that does not fit squarely within the statutory and judicial requirements for an assignment is presumptively a license, whether exclusive or not, and, furthermore, that all licenses are essentially covenants not to sue.<sup>39</sup>

The free assignment of exclusive patent licenses would obviously have a greater adverse impact on the licensor, as there is only one licensee controlling the patented invention within a territory or field of use. Nevertheless, Dratler recognizes countervailing considerations because the licensor typically exercises a lesser degree of care in granting non-exclusive licenses:

There is a countervailing consideration, but it is a practical one: patentees aware of the value of exclusive licenses are unlikely to grant such licenses for lump sums or nominal royalties and then be “blindsided” by transfers to major competitors able to pay substantial royalties. In contrast, a patentee might well grant a *nonexclusive* license for a lump sum or nominal royalties—for example, in settling the future aspects of an infringement claim, or in a cross-license involving other rights. In such cases, the patentee would rightly be surprised if the licensee transferred the license, without consent, to a potential major competitor, whom the patentee would never have licensed at all without provisions for substantial royalties or other contractual protection.<sup>40</sup>

The case squarely raising the plight of a sympathetic exclusive patent licensee which is party to an acquisition transaction has yet to be decided. The U.S. District Court for the Middle District of Louisiana came close to considering the issue in *In re Supernatural Foods, LLC*.<sup>41</sup> In that case, a bankrupt licensee, as “debtor-in-possession,” petitioned to assume an exclusive patent license for the purposes of assigning its rights to a third party. The court recognized that the longstanding federal common law doctrine prohibiting the assignability of patent license rights has been limited to non-exclusive licenses.<sup>42</sup> In the end, however, the court stopped short of either extending the rule to exclusive licenses or ruling out its application thereto. Instead, it determined that, “even if the restriction [on assignment] does apply to exclusive licenses of the character embodied in the Agreement,” the “generally applicable prohibition on assignment may be vitiated by the consent of the licensor.”<sup>43</sup> Here, the licensor’s consent was found to be evidenced in the license

38. Rhone-Poulenc Agro, S.A v. DeKalb Genetics Corp., 271 F.3d 1081, 1087 n.2 (Fed. Cir. 2001). *But see In re Cybernetic Servs., Inc.*, 252 F.3d 1039, 1052 (9th Cir. 2001) (collecting cases holding that recordation requirements do not apply with respect to any patent licenses).

39. *In re Supernatural Foods LLC*, 268 B.R. at 798-802. The requirements for an assignment are that the transaction convey either the rights in the entire patent, the entire patent in a portion of the United States, or a fractional interest in the entire patent. *Id.* at 799.

40. DRATLER, *supra* note 31, § 1.06[2].

41. *Murray v. Franke-Misal Techs. Group, LLC (In re Supernatural Foods, LLC)* 268 B.R. 759, 803-05 (Bankr. M.D. La. 2001).

42. *Id.* at 792-96, 803.

43. *Id.* at 803.

agreement itself, which expressly permitted transfer of the licensee's rights in connection with the "sale of [a] substantial portion of [its] assets," a condition that was handily satisfied by the complete liquidation of the licensee's assets.<sup>44</sup>

### COPYRIGHT LICENSES

Cases involving the assignment of copyright licenses would be expected to follow the patent license cases, in view of the "historic kinship between patent and copyright law."<sup>45</sup> There seems to be little debate that federal law is implicated in the determination of whether a copyright licensee's rights are transferable.<sup>46</sup> In the bankruptcy context, the U.S. Bankruptcy Court for the Southern District of New York has explicitly recognized that the federal policy designed to protect the limited monopoly of copyright owners by restricting unauthorized use is "applicable law" which prevents the assignment of debtor licensee's rights under its non-exclusive copyright licenses, absent the copyright owner's consent.<sup>47</sup>

Unlike patents, however, there are cases and statutes which expressly address the transferability of exclusive versus non-exclusive copyright licenses, with differing results. Non-exclusive copyright licenses have universally been presumed non-assignable.<sup>48</sup> Cases and commentators favoring the free assignability of exclusive copyright licenses rely on the premise that, under the current 1976 Copyright Act, exclusive copyright licenses are considered equivalent to copyright ownership interests and would, therefore, be freely alienable, absent provisions to the contrary in the license agreement.<sup>49</sup> The Copyright Act provides that "a transfer

44. *Id.* The court engaged in a substantial analysis to reach the conclusion that the predetermined consent contained in the license agreement itself, rather than a consent delivered at the time of the transfer, satisfied the requirements of section 365(c)(1) of the Bankruptcy Code. *See id.* at 803-05.

45. *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333-34 (9th Cir. 1984) (citation omitted); *see SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at \*6 (N.D. Cal. Dec. 18, 1991) (quoting *Sony Corp. of Am. v. Universal Studios*, 464 U.S. 417 (1984)).

46. *Gardner v. Nike, Inc.*, No. 00-56404, 2002 U.S. App. LEXIS 1431 (9th Cir. Jan. 31, 2002); *SQL Solutions v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at \*5 (N.D. Cal. Dec. 18, 1991).

47. *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 242 (Bankr. S.D.N.Y. 1997) (citing related cases); *see generally Gardner v. Nike*, 110 F. Supp. 2d 1282 (C.D. Cal. 2000), *aff'd*, 2002 U.S. App. LEXIS 1431; *Michaels v. Internet Entm't Group, Inc.*, 5 F. Supp. 2d 823, 834 (C.D. Cal. 1998) (finding there is a "default rule" of non-transferability of a copyright license). *Seawind v. Creed Taylor, Inc. (In re Creed Taylor, Inc.)*, 10 B.R. 265, 267-68 (Bankr. S.D.N.Y. 1981) (finding an anti-assignment clause in an exclusive license to manufacture and distribute sound recordings was upheld, in part, because of the "personal nature of certain licensing arrangements").

48. *See supra* notes 30-33; *see also In re Golden Books Family Entm't*, 269 B.R. 300, 309-10 (Bankr. D. Del. 2001); *cf. In re Access Beyond Technology, Inc.*, 237 B.R. 32, 44 (Bankr. D. Del. 1999) (noting where license does not convey any exclusive right or grant any right to exclude others from practicing the licensed patents, the license is presumed to be non-exclusive).

49. *See In re Golden Books Family Entm't*, 269 B.R. 311 (Bankr. D. Del. 2001); *In re Patient Educ. Media, Inc.*, 210 B.R. at 240 ("[T]he licensee under an exclusive license may freely transfer [its] rights . . ."); *Leicester v. Warner Bros.*, 47 U.S.P.Q.2d (BNA) 1501, 1504 (C.D. Cal. 1998) ("grant of license may not be assigned or sublicensed by the licensee unless the grant of license is exclusive"); *cf. Library Publ'ns, Inc. v. Med. Econ. Co.*, 548 F. Supp. 1231, 1233-34 (E.D. Pa. 1982) (holding an exclusive license is a transfer of copyright ownership so it must be in writing); *Sentry Data, Inc. v. Control Data Corp. (In re Sentry Data, Inc.)*, 87 B.R. 943, 947, 950 (Bankr. N.D. Ill. 1988) (finding agreement authorizing exclusive sale and licensing of software program to end users was assignable by application of general application contract law principles).

of copyright ownership” includes an exclusive license,<sup>50</sup> and further provides that:

Any of the exclusive rights comprised in a copyright . . . may be transferred as provided by [§ 201 (d)(1)—by conveyance, operation of law, by will or intestate succession] and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all the protection[s] and remedies accorded to the copyright owner by this title.<sup>51</sup>

Based on this statutory language, a leading treatise, *Nimmer on Copyright*,<sup>52</sup> concludes that an exclusive licensee, “having acquired ‘title’ or ownership of the rights conveyed, may reconvey them absent contractual restrictions.”<sup>53</sup>

Despite the sentiments of *Nimmer* and certain federal district court cases, the Ninth Circuit, affirming the U.S. District Court for the Central District of California case, *Gardner v. Nike, Inc.*,<sup>54</sup> recently held that an exclusive copyright license is no different than a non-exclusive copyright license with regard to its assignability.<sup>55</sup> In *Gardner*, the licensee attempted to transfer to a licensing agent its worldwide, perpetual, exclusive license to use a Nike-created cartoon character, “MC Teach.” Although the license agreement contained no anti-assignment clause, the court concluded that Nike’s permission was required for the transfer of the exclusive license rights.<sup>56</sup> Relying on a combination of statutory construction, legislative history, and policy considerations, the court narrowly interpreted the provisions of section 201(d)(1) of the 1976 Copyright Act, holding that the “protections and remedies” cover only the right to bring and defend infringement suits in the licensee’s own name, and not the right to reassign the licensed rights.<sup>57</sup> Disagreeing with *Nimmer*, the *Gardner* court concluded that the ability of a copyright licensee to assign or sublicense its rights remained unchanged from the prevailing view under the 1909 Copyright Act, which required the licensor’s express permission, regardless of whether the license is exclusive or non-exclusive.<sup>58</sup>

Public policy considerations were integral to the Ninth Circuit’s analysis in *Gardner v. Nike, Inc.* The court weighed the potential monopolization of copyrighted works against the preservation of authors’ and composers’ rights in order to stimulate creativity.<sup>59</sup> The court concluded that placing the burden on licensees

50. 17 U.S.C. § 101 (1994 & Supp. V 1999) (definition of a “transfer of copyright ownership”).

51. *Id.* § 201(d)(2) (1994).

52. 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* (2001).

53. *Id.* § 10.02 [B][4], at 10-24.

54. No. 00-56404, 2002 U.S. App. LEXIS 1431 (9th Cir. Jan. 31, 2002), *aff’g* 110 F. Supp. 2d 1282 (C.D. Cal. 2000).

55. *Gardner*, 2002 U.S. App. LEXIS 1431, at \*16-\*19; 110 F. Supp. 2d at 1287.

56. *Gardner*, 2002 U.S. App. LEXIS 1431, at \*13-\*18; 110 F. Supp. 2d at 1286-87.

57. *Gardner*, 2002 U.S. App. LEXIS 1431, at \*15; 110 F. Supp. 2d at 1287; *see* 17 U.S.C. § 501(b) (1994) (“The legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it.”).

58. *Gardner*, 2002 U.S. App. LEXIS 1431, at \*16; 110 F. Supp. 2d at 1285; *see generally*, NIMMER & NIMMER, *supra* note 52, § 10.01[C][3], at 10-17 (comparison of the current Copyright Act and 1909 Copyright Act as to the assignment of a licensee’s rights); *id.* § 10.02[B][4], at 10-24 to 10-26 (critique of the district court decision in *Gardner* decision).

59. *Gardner v. Nike, Inc.*, 2002 U.S. App. LEXIS 1431, at \*8-\*9.

to secure the licensors' explicit consent to transfer the licensed rights, either during or after the contract negotiations, strikes the appropriate balance by assuring that the licensor would be able to monitor the use of its copyright.<sup>60</sup> Although the court did not consider whether the proposed transferee of the rights to use the MC Teach character was an adequate one, it annunciated the following hypothetical adverse effects on a copyright licensor resulting from the free transferability of the licensed rights:

It is easy to imagine the troublesome and potentially litigious situations that could arise from allowing the original licensor to be excluded from the negotiations with a sublicensee. For example, what if the sublicensee was on the verge of bankruptcy or what if the original licensor did not agree that the sublicensee's materials use of the copyright fall within the original exclusive license.<sup>61</sup>

A split in the circuits over the right of an exclusive copyright licensee to transfer its rights when the licensee agreement is silent seems inevitable.

The Delaware Bankruptcy Court, in *In re Golden Books Family Entertainment*,<sup>62</sup> decided after the Central District of California's decision in *Gardner v. Nike, Inc.*, but before the Ninth Circuit's affirmance, expressly rejects both the result and reasoning of *Gardner* case. Similar to the facts of *Gardner*, the owner of a copyrighted character "Madeline," objected to the licensee's assignment of an exclusive license to publish certain Madeline "videograms" in the United States and Canada. The court found that, directly contrary to *Gardner*, the "protections and remedies" enjoyed by an exclusive licensee under the Copyright Act include *all* the rights of copyright owners, including the right to reassign such rights.<sup>63</sup>

The Uniform Computer Information Transactions Act (UCITA), which has been recently adopted as law in Maryland and Virginia and is pending in other state legislatures,<sup>64</sup> attempts to shed light on the assignability of exclusive versus non-exclusive licenses. UCITA represents an effort to codify the law pertaining to "computer information transactions." As defined in UCITA, a "computer information transaction" means an agreement or performance of it to create, modify, transfer, or license computer information or informational rights in computer

60. *Id.* at \*16-\*19.

61. *Id.* at \*17. There is some confusion in both the Ninth Circuit and district court opinions in *Gardner* as to whether the transfer at issue was an assignment or sublicensee, since both terms appear. Elsewhere in the Ninth Circuit opinion, however, it is clearly stated that "Sony assigned all its rights in the exclusive license to Gardner, on a quitclaim basis." *Id.* at \*3.

62. 269 B.R. 311 (Bankr. D. Del. 2001).

63. *Id.* at 314; *see also In re Golden Books Family Entm't, Inc.*, 269 B.R. 300, 309 (Bankr. D. Del. 2001) (granting assignment of license and denying assignment of license). The decision of the Delaware Bankruptcy Court to allow the assignment of the exclusive licensee's rights in *In re Golden Books* may have been colored by the countervailing policy of preserving the value of the debtor's assets for the benefit of its creditors, a situation which was not present in *Gardner*, since the licensee was not in bankruptcy. In addition, it is not surprising that the Ninth circuit would be particularly sensitive to the intellectual property rights of authors and composers.

64. As of this writing, UCITA is pending before eight other state legislatures, namely, Arizona, the District of Columbia, Illinois, Maine, Hew Hampshire, New Jersey, Oregon, and Texas. *See What's Happening to UCITA in the States*, (Oct. 8, 2001), at <http://www.ucitaonline.com/whathap.html>.

information.”<sup>65</sup> These are, for the most part, copyright licenses, but also can implicate patents and trade secrets.

UCITA deals explicitly with the transferability of contracts that are within the scope of the statute. Under UCITA, unless the contract provides otherwise, a “party’s interest may be transferred unless the transfer: (A) is prohibited by law; . . . or would materially change the duty of the other party, materially increase the burden or risk imposed on the other party, or materially impair the other party’s property or its likelihood or expectation of obtaining return performance.”<sup>66</sup> This approach to the transferability of rights in computer information transactions is akin to that taken under the Uniform Commercial Code for the transfer of rights under contracts for the sale of goods, and under the Restatement of Contracts.<sup>67</sup> A liberal approach to transfer, the Official Comments to UCITA explain, is to “promote[ ] an optimal open market in contractual rights, enhancing their value to the contracting parties.”<sup>68</sup>

While seemingly permissive as to assignment, UCITA provides that transferability of contractual rights in computer information transactions will not be presumed where “other law” prevents transfer.<sup>69</sup> The Official Comments note that, “[i]n licensing, the other source of law may very well come from a federal intellectual property policy that precludes transfer of a *non-exclusive* copyright or patent license without the consent of the licensor.”<sup>70</sup> Thus, in the final analysis, UCITA defers to federal policy as to the transferability of intellectual property license, but recognizes that such a policy exists only in regards to non-exclusive licenses.

It bears mention that, in addition to the influence of UCITA, some software and electronic licenses raises unique issues that bear on the enforceability of such licenses in general. Where, for example, the license is in a non-negotiable standard form or “shrink-wrap” license included with the program or posted on-line, courts are divided as to whether the recipient is bound by its terms, based on factors such as the specific assent procedures, unconscionability considerations, and the “first sale” doctrine.<sup>71</sup>

65. See UCITA § 102(a)(11) (2001). The statute states that “Computer Information means information in electronic form which is obtained from or through the use of a computer or which is in a form capable of being processed by a computer.” *Id.* § 102(a)(10). “UCITA applies to, among other things, contracts for the licensing or purchase of software, contracts for software development, and contracts for access to databases through the Internet.” Mary Jo Howard Dively, *The New Laws That Will Enable Electronic Contracting: A Survey of the Electronic Contracting Rules in the Uniform Electronic Transactions Act and the Uniform Computer Information Transactions Act*, 38 DUQ. L. REV. 209, 226 (2000).

66. UCITA § 503(1).

67. U.C.C. § 2-210(2) (2001); 3 RESTATEMENT (SECOND) OF CONTRACTS § 317 (1981).

68. UCITA § 503 cmt. 3.

69. *Id.*

70. *Id.*

71. See, e.g., *Softman Prods. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1087 (C.D. Cal. 2001) (finding software distributor was not bound by the terms of manufacturer’s end user license which precluded the transfer of unbundled component); *Specht v. Netscape Communications Corp.*, 150 F. Supp. 2d 585, 596 (S.D.N.Y. 2001) (holding end user not bound because there was no clear assent to an on-line contract); *Register.com v. Verio*, 126 F. Supp. 2d 238, 248 (S.D.N.Y. 2000) (finding

## TRADEMARK LICENSES

A trademark owner would seem to be just as adversely affected as a patent or copyright owner by the free assignment of its licensee's rights. It, too, would suffer the loss of control over its intellectual property and would, in the case of non-exclusive licenses, be competing with its own licensees in the market to sell licenses.<sup>72</sup>

Nevertheless, the assignment of trademark licenses and franchises has often been *permitted*, where the license is, or by virtue of the operation of section 365(f) of the Bankruptcy Code, deemed to be, silent on assignability, without analysis of any special policies distinguishing such agreements from ordinary commercial contracts.<sup>73</sup>

The same "federal policies" which underpin the presumptions against assignability of patent and copyright licenses may not directly apply to trademark licenses. Congress's power to regulate the use of trademarks stems not from the constitutional protections accorded to inventors and authors, but from the Commerce Clause, which permits Congress to regulate commerce with foreign nations, among the states, and with Indian tribes.<sup>74</sup> In addition, "[r]ather than encouraging invention or creation, the policy underlying trademark laws is preventing unfair competition and encouraging investment in good will . . . ."<sup>75</sup>

A number of legal and factual distinctions have been made by courts and commentators to justify disparate treatment of trademarks versus patents and/or copyrights, in general. For example, trademarks are not the product of "sudden invention" but arise due to use, there is no "originality requirement" for trademarks, the purpose of trademarks is not to advance technology but to prevent customer confusion, and a trademark has no existence apart from the good will that it symbolizes.<sup>76</sup> A patented product is necessarily unique, a trademarked product is not.<sup>77</sup>

A distinction between trademark licenses and other intellectual property licenses was drawn in the 1988 amendments to section 365(n) of the Bankruptcy

manner in which users assented to Web site's "terms of use" resulted in an enforceable agreement); *Nam Tai Elecs., Inc. v. Titzer*, 113 Cal. Rptr. 2d 769, 777 (Cal. Ct. App. 2001) (stating on-line terms of service agreement is a typical adhesion contract and may be enforced only if it clearly and unambiguously advises users of their rights); *Am. Online, Inc. v. Superior Court of Alameda County*, 108 Cal. Rptr. 2d 699, 708-13 (Cal. Ct. App. 2001) (holding enforcement of forum selection clause in on-line contract violated state public policy); see generally Christina L. Kunz, et al., *Click-Through Agreements: Strategies for Avoiding Disputes on Validity of Assent*, 57 BUS. LAW. 401 (2001).

72. DRATLER, *supra* note 31, § 1.06[2] at 1-51 n.49.

73. See, e.g., *In re Rooster, Inc.*, 100 B.R. 228, 232-34 (Bankr. E.D. Pa. 1989). For further discussion, see *infra* notes 82-99 and accompanying text. *In re Superior Toy & Mfg. Co.*, 78 F.3d 1169, 1176 (7th Cir. 1996) (holding exclusive non-transferable trademark license could be assumed by debtor-in-possession); see generally Primoff & Weinberger, *supra* note 14.

74. U.S. CONST. art. I, § 8, cl. 3. See generally *In re Trade-Mark Cases*, 100 U.S. 82, 94-95 (1879).

75. Primoff & Weinberger, *supra* note 14, at 328; see also DRATLER, *supra* note 31, § 1.06[2] at 1-51 n.49 (noting that unlike patents and copyrights, the protection of trademarks is not motivated by the desire to encourage creating them).

76. See generally MCCARTHY, *supra* note 11, § 6:2-3 (collecting cases).

77. *Valley Prods. Co. v. Landmark*, 128 F.3d 398, 405 (6th Cir. 1997); Primoff & Weinberger, *supra* note 14, at 329-30. *But see In re Brand Names Prescription Drug Antitrust Litig.*, 186 F.3d 781, 788 (7th Cir. 1999) (stating market powers can be created by either patents or trademarks, to wit, physicians tend to write prescriptions for brand names rather than generic chemical names).

Code, as well. These amendments provide licensees of “intellectual property” special protection against the “rejection” of their licenses by a bankrupt licensor, but such amendments do not apply to trademarks licenses.<sup>78</sup>

Finally, unlike technology licenses, trademark licenses do not typically involve the disclosure of confidential information. The presence of confidential information can provide an additional argument against the non-consensual transfer of a license because the transfer jeopardizes the other party’s interest in confidentiality by placing the material in the hands of a person to which the licensor never agreed.<sup>79</sup>

All of the foregoing suggests that there are substantive differences between trademark licenses, on the one hand, and patent and copyright licenses, on the other hand, which may affect how the licensee’s rights are affected by corporate acquisitions. While some cases have applied a legal presumption against assignability of trademark license rights similar to that applicable to patent and copyright licenses,<sup>80</sup> other cases have tended to rely more heavily on the facts surrounding the particular license arrangement, rather than on “federal policy.”<sup>81</sup> The degree of discretion and trust placed in the licensee, and the nature of the proposed transferee, have figured prominently in the outcome of such cases.

In *In re Rooster, Inc.*,<sup>82</sup> a bankrupt exclusive sublicensee of the mark “BILL BLASS” mark for neckties in certain territories was permitted to assign its rights under its sublicense over the objection of the trademark owner, fashion designer Bill Blass. The court based its holding primarily on the fact that licensor’s strict quality control program resulted in very little personal discretion exercised by the

78. See 11 U.S.C. §§ 365(n), 101(35A) (2000). Many explanations have been advanced by the drafters for the exclusion of trademarks from the 1988 amendments to section 365(n) of the Bankruptcy Code. One explanation was that the primary purpose of the amendments was to address the more direct threat posed by the loss of patent, software, and trade secret licenses to the growth of start-up technology companies. Another explanation is that bringing every retail franchise involving a trademark within the purview of the legislation would extend the reach of the bill far beyond what appears necessary. Yet, at least part of the reason for excluding trademarks from the coverage of section 365(n) arises from the legal issues that distinguish trademarks from other forms of intellectual property, namely, the continued obligation of the licensor to police the licensee’s use of the licensed marks. This is at odds with the purpose of allowing rejection of contracts, which is to free the bankrupt obligor from burdensome obligations under its existing contracts. See Stuart M. Riback, *Intellectual Property Licenses*, in *THE IMPACT OF BANKRUPTCY IN UNDERSTANDING THE INTELLECTUAL PROPERTY LICENSE 1999*, at 199, 206-07 (PLI Intellectual Property Course, Handbook Series No. G-576, 1999).

79. See UCITA § 503 cmt. 3(b) (2000); see also U.C.C. § 9-408(d)(5) (2001) (stating that upon foreclosure on a general intangible, the secured party is not entitled to use, assign, possess, or have access to any trade secrets or confidential information of the other party). The argument that the disclosure of confidential information should preclude transfer of a license agreement was made (unsuccessfully) in *Eastman Kodak Co. v. Cetus Corp.*, Civ. Act. No. 12,249, 1991 Del. Ch. LEXIS 197, at \*16-\*17 (Del. Ch. Dec. 3, 1991) (dealing with an asset sale), *TXO Production Co. v. M.D. Mark, Inc.*, 999 S.W.2d 137, 142-43 (Tex. App. 1999) (focusing on a merger), and *Murray v. Franke-Misal Techs. Group, LLC (In re Supernatural Foods, LLC)* 268 B.R. 759, 803-05 (Bankr. M.D. La. 2001) (holding that the fact that a patent license encompassed the provision of trade secrets did not make it a personal contract where it also allowed assignment under certain circumstances).

80. See *Tap Publ’ns, Inc. v. Chinese Yellow Pages (N.Y.) Inc.*, 925 F. Supp. 212, 218 (S.D.N.Y. 1996); see also *Council of Better Bus. Bureau, Inc. v. Better Bus. Bureau, Inc.*, No. 99-CV-282, 1999 WL 288669, at \*3 (N.D.N.Y. Mar. 30, 1999).

81. See *infra* notes 82-99 and accompanying text.

82. 100 B.R. 228 (Bankr. E.D. Pa. 1989).

licensee.<sup>83</sup> The court gave short shrift to the argument that a personal relationship of trust was involved, since the contract did not require personal performance by any particular employee, nor did it require the retention of stock ownership by current management.<sup>84</sup> Although the sublicensee had the choice of selecting the markets into which licensed neckties were sold, the licensor's ability to terminate the license if the licensee's selection of markets had an adverse effect limited the licensee's discretion.<sup>85</sup>

In *In re Sunrise Restaurants, Inc.*,<sup>86</sup> a similar result was obtained in connection with the bankrupt licensee's proposed transfer of a "BURGER KING" franchise agreement. The bankruptcy court found that the franchise agreement was transferable, despite the anti-assignment clause in the agreement, because the arrangement was not one involving special confidence or trust, or any special judgment, task, skill, or ability on the franchisee's part.<sup>87</sup> The court summed it up thusly:

The entire franchise operation is based on the strict rules and conditions imposed by the contract, and no retail operator is permitted to utilize his own independent culinary skills to cook hamburgers or to serve any other food items which are not generally served in Burger King establishments according to their standard. This being the case, the objection by BKC of the Debtor's right to assume or assign the franchise agreements and other contractual rights is without merit and must be rejected.<sup>88</sup>

The foregoing cases turned, in part, on the strictness of the quality control provisions contained in the license agreements which provided contractual remedies to the licensor for breach. Dratler suggests, however, that, as a practical matter, the free assignability of the trademark licensee's rights may compromise the licensor's important right to exercise control over the nature and quality of the licensee's products.<sup>89</sup> Although the license agreement provides the licensor with a legal claim against the licensee for quality breaches, it may be more difficult for the licensor to effectively control the quality of the licensed products when it neither selected nor had a business relationship with the licensee's assignee.<sup>90</sup>

In any event, the presence of strict quality control provisions in a trademark license agreement does not always favor free assignability. In *In re Little & Ives Co., Inc.*,<sup>91</sup> contractual provisions aimed at protecting the licensed mark, such as quality control, the dismissal of sales persons "whose conduct marred . . . [the licensor's] prestige and reputation," and the requirement that the licensee return

83. *Id.* at 235.

84. *Id.* at 232-33.

85. *Id.* at 235 n.17.

86. 135 B.R. 149 (Bankr. M.D. Fla. 1991).

87. *Id.* at 153.

88. *Id.*; see also *Varisco v. Oroweat Food Co. (In re Varisco)*, 16 B.R. 634, 639 (Bankr. M.D. Fla. 1981) (holding exclusive right to market and distribute baked goods in geographic territory was assignable).

89. DRATLER, *supra* note 31, § 1.06[2] at 1-51 n.49.

90. *Id.*

91. 262 F. Supp. 719, 722-24 (S.D.N.Y. 1996).

publication materials, were found to evidence a "relationship of confidence and trust," which rendered the licensee's rights not assignable under traditional contract law.<sup>92</sup> Perhaps the different result in *Little & Ives* can be explained by the fact that the license in that case represented an exclusive grant to the prestigious OXFORD encyclopedia mark and copyrighted content for the entire American market, rather than a standardized franchise arrangement.

There also are a number of cases permitting the transfer of automobile dealership franchise agreements, which necessarily include the right to use the franchisor's name and logo, over the objection of the licensors, so long as the proposed transferee was a reasonably adequate one.<sup>93</sup> Nevertheless, the automobile dealership cases may be distinguishable because of the presence of state statutes specifically addressing the transferability of automobile dealership franchises. These statutes typically require the manufacturer's consent to a proposed transfer of the franchises, but such consent cannot be unreasonably denied.<sup>94</sup> In applying the test of "reasonableness," courts consider the transferee's qualifications and any potential negative effect on the licensor, such as a transferee's less desirable location or its poor reputation for service.<sup>95</sup>

In a different twist, the presence of an anti-assignment clause was instrumental in a court's decision to disallow the *assumption* of a trademark license by a licensee as "debtor in possession," in light of the licensee's changed circumstances. In *In re Luce Industries, Inc.*,<sup>96</sup> a bankrupt licensee, as debtor-in-possession, proposed to assume its license to the FRUIT OF THE LOOM mark but delegate all manufacturing and sales responsibilities to a discount clothing jobber. Sympathizing with the potential adverse effect on the licensor, the court found that (i) the

92. *Id.* at 723-24; see also *Superior Bedding Co. v. Serta Assocs., Inc.*, 353 F. Supp. 1143, 1149-50 (N.D. Ill. 1972) (finding language of trademark license agreement and membership organization's by-laws made it clear that license was only to be in "the hands of only firms of the highest character and competence").

93. See, e.g., *In re Tom Stimus Chrysler-Plymouth, Inc.*, 134 B.R. 676, 679 (Bankr. M.D. Fla. 1991); *Leonard v. Gen. Motors Corp. (In re Headquarters Dodge, Inc.)*, 13 F.3d 674, 683 (3d Cir. 1993); see also *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27, 30 (1st Cir. 1984) (refusing to approve transfer because Ford had a reasonable basis for objecting to proposed transferee); *Ford Motor Co. v. Claremont Acquisition Corp., Inc. (In re Claremont Acquisition Corp.)*, 186 B.R. 977, 991 (Bankr. C.D. Cal. 1995) (reversing order compelling assignment of GM franchise but affirming order compelling assignment of Ford franchise), *aff'd*, 113 F.3d 1029 (9th Cir. 1997); *In re Van Ness Auto Plaza, Inc.*, 120 B.R. 545, 551 (Bankr. N.D. Cal. 1990) (upholding manufacturer's withholding of consent to transfer dealership).

94. See, e.g., CAL. VEH. CODE § 11713.3(d)(1) (West 2000). Courts have noted that such statutes attempt to strike a balance between fairness to manufacturers which would accord them some measure of control over the assignment, and maximizing the value of the bankrupt licensee's estate. *In re Claremont Acquisition*, 186 B.R. at 983-84. In justifying its decision to uphold a manufacturer's denial of consent to transfer an automobile franchise, one court recognized that a franchise agreement involves the manufacturer and dealer in a much closer business relationship than that which commonly exists between a lessor and lessee. *In re Van Ness Auto Plaza*, 120 B.R. at 548-49.

95. *In re Van Ness Auto Plaza*, 120 B.R. at 549-50 (finding manufacturer's withholding of consent to assignment of PORSCHE dealership reasonable in view of its new less desirable location, and the low rank of the proposed transferee in customer satisfaction index); see *In re Bronx-Westchester Mack Corp.*, 20 B.R. 139, 143 (Bankr. S.D.N.Y. 1982) (permitting assignment of a "MACK" truck dealership over the licensor's objection where no statute was involved).

96. 14 B.R. 529, 531-32 (Bankr. S.D.N.Y. 1981).

arrangement amounted to the assignment of an expressly non-assignable license and (ii) the licensor would not be “adequately assured of future performance” because the licensee would maintain no office, showroom, sales staff, or “leadership,” and because the licensor would have no direct enforcement rights against the subcontractor.<sup>97</sup>

In addition to divergent precedent regarding the transferability of trademark licenses generally, trademark law appears to make a weaker distinction between exclusive and nonexclusive licenses than do other intellectual property regimes, according to Dratler. For registered trademarks, section 32(1) of the Lanham Act restricts standing to sue to the “registrant,” which would exclude both exclusive and nonexclusive licensees alike.<sup>98</sup> Moreover, unlike exclusive patent and copyright licenses, a trademark license, whether exclusive or not, like ownership of a trademark, provides no exclusivity as against the world, just a right to be free from a likelihood of confusion and dilution.<sup>99</sup>

## MERGERS

Whether a merger is treated the same way as a sale of assets for purposes of the assignment of the target companies' contracts may depend upon the form of the merger. In a “forward” merger (also called a “direct” merger), the target corporation merges *into* the acquiring corporation, or into a subsidiary of the acquiring corporation, and then ceases to exist. The surviving corporation succeeds, by operation of law, to all of the target corporation's assets and liabilities.<sup>100</sup> In a “reverse” (or “reverse triangular”) merger, the target corporation continues its corporate existence following the merger as the “surviving” corporation.<sup>101</sup> The target corporation thus remains in existence and continues to own its assets, but the acquirer now holds all of its stock.

### FORWARD MERGERS

As a threshold matter, there is a split of authority as to whether a “forward subsidiary” merger constitutes a transfer or assignment of the merged company's assets. The merger statutes of the majority of states contain some form of language to the effect that, when a merger occurs, title to all property owned by each party to the merger is “vested” in the surviving corporation. By way of example, the New York merger statute, provides, in relevant part, that when a merger has been effected, “[a]ll the property, real and personal, including subscriptions to shares,

97. *Id.*; see also *In re W. Elecs., Inc.*, 852 F.2d 79, 82-84 (3d Cir. 1988) (assumption by bankrupt contractor as debtor-in-possession was not permitted, due to contractor's changed circumstances). It is interesting to note that the court's analysis in *Luce* did not expressly consider the impact of section 365(c)(1)(A) or 365(f) of the Bankruptcy Code on the continued viability of the anti-assignment clause.

98. See 15 U.S.C. § 1114(1) (2000); DRATLER, *supra* note 31, § 8.06[4][a].

99. See DRATLER, *supra* note 31, § 2.02[1][b][iv].

100. See generally 1 LOU R. KLING & EILEEN NUGENT-SIMON, NEGOTIATED ACQUISITIONS OF COMPANIES, SUBSIDIARIES AND DIVISION § 1.02[3] (1992).

101. See *id.* § 2.08[2], at 2-47.

causes of action and every other asset of each of the constituent entities, shall vest in such surviving . . . corporation without further act or deed.”<sup>102</sup>

In the area of real estate leases, where the case law is well developed, it appears that many jurisdictions would *not* treat a merger as a transfer which violates a simple anti-assignment provision.<sup>103</sup> Outside the real estate lease context, merger statutes which contemplate the “vesting” of the target companies’ assets into the surviving company are commonly interpreted as equivalent to a “transfer” of the target company’s assets, which would violate an anti-assignment clause.<sup>104</sup> Yet, some courts have found that even a forward merger does *not* trigger an anti-assignment clause, especially where the merger is between related entities, or the transaction could be fairly characterized as a “mere change in form.”<sup>105</sup> Thus, the governing merger statutes and the interpretation thereof can influence the determination regarding transfer of the licensee’s rights.

Where an intellectual property license agreement is involved, courts have even more readily found that a merger results in an impermissible assignment of the licensee’s rights. The presumptions against the assignment of intellectual property licenses appear to influence the courts when dealing in the grey area of corporate mergers.

In *PPG Industries, Inc. v. Guardian Industries Corp.*,<sup>106</sup> the licensee under a non-exclusive patent license merged with a competitor of the licensor. The licensor thereupon sued the acquiror for infringement. The license was expressly “personal and not-assignable” and contained a “change of control” clause which provided

102. N.Y. BUS. CORP. LAW § 906(b)(2) (McKinney Supp. 2001).

103. See *Dodier Realty & Inv. Co. v. St. Louis Nat’l Baseball Club, Inc.*, 238 S.W.2d 321, 325 (Mo. 1951) (holding that merger was not an impermissible assignment of a lease); *Segal v. Greater Valley Terminal Corp.*, 199 A.2d 48, 50 (N.J. Super. Ct. App. Div. 1964) (reasoning a transfer by operation of law in merger is not a violation of anti-assignment provision of lease). *But see* *Citizens Bank & Trust Co. of Md. v. Barlow Corp.*, 456 A.2d 1283, 1289 (Md. 1983) (holding anti-assignment provision which expressly prohibited transfer “by operation of law” was violated by merger of lessee into entity controlled by non-affiliated stockholders).

104. See, e.g., *Koppers Coal & Transp. Co. v. United States*, 107 F.2d 706, 707-08 (3d Cir. 1939) (construing Delaware merger statute); *Nicolas M. Salgo Assocs. v. Cont’l Ill. Props.*, 532 F. Supp. 279, 282-83 (D.D.C. 1981) (finding the limited partnership interest owned by the target of a merger was transferred by operation of law, violating anti-assignment provision of partnership agreement); *Council of Better Bus. Bureaus, Inc. v. Better Bus. Bureau, Inc.*, No. 99-CV-282, 1999 WL 288669, at \*3 (N.D.N.Y. Mar. 30, 1999) (finding a merger would putatively transfer the license to use the service marks). *But see* *TXO Prod. Co. v. M.D. Mark, Inc.*, 999 S.W.2d 137, 142 (Tex. App. 1999) (providing under Texas merger statute, rights vest “automatically” in surviving corporation and there is no “transfer” of any rights of the merging corporation); see also *Int’l Paper Co. v. Broadhead*, 662 So. 2d 277, 279-80 (Ala. Civ. App. 1995) (holding that successor to merger was able to utilize consultant company’s tax credits despite the fact that, under the applicable tax statute, such credits were not assignable or “otherwise transferrable”).

105. See *Star Cellular Tel. Co. v. Baton Rouge CGSA, Inc.*, Civ. A. No. 12507, 1993 WL 294847, at \*10-\*11 (Del. Ch. Aug. 2, 1993), *aff’d sub. nom.* 647 A.2d 382 (Del. 1994) (finding a merger involving general partner and its sibling corporation did *not* violate an anti-transfer provision in a partnership agreement because the acquiring entity was closely identified with the target company in terms of the nature of its business and its officers and directors); see also *TXO Production Co.*, 999 S.W.2d at 143 (holding merger of subsidiary into parent did not violate anti-assignment clause in non-disclosure agreement).

106. 597 F.2d 1090 (6th Cir. 1979).

that the license would terminate if a manufacturer of automobiles or glass should come to own or control a majority of the voting stock of the licensee. Nevertheless, the U.S. District Court for the Northern District of Ohio found that the merger did *not* constitute an "assignment" in violation of the license agreement, since the acquiror succeeded to the licensee's rights by "operation of law."<sup>107</sup>

The Sixth Circuit, however, *reversed* the lower court and held that the merger *did* constitute a transfer under the applicable Delaware and Ohio merger statutes and violated the anti-transfer clause in the license agreement.<sup>108</sup> The court began with the premise that questions with respect to the assignability of patent licenses are controlled by federal law.<sup>109</sup> It then recited the long-standing holding of federal courts that patent licenses are not assignable unless expressly made so, as if they were personal service contracts.<sup>110</sup> The presumptions disfavoring assignment, the anti-assignment and change of control provisions in the license agreement, and the adverse impact of the licensee's merger with licensor's competitor, made it easy for the Sixth Circuit to find that the proposed merger in *PPG Industries* violated the license agreement.<sup>111</sup>

*PPG Industries* has been cited by a number of other courts in support of the general proposition that intellectual property licenses, in particular, non-exclusive patent licenses, are not assignable unless expressly made so. Courts have referenced *PPG Industries* not only in the context of mergers, but also in bankruptcy cases where the presumption against the assignability of a licensee's rights needs to be balanced against the countervailing federal policies favoring the disposition of the debtor's assets to the highest bidder.<sup>112</sup> In addition, although *PPG Industries* involved a patent license, the case has been cited to support the non-assignability of copyright and trademark licenses in the context of mergers.<sup>113</sup>

In *Council of Better Business Bureaus, Inc. v. Better Business Bureau, Inc.*,<sup>114</sup> the U.S. District Court for the Northern District of New York considered the effect of a forward merger on a trademark licensee's rights.<sup>115</sup> The *Council of Better Business Bureaus* case involved the merger of two licensees of the service marks "Better Business Bureau" and "BBB" where each licensee had the right to use the BBB Marks in such licensee's respective territory. The license agreements contained provisions that the license was "personal" and could not be transferred or assigned, nor could the use of the licensed marks be granted to any other person or organization, even an affiliated entity, without the licensor's consent. The court

107. *Id.* at 1093.

108. *Id.* at 1097.

109. *Id.* at 1093.

110. *See id.* (citing *Unarco Indus., Inc. v. Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972)).

111. *See id.* at 1094-97.

112. *See Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 679 (9th Cir. 1996); *In re Alltech Plastics, Inc.*, 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987).

113. *See SQL Solutions v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458, at \*4 (N.D. Cal. Dec. 18, 1991) (regarding copyright license); *Council of Better Bus. Bureaus, Inc. v. Better Bus. Bureau, Inc.*, No. 99-CV-282, 1999 WL 288669, at \*3 (N.D.N.Y. Mar. 30, 1999) (regarding a trademark license).

114. No. 99-CV-282, 1999 WL 288669 (N.D.N.Y. Mar. 30, 1999).

115. *See id.* at \*1-3.

concluded that the merger would putatively transfer the license held by the disappearing company, in violation of the clear prohibitions on transfer contained in its agreement.<sup>116</sup>

The *Council of Better Business Bureaus* case is noteworthy because of the seeming absence of any adverse effect of the assignment on the licensor. Since both parties to the merger held licenses to the same BBB marks for their respective territories, the rights of the combined entity as against the licensor were no different than before the merger. Yet, the court relied on the “explicit language” of the license agreement which prohibited assignment—language which remained intact because there was no bankruptcy involved—and the presumed irreparable harm suffered by the licensor if its marks were used without benefit of the license in the formerly licensed territory.<sup>117</sup>

The case of *Syenergy Methods, Inc. v. Kelly Energy Systems, Inc.*,<sup>118</sup> addressed the issue of the transferability of a covenant not to sue on a patent in the context of a de facto merger and came out the opposite way. The agreement was silent as to assignment or transfer. The patent owner argued that, by analogy to a patent license agreement, the covenant not to sue agreement should *not* pass to the surviving company by operation of law, citing *PPG Industries*.<sup>119</sup>

The court disagreed, stating that it did “not believe the rule [in *PPG Industries*] to be so absolute.”<sup>120</sup> Instead, the court adopted the principle expressed by Justice Traynor in *Trubowitch v. Riverbank Canning Co.*,<sup>121</sup> that the validity of a transfer of contract rights resulting from a change in the legal form of ownership of a business depends upon whether the transfer adversely affects the interests of the parties protected by the non-assignability clause.<sup>122</sup> It then determined that no adverse effect would result from the Syenergy Methods’ merger because at least some of the principal shareholders in the target corporation were to be shareholders of the transferee corporation.<sup>123</sup> The court in *Syenergy Methods* concluded that, even if the general rule is that patent licenses are personal and non-assignable unless expressly made so, the rule does not apply when the assignment results from a transformation of the legal form of the assignee where there has been a continuation of the constituent corporation’s business.<sup>124</sup> Applying *Trubowitch*, the court

116. See *id.* at \*3 (citing *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090 (6th Cir. 1979)).

117. *Id.* But see *Lightner v. Boston & A. R. Co.*, 15 F. Cas. 514, 515 (C.C.D. Mass. 1869) (No. 8,343) (stating merger did not disturb patent licenses, in part, because both constituent corporations were licensed by licensor).

118. 695 F. Supp. 1362 (D.R.I. 1988).

119. *Id.* at 1366.

120. *Id.* (distinguishing *PPG Indus.*).

121. 182 P.2d 182 (Cal. 1947) (involving covenant to arbitrate between grocers).

122. See *Syenergy Methods*, 695 F. Supp. at 1366 (quoting *Trubowitch*, 182 P.2d at 188). This “adverse effects” test finds its counterpart in Uniform Commercial Code section 2-210, U.C.C. § 2-210 (2001), which prohibits the transfer of contracts for the sale of goods that would materially increase the risks to the non-transferring party, and in UCITA section 503. UCITA § 503 (2001); see also *supra* notes 64-68 and accompanying text.

123. See *Syenergy Methods*, 695 F. Supp. at 1366.

124. See *id.*; see also *Fritz v. Arthur D. Little, Inc.*, 944 F. Supp. 95, 101 n.5 (D. Mass. 1996) (“[T]here may be no legal transfer of the license when transfer ‘results from a transformation of the legal form of the assignee.’”) (quoting *Syenergy Methods*, 695 F. Supp. at 1366).

held that the interests of the parties were not affected by the passing of the license to the merged entity, reasoning that “[a] change in legal form is simply that: a change in form, not in substance.”<sup>125</sup>

In *National Bank of Canada v. Interbank Card Ass'n*,<sup>126</sup> the U.S. District Court for the Southern District of New York found that an “amalgamation” under Canadian law of two banks constituted an impermissible assignment of one of the bank’s rights under its license to the MASTERCARD mark. The court, however, did not reach its conclusion by deeming the “amalgamation” to be equivalent to an assignment. Nor did it consider any special policies concerning intellectual property licenses. It found, instead, that the drafting history of the anti-assignment provision and the provisions of related agreements between licensor and licensee, suggested that the parties intended the anti-assignment clause to apply to mergers.<sup>127</sup> The court was also influenced by the dramatic effects on the licensor caused by the application of the license to the combined entity, since the non-licensee bank brought in “a vast array of offices” and \$9.6 billion dollars in assets.<sup>128</sup>

### REVERSE SUBSIDIARY MERGERS

While forward subsidiary mergers are commonly viewed as violative of anti-assignment provisions in the disappearing company’s contracts, the same conclusion does not necessarily follow with respect to reverse subsidiary mergers. One widely-recognized advantage of employing a reverse subsidiary structure is that it purportedly obviates the issue of whether the merger constitutes a transfer of the target company’s assets in violation of existing contracts, because the “surviving company” is the same legal entity as the original contracting party.<sup>129</sup> Indeed, in *PPG Industries*, the court expressly distinguished its holding that a *forward* subsidiary merger resulted in an impermissible assignment of a license agreement, from the holding in an earlier case where no assignment of a patent license was found to have occurred by virtue of a *reverse* subsidiary merger.<sup>130</sup>

Nevertheless, the lone recent case addressing the effect of a reverse subsidiary merger on the target company’s intellectual property licenses does not distinguish a reverse merger from a forward subsidiary merger. In *SQL Solutions, Inc.*,<sup>131</sup> the licensee merged with a wholly-owned subsidiary of a direct competitor of the

125. *Synergy Methods*, 695 F. Supp. at 1366.

126. 507 F. Supp. 1113, 1124 (S.D.N.Y. 1980); *aff'd* 666 F.2d 6 (2d Cir. 1981).

127. *Id.* at 1116-17, 1124.

128. *Id.* at 1124.

129. 1 KLING & NUGENT-SIMON, *supra* note 100, § 2.08[2].

130. See *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1094 (6th Cir. 1979) (distinguishing *Hartford-Empire Co. v. Demuth Glass Works, Inc.*, 19 F. Supp. 626 (E.D.N.Y. 1937)). Although the *PPG Industries* court assumed that *Hartford-Empire Co.* involved a reverse merger, it is difficult to determine from the actual opinion whether the merger of the licensee in that case was, in fact, a reverse or forward subsidiary merger. The decision notes, ambiguously, that the companies merged under the same name as the licensee but that assets of the old company, including the patent license, were conveyed to the new company. See *id.* at 627.

131. *SQL Solutions v. Oracle Corp.*, No. C-91-1079 MHP, 1991 WL 626458 (N.D. Cal. Dec. 18, 1991).

licensor, with the original licensee as the surviving corporation. The U.S. District Court for the Northern District of California held that the reverse subsidiary merger resulted in an impermissible transfer of the licensee's rights under a non-exclusive software license which had a clause requiring the licensor's permission to assign.<sup>132</sup> The court rejected the argument that no transfer occurred. It, instead, considered the reverse merger to make a fundamental change "in the legal form of ownership" of the licensee because, following the transaction, the licensee became a subsidiary of another company.<sup>133</sup>

Like the court in *Synergy Methods*, the *SQL Solutions* court relied upon *Trubowitch* for the proposition that the California courts have consistently recognized that an assignment of contract rights can occur through a change in the legal form of ownership of a business.<sup>134</sup> Unlike the court in *Synergy Methods*, however, the *SQL Solutions* court found it unnecessary to apply the *Trubowitch* test for adverse impact of the transfer on the licensor because federal law provides a "bright line prohibition" on the transfer of copyright licenses.<sup>135</sup> Although not specifically referenced in support of its decision, the fact that the acquirer was the licensor's competitor presumably had some impact on the court's determination. In fact, the merger transactions in both *SQL Solutions* and *PPG Industries* put the license under the control of an entity which was a direct competitor of the *licensor*, a relatively uncommon circumstance.

In the decade since *SQL Solutions* was decided, there have been no other cases analyzing the assignment of a license via a reverse subsidiary merger.<sup>136</sup> A reverse subsidiary merger is arguably more analogous to a sale of stock than it is to a forward subsidiary merger where the target company disappears. In a reverse subsidiary merger, when the "dust cleared," nothing has changed but the ownership of the licensee.<sup>137</sup> Cases involving the effect of stock sales on the target company's license rights have, as discussed below, overwhelmingly found that no transfer has occurred.

132. *See id.* at \*6.

133. *Id.* at \*3-\*4. Note that this fundamental "change in form" can be viewed as merely a substitution of one set of shareholders for another. It would seem more logical that only where the licensee company does *not* survive is any "change in form" involved.

134. *See id.* at \*3 (citing *Trubowitch v. Riverbank Canning Co.*, 182 F.2d 182, 188 (1947)).

135. *Id.* at \*5.

136. *SQL Solutions* has been cited in only one published decision, involving an assignment of a license, not a merger. *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 240-41 (Bankr. S.D.N.Y. 1997). In *Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.)*, 165 F.3d 747 (9th Cir. 1999), the Ninth Circuit was presented with the opportunity to affirm the logic of *SQL Solutions*. There, a bankrupt debtor's proposed reorganization plan contemplated an assumption of a non-exclusive patent license by the licensee's trustee, as "debtor-in-possession," followed by a reverse triangular merger with a third party. The court, however, expressly declined to opine on whether the reverse triangular merger would be a prohibited "assignment," because it found that the initial assumption was prohibited by "applicable law." *Id.* at 749 n.l. In *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 42 (Bankr. D. Del. 1999), the court referred to, but did not review, an earlier order of the Georgia Bankruptcy Court involving some of the same parties in which the merger of the licensee/debtor with the subsidiaries of new minority investors (which appeared to be a reverse merger) did not result in an assignment within the meaning of non-bankruptcy anti-assignment law. *Id.*

137. 165 F.3d 747, at 749.

## STOCK SALES

With respect to sales of stock, the prevailing view is that a transfer of stock ownership does not result in the violation of any anti-assignment provisions in the acquired company's contracts, absent particular language prohibiting "changes of control."<sup>138</sup> This is because changes in corporate ownership are not thought to vary that corporation's contractual responsibilities.<sup>139</sup> Nor is the non-transferring party necessarily harmed by the transaction in that it can still obtain the same goods and services on the same terms it bargained for from the same entity with which it bargained.<sup>140</sup>

The general rule seems to apply to license agreements as well. Even the *PPG Industries* decision notes that the mere change of stock ownership would not nullify a non-assignable license, absent a change in control provision.<sup>141</sup> Although there are only a few cases that have actually considered the issue whether a stock sale is equivalent to a transfer of rights under an intellectual property license, most have rejected the licensor's objections to the transaction.<sup>142</sup> Nevertheless, a particular sensitivity to the transfer of trademark licenses prompted the U.S. District Court for the Northern District of Illinois to interpret a clause in a trademark license which prohibited assignments "by operation of law or otherwise" to prohibit a sale of the licensee's stock.<sup>143</sup> In addition, what appears on its face to be a stock sale has been recharacterized as a de facto asset transfer where the license agreement was the target company's only asset of value.<sup>144</sup>

138. *Baxter Healthcare Corp. v. O.R. Concepts, Inc.*, 69 F.3d 785, 788 (7th Cir. 1995); see *Branmar Theatre Co. v. Branmar, Inc.*, 264 A.2d 526, 528 (Del. Ch. 1970) (stating absent fraud, transfer of stock of lessee ordinarily does not violate anti-assignment provision); *PPG Indus. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1096-97 (6th Cir. 1979); see also *Transamerica Commercial Fin. Corp. v. Stockholder Sys., Inc.*, No. 89 C 917, 1990 WL 186088, at \*2 (N.D. Ill. Nov. 8, 1990); *Baxter Pharm. Prods., Inc. v. ESI Lederle, Inc.*, Civ. Act No. 16863, 1999 Del. Ch. LEXIS 47, at \*16-\*18 (Del. Ch. Mar. 11, 1999); *Review Directories, Inc. v. McLeodusa Publ'n Co.*, No. 1:99-CV-958, 2001 U.S. Dist. LEXIS 9807, at \*9 (W.D. Mich. July 9, 2001); see generally 1 KLING & NUGENT-SIMON, *supra* note 100, § 1.02[1].

139. *Baxter Healthcare Corp.*, 69 F.3d at 788.

140. *Id.* at 791; *Baxter Pharm. Prods., Inc.*, 1999 Del. Ch. LEXIS 47, at \*21.

141. See *PPG Industries*, 597 F.2d at 1096-97; *Farmland Irrigation Co. v. Dopplmaier*, 308 P.2d 732, 741 (Cal. 1957) (asserting had plaintiff simply sold his stock, defendant surely could not contend that the corporation's rights in the licenses would be extinguished); see also *TXO Prod. Co. v. M.D. Mark, Inc.*, 999 S.W.2d 137, 143 (Tex. App. 1999) (finding if the non-assignment clause in a data-sharing agreement was meant to be implicated by a merger, the parties could have specified it).

142. See, e.g., *Transamerica Commercial*, 1990 WL 186088, at \*2; *First Nationwide Bank v. Fla. Software Servs., Inc.*, 770 F. Supp. 1537, 1542-44 (M.D. Fla. 1991); see *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 490, 493-94 (1st Cir. 1997), *overruled on other grounds by Hardeman v. City of Boston*, No. 97-2010, 1998 WL 148382 (1st Cir. Apr. 6, 1998); *Review Directories Inc. v. McLeodusa Publ'n Co.*, No. 1:99-CV-958, 2001 U.S. Dist. LEXIS 9807, at \*9 (W.D. Mich. July 9, 2001).

143. *Superior Bedding Co. v. Serta Assocs., Inc.*, 353 F. Supp. 1143, 1149-50 (N.D. Ill. 1972). See also *Nat'l Bank of Canada v. Interbank Card Ass'n*, 507 F. Supp. 1113, 1124 (S.D.N.Y. 1980); *aff'd* 666 F.2d 6 (2d Cir. 1981) (holding anti-assignment clause applied to cover "amalgamation" of two banks). *But see* *Review Directories, Inc. v. McLeodusa Publ'n Co.*, No. 1:99-CV-958, 2001 U.S. Dist. LEXIS 9807, at \*9 (W.D. Mich. July 9, 2001) (holding provision in trademark license that agreement could not be "assigned" or "otherwise transferred" did not apply to stock sale).

144. See, e.g., *In re Alltech Plastics, Inc.*, 5 U.S.P.Q.2d (BNA) 1806, 1811-13 (Bankr. W.D. Tenn. 1987).

The case of *Institut Pasteur v. Cambridge Biotech Corp.*<sup>145</sup> exemplifies the general rule on stock sales applied to a license's rights. In *Institut Pasteur*, the First Circuit found a non-exclusive patent license would not be transferred by the sale of licensee's stock, even though proposed purchaser was a competitor of the licensor. The court noted that "generic nonassignability provisions . . . plainly do not address the circumstance presented here."<sup>146</sup> The court concluding that, "[a]bsent compelling grounds for disregarding its corporate form, therefore, [licensee's] separate legal identity, and its ownership of the patent cross-licenses, survive without interruption notwithstanding repeated and even drastic changes in its ownership."<sup>147</sup>

Yet, even in stock sale cases, equitable factors can be relevant. In *First Nationwide Bank v. Florida Software Services, Inc.*,<sup>148</sup> the court held that the anti-assignment provisions contained in two target companies' software licenses were not breached by either the sale of their stock or assets.<sup>149</sup> Considerations that figured into the court's analysis included the fact that the licensors had not been harmed by the acquisition, no "unauthorized use" of the software had occurred, at least in the case of the stock sale, because the parties to the original agreements were the only parties with access to the software, and the fact that licensors continued to receive all payments due under the licenses.<sup>150</sup> In addition, the court was unsympathetic to the licensors, in light of evidence that their objection to the transaction appeared motivated by the desire to renegotiate the license fees.<sup>151</sup>

Where a company in liquidation had only one asset of value, namely, a non-assignable patent license, the court in *In re Alltech Plastics*, refused to permit the licensee's rights to pass to the purchaser of the licensee's stock, deeming the transaction tantamount to a transfer of the license.<sup>152</sup> The court was careful that its opinion did not reach too broadly by expressly distinguishing the case from one where the reorganizing licensee has been operating continuously and was in good standing with its licensor.<sup>153</sup> Other cases, however, have reached a similar result where the target company had not ceased business.<sup>154</sup>

145. 104 F.3d 489 (1st Cir. 1997).

146. *Id.* at 494.

147. *Id.* The court also derived support for its holding that the stock sale was permitted by considering the intent of the parties, evidenced by other contractual provisions concerning changes in control. *Id.* at 494-95.

148. 770 F. Supp. 1537 (M.D. Fla. 1991).

149. *See id.* at 1544.

150. *Id.* at 1542-43.

151. *See id.* at 1543-44; *see also* *Baxter Pharm. Prods., Inc. v. ESI Lederle, Inc.*, No. 16863, 1999 Del. Ch. LEXIS 47, at \*10 (Del. Ch. Mar. 11, 1999) (stating the attempted termination of pharmaceutical distribution agreement due to sale of distributor's stock was a "pretext" to procure distributor's agreement to more favorable margins).

152. *See In re Alltech Plastics, Inc.*, 5 U.S.P.Q.2d (BNA) 1806, 1810-13 (Bankr. W.D. Tenn. 1987). The court also observed that the licensor and acquiror were direct competitors and that the acquiror had little experience in the highly dangerous patented process covered by the license, but, ultimately, found both factors irrelevant, in light of the alternative basis of its decision. *Id.* at 1812.

153. *See id.* at 1813.

154. *See, e.g.,* *Westinghouse Elec. & Mfg. Co. v. Radio-Craft Co.*, 291 F.169, 173 (D.N.J. 1923) (finding purchaser acquired stock as a "cloak" to acquire the benefits of [a] non-transferable license); *cf. In re Luce Indus., Inc.*, 14 B.R. 529, 530-32 (Bankr. S.D.N.Y. 1981) (holding proposal to substitute new subcontractor, who would essentially run the entire license operation for bankrupt licensee that had no assets or employees, was tantamount to an assignment of non-transferable license).

The continuance of the licensee's rights following the purchase of its stock assumes that the licensee continues to maintain a separate existence, i.e., that the "corporate veil" stays intact. This was relatively easy to prove, however, in one case that considered this argument in the context of a trademark license, *Review Directories Inc. v. McLeodusa Publishing Co.*<sup>155</sup> Although the acquiror assumed the licensee's day-to-day operations immediately following the acquisition, the court gave more weight to the fact that the licensee continued to observe corporate formalities, such as holding board meetings.<sup>156</sup> Moreover, the licensor was required to establish the additional element that the "corporate form was abused to circumvent public policy or to subvert justice."<sup>157</sup> On this count, the court concluded that the acquiror's motives were pure, since it had its own trademark and other business justifications for the acquisition.<sup>158</sup> One obvious drawback to relying on a corporate veil argument to defeat the continuation of a non-assignable license is that the argument may not be ripe until after the transaction occurs.

## CONCLUSION

While cases are sparse and fact-specific, certain trends have emerged in the treatment of licensee's rights in various acquisition scenarios. An asset sale by the licensee is likely to violate a non-exclusive patent or non-exclusive copyright license agreement, to the extent that the agreement contains an anti-assignment clause, is silent, or is deemed, by virtue of the Bankruptcy Code, to be silent as to assignability. There is a split of authority as to whether an exclusive copyright license which is silent on its assignability would be construed as assignable. The transferability of an exclusive patent license poses a case of first impression and, while there are arguments supporting the similar treatment of patents and copyrights in other contexts, differences between the provisions of the Patent Act and the Copyright Act may lead to different results as to the assignability of exclusive patent and exclusive copyright licenses. The transferability of trademark licenses seems most heavily dependent upon the facts, in light of contradictory precedent and the policy distinctions between trademarks, on the one hand, and patents and copyrights, on the other hand.

The same results are likely to be obtained in the context of a forward subsidiary merger, although factors such as the interpretation of the applicable merger statute, the continuation of the same management, the exact language of the license agreement, and the adverse effect of the transaction on the licensor, are likely to have some influence. A reverse subsidiary merger is less likely to be considered an assignment of the surviving company's rights under any of its contracts. On the other hand, *SQL Solutions* provides precedent for treating reverse subsidiary

155. No. 1:99-CV-958, 2001 U.S. Dist. LEXIS 9807 (W.D. Mich. July 9, 2001).

156. *Id.* at \*9-\*10.

157. *Id.* at \*9.

158. *Id.* at \*9-\*10. Another fact that supported the acquiror's integrity was that the license had only six more months to run at the time of the stock purchase, although this fact was not cited by the court in support of its holding.

mergers in the same manner as assignments and forward subsidiary mergers with respect to their impact on a licensee's rights.

A stock sale, in and of itself, is rarely found to constitute an "assignment" of the acquired company's contract rights. Nevertheless, sensitivities concerning the assignability of intellectual property licenses appear to have motivated at least one court to interpret an ambiguous anti-assignment clause to cover a stock sale, and other courts to treat a stock sale as a de facto asset transfer where the acquisition of stock was merely a vehicle to obtain control of non-transferable license rights.