Bankruptcy Considerations In Intellectual Property Licensing – Concerning The Unthinkable

Presented to

ORANGE COUNTY PATENT LAW ASSOCIATION

Date:
Wednesday, February 23, 2005

Aaron J. Malo, Esq.
Direct: (714) 424-8223
amalo@sheppardmullin.com

Brian M. Daucher, Esq.
Direct: (714) 424-2843
bdaucher@sheppardmullin.com

SMRH Orange County
650 Town Center Drive, 4th Floor
Costa Mesa, CA 92626
Tel: (714) 513-5100
Fax: (714) 513-5130

www.sheppardmullin.com

ORANGE COUNTY PATENT LAW ASSOCIATION

February 23, 2005

Bankruptcy Considerations In Intellectual Property Licensing - Concerning The Unthinkable

1. Bankruptcy Concepts, Generally

1.1 Significant Types of Bankruptcy Cases – Chapter 7, 13, 11

1.2 Property of the Estate – Section 541

1.3 Types of Claims in Bankruptcy

1.3.1 Secured Claims

1.3.2 Unsecured Claims

1.3.3 Administrative Priority Claims

1.4 The Automatic Stay – Section 362

1.5 Assumption/Rejection of Executory Contracts – Section 365

1.6 Plans of Reorganization

2. Licensing & Exclusivity

2.1 Patents. Non-exclusive patent licenses are personal, and not in nature of a property interest. The monopoly right under patent law would be frustrated by free assignment on non-exclusive licenses by depriving patentee of ability to control who receives a license. In re Catapult Entertainment, 165 F.3d 747 (9th Cir.1999); In re Access Beyond Technologies, Inc., 237 B.R. 32 (Del. 1999); Everex Systems, Inc. v.

Cadtrak Corp., 89 F.3d 673 (9th Cir. 1996); but see Superbrace, Inc. v. Tidwell, 124 Cal.App. 4th 388 (2004).

2.2 Copyrights. Non-exclusive copyright licenses convey a personal interest, not a property interest. In re Golden Books Family Entertainment, 269 B.R. 300 (Del. 2001).

2.3 Trademarks. Non-exclusive trademark licenses also convey only a personal interest which is not assignable absent consent. In re Travelot Company, 286 BR 447 (S.D. Ga. 2002).

3. In re Catapult Entertainment, 165 F.3d 747 (9th Cir. 1999)

3.1 Seminal Case

3.2 Controlling Law only in the Ninth, Eleventh, and Third Circuits

3.3 Only issue in Catapult is a non-exclusive, executory patent license

3.4 Decision turns on notion that certain non-exclusive intellectual property licenses are viewed as personal to the licensee, and not as a property right (see Section 2, above)

3.5 Decision turns on executory nature of the license at issue

3.6 If "applicable law" precludes assignment, contract may not be assumed – Catapult court decided that in analyzing whether a debtor could assume a non-exclusive patent license, the court based its decision on a "hypothetical" test to determine whether the debtor in a non-bankruptcy context was precluded from assigning the contract. The debtor had urged court to adopt an "actual" test which would instead have asked whether the debtor intended to assign the contract and, in the absence of such intent, allowed assumption – other circuits have adopted this view and the Supreme Court has not resolved the split among the Circuits. As result, in the Ninth, Eleventh, and Third Circuits, if an executory contract is non-assignable because it is personal under law (e.g., non-exclusive patent/copyright licenses) then it is also non-assumable in bankruptcy.

3.7 But consider Superbrace, Inc. v. Tidwell, 124 Cal.App. 4th 388 (2004).

4. Application of Bankruptcy law on executory contracts, including IP licenses

4.1 Governed by 11 U.S.C. § 365

4.1.1 Section 365 generally allows debtors/trustees to reject contracts at their discretion, restricted only by the business judgment rule. But see In re Ron Methusalem & Matusa of Florida, Inc., 158 B.R. 514 (Bank. S. D. Fla. 1993).

4.1.2 Section 365(n) creates exception to general rule where the debtor is the licensor of intellectual property and the non-debtor licensee is willing to continue to perform its obligations under the license agreement

4.1.3 Section 365(c)(1) – determines whether an executory contract can be assumed at all – certain agreements are deemed to be so personal that they cannot even be assumed by the debtor in possession/trustee, let alone assigned to a third party – Catapult really is not so much an intellectual property case as it is a Section 365(c)(1) case

5. Executory Nature of Licensing Agreements v. Sales of Intellectual Property

5.1 Given Catapult, the issue of whether an agreement truly is executory (falls within the Section 365/Catapult analysis) or a sale of intellectual property (falls without the Section 365/Catapult analysis) becomes critical

5.2 Intellectual property licenses are generally viewed to be executory, because under Professor Countryman's test it is fairly easy to identify material performance owing from both sides on a go-forward basis. Courts often go to great lengths to find that licensing agreements are executory. Even negative covenants are sufficient:

5.2.1 Duty not to compete with the licensee can be sufficient to find that a license agreement is executory – In re Rovine Corp., 5 BR 402 (Bankr. W.D. Tenn 1980)

5.2.2 Duty to defend intellectual property rights can be sufficient to find that an intellectual property license agreement is executory – Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985)

5.2.3 Duty not issue further licenses can be sufficient to find that a license agreement is executory – In re Select-A-Seat Corp., 625 F.3d 290 (9th Cir. 1980)

5.2.4 Duty not to sue for infringement can be sufficient to find that a license agreement is executory – In re Access Beyond Technologies, Inc., 237 B.R. 32 (Bankr. D. Del. 1999).

6. When IP & Bankruptcy Issues Intersect – Licensor Side Analysis

6.1 Big Picture Strategy – Avoid Transfer of the License Rights

6.2 Preclude assignment without consent – explain why its important

6.3 Preclude assumption without consent

6.4 Avoid any "exclusive" grant of license – In re Golden Books, 269 B.R. 311 (exclusive videograms; even a limited grant of exclusivity may upset on-assignability)

6.5 Include an *ipso facto* Clause

6.6 Require timely assumption or rejection – In re Hernandez, (Ariz. 2002) (ride-thru strategy may not wipe out *ipso facto* clauses and terminate the agreement post-petition)

6.7 Include continuous operation provisions, or any other language that creates non-monetary and non-curable defaults

6.8 Impose financial covenants and reporting obligations

6.9 Impose restrictions on change of control of licensee entity

6.10 Cross-default provisions with other entities/agreements

6.11 Shorter terms/durations/production amounts

6.12 Security interest in the license and its proceeds

6.13 Create a right of first refusal for the licensor

7. When IP & Bankruptcy Issues Intersect – Licensee Side Analysis

7.1 Big Picture Strategy – Make it Marketable/Valuable

7.2 Opposite point for everything in Section 6.1, above

7.3 Section 365(n) provides substantive protection to licensees by allowing them to retain right to use even if contract is rejected, but it's not applicable to trademarks – so include it contractually – and include language requiring updates/improvements be made available to the licensee

7.4 Consider use of Bankruptcy Remote Entity

7.5 Negotiate for some "exclusive" aspect to the agreement

7.6 Obtain conditional consent to assignment – obtaining such consent vitiates non-assignability question of 365(c), and narrow consents may be available at negotiation stage

7.7 Escrow agreement on source code

8. When IP & Bankruptcy Issues Intersect – When Already In Bankruptcy

8.1 Sale v. Licensing Issues – many bankruptcy courts are willing to go to great lengths to avoid consequences of Catapult by finding sale, as opposed to license

8.1.1 In re Ehrenfried Technologies, Inc. (97-24936 1998 LEXIS 804) (Bankr. E.D. Va. 1998) (license agreement treated as secured claim, debtor allowed to stretch payments out over period of years under Chapter 11 plan)

8.1.2 In re DAK Industries, Inc., 66 F.3d 1091 (9th Cir. 1995) (Microsoft "sold" right to put MS Word for Windows software on computers, no priority, no license agreement to assume or reject – also, partially pre-paid license analysis)

8.1.3 In re Valley Media, Inc., 279 B.R. 105 (Del. 2002) (owners of copyrighted material deemed to have "sold" right to sell tapes and DVDs with that material on them – no priority, no requirement to assume or reject)

8.2 Assumption/Rejection – timing issues

8.2.1 Can request imposition of deadline under 365(d)(2)

8.2.2 Courts will normally give debtors additional time
In re Kmart 293 B.R. 905 (Bankr. N.D. Ill. 2003)
In re Hernandez, (Ariz. 2002)

8.3 Exclusivity Issues – if in any way exclusive, Catapult may not apply

8.3.1 In re Golden Books, 269 B.R. 311 (Del. 2001) (videograms)

8.4 Right To Continued Use Under Section 365(n)

8.4.1 Only available if debtor rejects the license

8.4.2 Only applicable to Patent/Copyright/Trade Secret, not trademarks

8.4.3 No improvements/updates

8.5 Administrative Priority Issues

8.5.1 Courts strictly construe administrative claims

8.5.2 Post petition benefit on estate, not just post-petition usage

<u>In re Kmart Corp.</u>, 290 BR 614 (N.D. Ill. 2003) (claim based upon software for store not opened, no administrative priority claim)

<u>In re Valley Media, Inc.</u>, 279 B.R. 105 (claim not entitled to priority treatment because technology sold, not licensed)

<u>In re DAK Industries, Inc.</u>, 66 F.3d 1091 (claim not entitled to priority because technology sold, not licensed OR license fees pre-paid pre-petition)

Table of Authorities

1. In re Access Technologies, Inc., 237 B.R. 32 (D.Del. 1999).

2. In re Catapult Entertainment, Inc., 165 F.3d 747 (9th Cir. 1999).

3. In re DAK Industries, Inc., 66 F.3d 1091 (9th Cir. 1995).

4. In re Golden Books Family Entertainment, Inc., 269 B.R. 300 (D.Del. 2001).

5. In re Golden Books Family Entertainment, Inc., 269 B.R. 311 (D.Del. 2001).

6. In re Hernandez, Case No. 99-01192 (D.Az. 2002) (unreported).

7. In re Kmart Corp., 290 B.R. 614 (N.D.Ill. 2003).

8. In the matter of Travelot Co., 286 B.R. 447 (S.D.Ga. 2002).

9. In re Valley Media, Inc., 279 B.R. 105 (D.Del. 2002).

10. Superbrace, Inc. v. Tidwell, 124 Cal. App. 4th 388 (2004).

United States Bankruptcy Court,
D. Delaware.

In re ACCESS BEYOND TECHNOLOGIES, INC., n/k/a Hayes Corporation (Hong Kong) Limited, et al., Debtors.

Bankruptcy Nos. 98-2276(MFW) to 98-2281(MFW).

July 22, 1999.

Chapter 11 debtor-licensees filed motion for court approval of a sale of assets, including debtors' rights under a patent cross-license agreement. Objection was made by entity which asserted that it was the successor by merger to the company with which debtors had entered the license agreement. The Bankruptcy Court, Mary F. Walrath, Judge, held that: (1) objector had standing as patent owner to object to debtors' assignment of license agreement; (2) Chapter 11 trustee had standing to ask court to approve assumption and assignment of license agreement; (3) trustee succeeded to debtors' interests in the license agreement, despite the personal nature of that agreement; (4) to the extent that collateral estoppel barred relitigation of any issue by debtor-parent corporation, which was a debtor in a prior bankruptcy case, it barred debtor-subsidiaries and trustee as well; (5) to the extent that collateral estoppel barred debtors, it also barred debtors' secured lender, whose interests in the license agreement were derivative of debtors', even though secured lender was not involved in the prior bankruptcy case; (6) collateral estoppel did not preclude litigation of whether license agreement was an executory contract; (7) court's conclusion, in prior bankruptcy case, that license agreement was not assignable was mere dicta without preclusive effect; (8) license agreement was not a "sale" but, rather, was a "license" which was executory on the petition date; (9) absent objector's consent, debtors' rights as licensee were nonassignable, even though license agreement was silent as to debtors' entitlement to assign; (10) debtors could not "sell" license agreement unless they first assumed it; and (11) debtors could not assume license agreement.

Motion denied.

West Headnotes

[1] Patents 181

291k181 Most Cited Cases

Patents are personal property under federal patent law. 35 U.S.C.A. § 261.

[2] Patents 181

291k181 Most Cited Cases

Where patent owner was involved in a series of mergers and acquisitions, by operation of state law, patents became property of the surviving corporation. U.C.A.1953, § 16-10a-1106(1)(b); 8 Del.C. § 259(a).

[3] Bankruptcy 3070

51k3070 Most Cited Cases

Objector had standing, as patent owner, to object to Chapter 11 debtor-licensees' proposed asset sale, which included debtors' rights under a patent license agreement entered into with objector's predecessor in interest; objector was predecessor's successor by a three-step merger and acquisition, and because transfer of patents by the mergers and acquisitions did not affect terms of the license agreement, agreement did not require debtor-parent corporation's consent before objector obtained the patents by merger.

[4] Patents 185

291k185 Most Cited Cases

One of the rights possessed by a patent holder is the exclusive right to exclude all other persons from practicing the patented inventions during the effective period of the patent. 35 U.S.C.A. § 154.

[5] Patents 185

291k185 Most Cited Cases

Patent holder's monopoly in being able to exclude all other persons from practicing the patented inventions during the effective period of the patent is the essence of the patent and is the basis for patent holder's exclusive right to make, use, and sell the patented technology. 35 U.S.C.A. § 154.

[6] Bankruptcy 2492

51k2492 Most Cited Cases

[6] Bankruptcy 2533

51k2533 Most Cited Cases

"Bankruptcy estate" is created upon the filing of a bankruptcy petition, which includes all of debtor's legal and equitable interests in property. Bankr.Code, 11 U.S.C.A. § 541.

[7] Bankruptcy 2511

51k2511 Most Cited Cases
Chapter 11 trustee generally succeeds to all of debtor's rights in property of the estate.

[8] **Statutes** 188
361k188 Most Cited Cases
When the language of a statute is plain, it must be followed.

[9] **Bankruptcy** 3117
51k3117 Most Cited Cases
Pursuant to the plain language of the Bankruptcy Code, Chapter 11 trustee had standing to ask court to approve debtor-licensees' assumption and assignment of patent license agreement, even though license agreement had not been assumed when trustee was appointed. Bankr.Code, 11 U.S.C.A. § 365(a).

[10] **Bankruptcy** 2554
51k2554 Most Cited Cases
Rights of a bankruptcy trustee expressly include rights that debtor has under executory contracts. Bankr.Code, 11 U.S.C.A. § § 365, 541.

[11] **Bankruptcy** 2544
51k2544 Most Cited Cases
Chapter 11 trustee succeeded to whatever rights debtor-licensees had in patent license agreement. Bankr.Code, 11 U.S.C.A. § § 365, 541.

[12] **Judgment** 634
228k634 Most Cited Cases
Federal doctrine of "issue preclusion" requires that before a party will be estopped from relitigating an issue (1) issue sought to be precluded must be the same as the one involved in the prior action, (2) issue must have been actually litigated, (3) issue must have been determined by a valid and final judgment, and (4) determination must have been essential to the prior judgment.

[13] **Judgment** 650
228k650 Most Cited Cases
In determining whether an order should be given preclusive effect, second court should consider whether the parties were fully heard, whether a reasoned opinion was filed, and whether that decision could have been, or actually was, appealed.

[14] **Judgment** 701
228k701 Most Cited Cases
In a proceeding by Chapter 11 debtor-licensees for court approval of proposed sale of assets, including debtors' rights under a patent license agreement, to the extent that collateral estoppel barred relitigation of any issue by debtor-parent corporation, which was a debtor in a prior bankruptcy case, it barred debtor-subsidiaries and trustee as well; although none of the debtor-subsidiaries were debtors in the prior bankruptcy, express language of license agreement provided that subsidiaries' rights were only derivative of parent's and that they had no independent rights thereunder.

[15] **Judgment** 678(2)
228k678(2) Most Cited Cases
In a proceeding by Chapter 11 debtor-licensees for court approval of proposed sale of assets, including debtors' rights under a patent license agreement, to the extent that collateral estoppel barred debtors due to debtor-parent corporation's involvement in a prior bankruptcy case, it also barred debtors' secured lender; although secured lender was not involved in the prior bankruptcy case, it was not a party to the license agreement but, rather, its interests in the license agreement were only derivative of debtors'.

[16] **Judgment** 715(3)
228k715(3) Most Cited Cases

[16] **Judgment** 720
228k720 Most Cited Cases

[16] **Judgment** 724
228k724 Most Cited Cases
Collateral estoppel did not preclude Chapter 11 debtor-licensees' litigation concerning whether patent license agreement was an executory contract; although debtor-parent corporation was a debtor in a prior, Georgia bankruptcy case, nowhere in the Georgia bankruptcy court's opinion was there a finding that the license agreement was an executory contract, the present court could not tell whether issue was "actually litigated" because parties' briefs were not made part of the record in the prior case, issue was not necessary to Georgia court's ultimate decision, and issue before the present court, whether license agreement was executory on petition date in this case, was different from issue before the Georgia court, which was whether it was executory on the petition date in that case, which was four years earlier.

[17] **Judgment** 724
228k724 Most Cited Cases
Dicta is not covered by the doctrine of collateral estoppel because the latter requires that the conclusion sought to be given preclusive effect actually formed a necessary part of the ultimate determination reached by the first court.

[18] **Judgment** 724
228k724 Most Cited Cases
Georgia bankruptcy court's conclusion, in prior case, that patent license agreement was not assignable was mere dicta without preclusive effect; Georgia court concluded that, under its plan, debtor-parent corporation was not assigning the license agreement, and so its discussion of whether license agreement could be assigned was unnecessary to its ruling and

constituted classic "dicta."

[19] **Bankruptcy** 3106
51k3106 Most Cited Cases
Traditional test for determining whether a contract is executory is the "Countryman" definition, which provides that a contract is "executory" only where the obligations of both debtor and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other. Bankr.Code, 11 U.S.C.A. § 365.

[20] **Bankruptcy** 3106
51k3106 Most Cited Cases
Patent license agreement that Chapter 11 debtor-licensees had entered into with patent owner was, under the traditional test, an "executory contract" on the petition date; each party had at least one material duty to perform under the agreement, namely, to refrain from suing the other for infringement of any of the patents covered by the license, and each party was required to grant the other party sub-licenses under third parties' patents. Bankr.Code, 11 U.S.C.A. § 365.

[21] **Bankruptcy** 2544
51k2544 Most Cited Cases
Patent license agreement entered into by Chapter 11 debtor-licensees was not a "sale" but, rather, was a "license"; although license agreement was alleged to be irrevocable and royalty-free, under the agreement debtors did not have right to sell patented technology that was subject of the agreement but, instead, were granted a non-exclusive right only to make, use, and sell the technology in debtor's licensed products.

[22] **Patents** 202(1)
291k202(1) Most Cited Cases
Agreement is a "sale" of patent rights only if it conveys (1) the whole patent, comprising the exclusive right to make, use, and sell the invention, (2) an undivided share of that exclusive right, or (3) an exclusive right to practice the invention within a specified territory.

[23] **Patents** 206
291k206 Most Cited Cases
Unless a writing conveys some or all of the right to exclude others from practicing an invention, it will not convey an interest in the patent, but is a mere "license."

[24] **Patents** 196.1
291k196.1 Most Cited Cases
[24] **Patents** 206
291k206 Most Cited Cases
"Non-exclusive" grant of the rights to make, use, and sell a patented invention, by its very terms, is not an assignment, but a mere naked license.
[25] **Patents** 213
291k213 Most Cited Cases
Patent license agreements are personal to the licensee and not assignable unless expressly made so in the license agreement.
[26] **Patents** 207
291k207 Most Cited Cases
Federal rule in favor of allowing a patent holder to choose who, if anyone, may use the patented invention promotes the important federal policy underlying patent law, which is to foster and reward invention.
[27] **Contracts** 152
95k152 Most Cited Cases
Pursuant to the doctrine of "expressio unius est exclusio alterius," when certain matters are discussed in a contract, other similar matters not mentioned are intended to be excluded.

[28] **Bankruptcy** 3105.1
51k3105.1 Most Cited Cases
Absent patent owner's consent, Chapter 11 debtors' rights as licensee were nonassignable, even though license agreement was silent as to debtors' entitlement to assign but provided that patent owner's predecessor could not assign the license agreement without debtors' consent; because federal patent law provided that lack of express agreement meant that license agreement was not assignable, doctrine of expressio unius est exclusio alterius could not be applied to render the agreement's silence consent to debtors' assignment.
[29] **Patents** 213
291k213 Most Cited Cases
Where provisions of a patent license are silent on the question of assignability, the license is nontransferable.
[30] **Bankruptcy** 3067.1
51k3067.1 Most Cited Cases
[30] **Bankruptcy** 3102.1
51k3102.1 Most Cited Cases
Because an executory contract does not become an asset of the estate until it is assumed, sale of a debtor's assets will not include any contract that is executory unless debtor first assumes the contract. Bankr.Code, 11 U.S.C.A. § § 363, 365(a).
[31] **Bankruptcy** 3067.1

51k3067.1 Most Cited Cases

[31] **Bankruptcy 3102.1**

51k3102.1 Most Cited Cases

Debtor cannot avoid requirements of Bankruptcy Code section governing executory contracts and unexpired leases by saying it is "selling" a lease or executory contract, rather than assuming and assigning it. Bankr.Code, 11 U.S.C.A. § § 363, 365.

[32] **Bankruptcy 3103.2**

51k3103.2 Most Cited Cases

If debtor does not assume an executory contract, it is deemed rejected.

[33] **Bankruptcy 3105.1**

51k3105.1 Most Cited Cases

Because applicable nonbankruptcy law, namely, federal patent law, would have barred Chapter 11 debtor-licensees' assignment of their rights in patent license agreement to a third party, Bankruptcy Code prohibited debtors' assumption of the license agreement over patent owner's objection. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

[34] **Statutes 217.4**

361k217.4 Most Cited Cases

When a statute is clear and unambiguous on its face, recourse to legislative history is inappropriate.

***36** David B. Stratton, David M. Fournier, Pepper Hamilton, LLP, Wilmington, DE, Peter D. Wolfson, Suzanne D.T. Lovett, Pryor Cashman Sherman & Flynn, LLP, New York City, for Debtors.

Teresa K.D. Currier, John Knapp, Duane Morris & Heckscher LLP, Wilmingtoin, DE, Melinda A. Marbes, Kilpatrick Stockton LLP, Atlanta, GA, for 3Com Corporation.

Mark S. Kayfman, Henry F. Sewell, Jr., Long Aldridge Norman LLP, Atlanta GA, Neil B. Glassman, Micheal L. Vild, The Bayard Firm, Wilmington, DE, for Official Committee of Unsecured Creditors.

Mark D. Collins, Richards Layton & Finger, P.A., Wilmington, DE, Jesse H. Austin, III, Paul Hastings Janofsky & Walker, Atlanta, GA, for NationsCredit Commercial Corp.

John D. McLaughlin, Office of U.S. Trustee, Philadelphia, PA.

OPINION [FN1]

FN1. This Opinion constitutes the findings of fact and conclusions of law of the Court pursuant to Federal Rules of Bankruptcy Procedure 7052 and 9014.

MARY F. WALRATH, Bankruptcy Judge.

I. *PROCEDURAL BACKGROUND*

This matter is before the Court on the Motion of the Debtors for approval of a sale to Xircom Corporation ("Xircom") of certain assets (known as the "EZJack related assets") including the rights under a patent cross license agreement between the Debtors and Megahertz Corporation dated December 31, 1990 ("the License Agreement"). The Sale Motion is supported by the Official Committee of Unsecured Creditors ("the Committee") and the Debtors' secured lender, NationsCredit Commercial Corporation ("NationsCredit"). 3Com Corporation ("3Com"), which asserts it is the successor by merger to Megahertz, objected to the sale. For the reasons set forth below, we will deny the Motion.

II. *FACTUAL BACKGROUND*

In November 1994, Hayes Microcomputer Products, Inc. ("Hayes") filed a chapter 11 case in the United States Bankruptcy Court for the Northern District of Georgia. In that first bankruptcy case, Hayes filed a plan of reorganization in which certain minority shareholders were cashed out and the debtor merged with the subsidiaries of the new investors ("the Plan"). The Plan expressly called for the assumption of the License Agreement. Megahertz objected. The Bankruptcy Court overruled the objection and entered two orders. The first order found that the License Agreement was executory and authorized its assumption as part of the Plan. The second order confirmed the Plan. Megahertz appealed both orders.

In the interim, one of the Plan investors withdrew from the Plan. Hayes filed a Motion for order in aid of confirmation which called for substituting the investor under the Plan. The Bankruptcy Court ***37** entered the order after finding it was authorized by the Plan and did not constitute a modification of the Plan. The Bankruptcy Court, however, expressly declined to rule on the effect of the order on the assumption of the License Agreement, since that issue was on appeal. The order in aid of confirmation was also appealed.

The District Court affirmed all three orders. The Eleventh Circuit Court of Appeals, while neither affirming nor reversing the orders, remanded the case, because none of the orders expressly dealt with the assumption of the License Agreement in the context of the Plan, as it currently stood. Before the Bankruptcy Court could decide the issue on remand, however, the Debtors, including Hayes, filed chapter 11 cases in this Court on October 9, 1998.

After attempts to reorganize in their second case, the Debtors determined that reorganization was not feasible and announced a decision, with the consent of NationsCredit and the approval of this Court, to liquidate their assets. On February 12, 1999, the Debtors conducted an auction of their assets. One of the auction lots, Lot 15, consisted of the EZJack related assets and included the License Agreement. Xircom was the highest bidder for Lot 15, offering $4 million.

The Debtors accepted the Xircom bid and filed a motion for approval of the sale. Xircom's bid was conditioned on obtaining a final order authorizing the transfer to it of the License Agreement. 3Com filed a timely objection to the sale to Xircom. Testimony was presented at a hearing held on March 19, 1999, and the parties submitted briefs in support of their positions.

Subsequently, a Chapter 11 trustee was appointed in this case. 3Com filed a motion requesting authority to file a supplemental brief on the issue of whether the appointment of a Chapter 11 trustee had any effect on the sale to Xircom. After hearing, we granted the request for supplemental briefing. The Trustee in its pleading has adopted the arguments presented by the Debtors. [FN2]

> FN2. The Trustee also sought to strike portions of 3Com's supplemental pleading as duplicative or impertinent. While some of the arguments may be duplicative, 3Com's pleading does raise issues unique to the Trustee. The impertinent assertion referred to 3Com's argument that the Trustee cannot assume the License Agreement and convey it through a plan of reorganization or by other means. The Trustee asserts that this issue is not yet before the Court since no plan has been filed. However, the issue of the whether the Trustee can assume the License Agreement, a necessary predicate to any plan of reorganization, is before the Court and is decided below.

III. *DISCUSSION*

Before addressing 3Com's substantive arguments, we must decide two preliminary matters: 3Com's standing and the Trustee's standing.

A. *3Com's Standing*

The Debtors/Trustee assert as a preliminary matter that 3Com has no standing because the License Agreement was with Megahertz, not 3Com. Evidence was presented by 3Com establishing it as the successor, by a three-step merger and acquisition, to Megahertz. [FN3] The Debtors/Trustee assert that, except for the first merger, Megahertz did not get the Debtors' consent as expressly required by ¶ 7.3 of the License Agreement.

> FN3. Megahertz's parent merged into a subsidiary of Vystar Group, Inc., which changed its name to Megahertz Holdings. (This was with consent of Hayes.) Thereafter, U.S. Robotics Corporation acquired Megahertz Holdings. Later, 3Com acquired U.S. Robotics. Following the U.S. Robotics and 3Com acquisitions, Megahertz Holdings remained a separate legal entity though it changed its name to U.S. Robotics Mobile Communications Corporation. Thereafter, it was merged into 3Com in a series of roll-up mergers.

To resolve this issue, it is necessary to analyze the language of ¶ 7.3, in conjunction with ¶ 7.4 of the License Agreement. ***38** Those provisions (as amended by the Amendment dated June 23, 1993) state:

> 7.3 Neither this Agreement, nor any licenses or rights hereunder, in whole or in part, granted by Hayes to Licensee [Megahertz], shall be assignable or otherwise transferable without Hayes' prior written consent.
>
> 7.4 Neither party to this Agreement nor any Subsidiary of either party may assign any of the Licensed Patents or Licensee's Patents to any third party without making such assignment subject to the terms and conditions of this Agreement.

(License Agreement at pp. 16 & 22.)

[1][2] 3Com asserts that, as a result of the mergers and acquisitions, it is the owner of the Megahertz patented technology. [FN4] Paragraph 7.4 of the License Agreement does not bar assignment of the Patents, nor does it require consent of the Debtors before the Patents can be assigned, *unless* the assignment is not subject to the terms of the License Agreement.

FN4. Under federal patent law, patents are personal property. 35 U.S.C. § 261. By operation of state law, the patents became the property of the surviving corporation. Utah Code Ann. § 16-10a-1106(1)(b) (1998); 8 Del.C. § 259(a).

[3] There is no suggestion that at anytime, even now, 3Com or its predecessors asserted that the transfer of the Patents, by the mergers and acquisitions, affected the terms of the License Agreement. [FN5] Therefore, the License Agreement did not require Hayes' consent before 3Com obtained the Patents by merger. Consequently, 3Com is the party with standing to assert the patent holder's rights under the License Agreement.

FN5. In fact, 3Com acknowledges that federal law regarding the assignment of patents makes patent assignments subject to the conditions of any licenses or other rights previously conferred by the patent holders. *Waterman v. Mackenzie,* 138 U.S. 252, 256, 11 S.Ct. 334, 34 L.Ed. 923 (1891); *American Dirigold Corp. v. Dirigold Metals Corp.,* 125 F.2d 446, 452 (6th Cir.1942).

[4][5] One of the rights a patent holder has is the exclusive right to exclude all other persons from practicing the patented inventions during the effective period of the patent. 35 U.S.C. § 154. This monopoly is the essence of the patent and is the basis for the patent holder's exclusive right to make, use, and sell the patented technology. *Waterman v. Mackenzie,* 138 U.S. 252, 255-56, 11 S.Ct. 334, 34 L.Ed. 923 (1891) (construing prior statute); *Zenith Radio Corp. v. Hazeltine Research, Inc.,* 395 U.S. 100, 135, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969). Of course, as noted above, 3Com's rights as patent holder are subject to the License Agreement executed by its predecessor in interest.

This interpretation of ¶ 7.4 is not in conflict with ¶ 7.3. The latter provision states that Hayes' consent is required only for an assignment of the License Agreement or the rights granted by Hayes thereunder to Megahertz. 3Com is not seeking to assert the rights as Licensee granted by Hayes to Megahertz under the License Agreement, rather it is seeking to assert the rights it has as patent owner. [FN6] Thus, we conclude that ¶ 7.4, not ¶ 7.3, is the operative provision and that 3Com has standing as the patent owner to object to the Debtors' assignment of the License Agreement. [FN7]

FN6. For example, 3Com is not asserting rights as licensee under section 365(n) to continue to use the technology of Hayes granted to Megahertz under the License Agreement.

FN7. 3Com also argued that even if the merger transactions somehow affected 3Com's standing to enforce the License Agreement, 3Com's subsidiary, Information Systems Group, Inc. ("ISG") had standing. ISG, which was an original subsidiary of Megahertz Corporation, has remained a separate legal entity. Applying the argument of the Debtors/Trustee that subsidiaries had rights under the License Agreement, 3Com argues that ISG has standing. Because 3Com has standing as the patent owner, it is unnecessary to address this issue.

***39** B. *Effect of Appointment of Chapter 11 Trustee*

3Com argues that the Chapter 11 Trustee cannot effectuate the transfer of the License Agreement irrespective of whether the Debtors could for two reasons: (1) the Trustee only obtained title to property of the estate as of the time he was appointed which did not include unassumed executory contracts such as the License Agreement, and (2) the Trustee did not succeed to the rights of the Debtors under the License Agreement because it is a personal contract.

1. *Property of the estate*

[6][7] A bankruptcy estate is created upon the filing of a bankruptcy petition, which includes all the debtor's legal and equitable interests in property. 11 U.S.C. § 541. Generally, the trustee succeeds to all the debtor's rights in property of the estate. 3Com asserts an exception to this general rule: an executory contract does not become property of the estate until it is assumed. 3Com cites cases which state this general proposition. *See, e.g., In re Qintex Entertainment, Inc.,* 950 F.2d 1492, 1495 (9th Cir.1991) (quoting *In re Tleel,* 876 F.2d 769, 770 (9th Cir.1989)); *In re Public Service Co. of New Hampshire,* 884 F.2d 11 (1st Cir.1989).

[8] The cases cited by 3Com are factually distinguishable [FN8] and do not stand for the broad proposition that the trustee does not have standing to assume an executory contract. In fact, such a conclusion is directly contrary to the express

language of the Bankruptcy Code: "*the trustee*, subject to the court's approval, may assume or reject any executory contract...." 11 U.S.C. § 365(a) (emphasis added). When the language of a statute is plain, it must be followed. *See, e.g.* *Patterson v. Shumate*, 504 U.S. 753, 757, 112 S.Ct. 2242, 119 L.Ed.2d 519 (1992); *United States v. Ron Pair Enterprises, Inc.*, 489 U.S. 235, 241, 109 S.Ct. 1026, 103 L.Ed.2d 290 (1989).

> FN8. *Public Service* involved a party's attempt to set off amounts it owed to the debtor under one contract against anticipated damages caused by the expected rejection of a separate executory contract. *Qintex* held that an executory contract must be assumed before it can be sold. *See* discussion at Part D2, *infra*. *Tleel* involved the avoidance of an alleged constructive trust on proceeds from the sale of a land sale contract. None held that a trustee does not have standing to seek assumption or rejection of an executory contract.

[9] We conclude, therefore, that the Trustee clearly has standing in this case to ask the Court to approve the assumption and assignment of the License Agreement.

2. *Trustee succeeds to debtors' interests*

3Com asserts that the Trustee did not succeed to the Debtors' interests in the License Agreement because of the personal nature of that agreement. 3Com cites cases for the proposition that a receiver appointed under state law does not generally succeed to the licensee's rights under a patent license agreement. *See, e.g.*, *Waterman v. Shipman*, 55 F. 982, 986 (2d Cir.1893) (receiver under New York state law though vested with all legal and equitable property of debtor did not succeed to rights under nonassignable patent license since it was purely personal).

[10][11] That case, however, involves a receiver appointed under state law, not a trustee appointed under the Bankruptcy Code. The rights of a trustee expressly include the rights the debtor has under executory contracts. 11 U.S.C. § § 365 & 541. We conclude that the Trustee succeeded to whatever rights the Debtors had in the License Agreement.

We turn, therefore, to 3Com's substantive arguments. 3Com's objections fall into two general categories: (1) the Debtors lost all rights under the License Agreement as a result of the first bankruptcy case, because it was not properly assumed or assigned in that case; and (2) ***40** even if the Debtors retained some rights under the License Agreement, it cannot be assumed and assigned because applicable non-bankruptcy law prohibits it.

C. *Assumption and Assignment in the First Bankruptcy Case*

1. *Collateral estoppel/res judicata*

3Com asserts that the decisions of the Georgia Courts are binding on several points: (1) that the License Agreement is an executory contract; (2) that the License Agreement could not be assigned; and (3) that the License Agreement was never assumed in the first bankruptcy case.

[12][13] The federal doctrine of issue preclusion is well-established in the Third Circuit and requires that before a party will be estopped from relitigating an issue:

> (1) the issue sought to be precluded must be the same as the one involved in the prior action; (2) the issue must have been actually litigated; (3) the issue must have been determined by a valid and final judgment; and (4) the determination must have been essential to the prior judgment.

Wolstein v. Docteroff (In re Docteroff), 133 F.3d 210, 214 (3d Cir.1997) (citations omitted). *See also* *In re Ross*, 602 F.2d 604, 608 (3d Cir.1979) (quoting *Haize v. Hanover Insurance Co.*, 536 F.2d 576, 579 (3d Cir.1976)). In determining whether an order should be given preclusive effect, "the second court should consider whether the parties were fully heard, whether a reasoned opinion was filed, and whether that decision could have been, or actually was, appealed." *First Jersey National Bank v. Brown (In re Brown)*, 951 F.2d 564, 569 (3d Cir.1991).

a. *Only Hayes filed bankruptcy*

The Debtors/Trustee argue that, even if collateral estoppel applies, it is not applicable to the Debtors other than Hayes. Only Hayes was a debtor in the first bankruptcy; none of the subsidiaries were. The subsidiaries are parties to the License Agreement and they retained their rights thereunder, even if Hayes' were lost.

[14] 3Com responds that the License Agreement gave the subsidiaries only limited rights which were derivative of, and dependent upon, Hayes having rights. The License Agreement expressly states that it is between Hayes and Megahertz. The License

Agreement gives "to Hayes and each of Hayes [sic] Subsidiaries, a non-exclusive royalty-free irrevocable license under all of Licensee's Patents to make, manufacture, use or sell Hayes' Licensed Products, to have Hayes' Licensed Products made for Hayes' use or sale, and for the use of, or sale by, any of Hayes' Subsidiaries, and to use any process in manufacturing any product of Hayes." (License Agreement at ¶ 2.2.) The definition of Hayes' Licensed Products includes only products made by or for Hayes. The grant is extended to Hayes' subsidiaries only to facilitate its use by Hayes. It was not intended to be an independent grant to the Hayes' subsidiaries to use for themselves to make other, non-Hayes products.

Further, the subsidiaries have rights only so long as they are, in fact, subsidiaries of Hayes. The definition of Hayes' Subsidiary under the License Agreement requires that Hayes own at least 50% of the entity. (*Id.* at ¶ 1.21.) Thus, the transfer to a non-subsidiary would eliminate their rights, unless the purchaser remained a subsidiary of Hayes. Similarly, if the stock in the subsidiary were to be sold by Hayes, the entity would no longer have any rights under the License Agreement. [FN9]

FN9. The Debtors/Trustee and NationsCredit suggest that even if the sale to Xircom is not approved, the same result could be achieved in a plan of reorganization which transfers the stock of a subsidiary to Xircom. For the reasons stated here and in Part D, we disagree.

Consequently, we conclude from the express language of the License Agreement ***41** that the subsidiaries' rights are only derivative of Hayes and that they have no independent rights thereunder. Thus, to the extent collateral estoppel bars relitigation of any issue by Hayes, it bars the other Debtors and the Trustee as well.

b. *NationsCredit was not a party*

NationsCredit argues, as well, that preclusion may not arise with respect to it, because it was not a party to the first bankruptcy case or a participant in the litigation that gave rise to the orders issued in that case. *See* *Kelly v. Armstrong,* 141 F.3d 799 (8th Cir.1998) (even assuming sufficient similarity of issues, collateral estoppel could not be applied to bar relitigation of such issues by transferees, who were not parties to that litigation); *see also* *In re Atrium High Point Ltd. Partnership,* 189 B.R. 599 (Bankr.M.D.N.C.1995) (debtor's pre-petition waiver of rights provided under the Bankruptcy Code are not binding on third party creditors).

[15] However, NationsCredit has no direct interest in the License Agreement; it is not a party to the License Agreement. Rather, its interests are only derivative of the Debtors: it has a security interest in property of the Debtors, including contract rights. Therefore, NationsCredit's rights can rise no higher than the Debtors' rights and to the extent a decision on the Debtors' rights in the License Agreement is binding on the Debtors, it binds NationsCredit. *See, e.g.,* *In re James Wilson Associates,* 965 F.2d 160, 168-70 (7th Cir.1992) (secured party had no standing to be heard on issue of enforceability of deadline for assumption or rejection of lease which served as its collateral).

c. *The License Agreement is executory*

[16] Turning to the issue of the preclusive effect of the Georgia Courts' decisions, 3Com asserts that the Georgia Bankruptcy Court, in its order dated February 14, 1996, held that the License Agreement was an executory contract subject to the provisions of section 365. (Appendix of Documents filed by 3Com, Tab 3, p. 4.) 3Com asserts that this issue was actually litigated. However, nowhere in the Georgia Bankruptcy Court's opinion is a finding to that effect. It appears that the Court assumed the contract was executory, since it articulated the issue before it as "whether or not the Debtor in Possession can assume the executory License Agreement with Megahertz...." (*Id.*)

Although 3Com asserts that the issue was actually litigated, we cannot tell that from the Bankruptcy Court's opinion. The briefs filed by the parties in that case were not made part of the record in this case. Further, 3Com's assertion that Hayes argued to the Georgia Bankruptcy Court that the License Agreement was not executory appears to be contradicted by the Schedules filed by Hayes in the Georgia bankruptcy case, where it listed the License Agreement in Schedule G as an Executory Contract. (Appendix of Documents filed by 3Com, Tab 2.) Thus, we cannot conclude from the record before us that the issue was actually litigated in the prior case.

Nor was the issue necessary to the Georgia Bankruptcy Court's ultimate decision that the License Agreement could be assumed by Hayes in its Plan. If the License Agreement were not executory, it would not be subject to the proscriptions on assumption contained in section 365 and would survive the bankruptcy case unaffected.

Further, the issue before us is different from that decided by the Georgia courts. We must decide whether the License Agreement was executory on October 9, 1998, the day the second bankruptcy cases were filed. [FN10] The issue the Georgia Court considered was whether the License Agreement was executory in November, 1994. The four year difference precludes ***42** a decision with respect to the earlier date from being determinative as to the later date. Collateral estoppel does not apply.

FN10. The time for determining whether a contract is executory is when the bankruptcy petition is filed. *See, e.g., In re Columbia Gas System, Inc.,* 50 F.3d 233, 240 (3d Cir.1995).

d. *The License Agreement could not be assigned*

3Com asserts that the Georgia Bankruptcy Courts concluded that the License Agreement was not assignable (and that that conclusion was not disturbed on appeal). The Debtors/Trustee respond that that conclusion was mere dicta, unnecessary to the Court's conclusion that Hayes could assume the contract.

[17] We agree with the Debtors/Trustee. Dicta is not covered by the doctrine of collateral estoppel because the latter requires that the conclusion sought to be given preclusive effect actually formed a necessary part of the ultimate determination reached by the first court. *See, e.g., In re Cassidy,* 892 F.2d 637, 640 (7th Cir.1990); *Coleman v. Miller,* 117 F.3d 527, 530 n. 7 (11th Cir.1997)

[18] The Georgia Bankruptcy Court concluded that under its Plan, Hayes was *not* assigning the License Agreement. Therefore, its discussion of *whether* the License Agreement could be assigned was unnecessary to its ruling and constitutes classic dicta. This is evident from the end of the Court's decision where it stated:

> In this case, the post-confirmation debtor under the Debtor's proposed plan of reorganization will be one and the same entity as the pre-petition Debtor and the Debtor in Possession. The contemplated performance of the License Agreement by the post-confirmation Debtor will be the same as if no petition had been filed. Therefore, *there will be no assignment* of the License Agreement from the Debtor in Possession to the post-confirmation reorganized Debtor within the meaning of the non-bankruptcy anti-assignment law. *Accordingly, the issue of assignability* of the License Agreement from the Debtor in Possession to the post-confirmation Debtor *is, in essence, rendered moot.*

(Appendix of Documents, Tab 3 at p. 13 (emphasis added)).

Thus, there can be no preclusive effect to the Georgia Court's discussion of the assignability of the License Agreement.

e. *The License Agreement was never assumed*

3Com asserts that the Debtors/Trustee now have no rights in the License Agreement because that License Agreement was never assumed in the Georgia case.

However, 3Com ignores the effect of the Georgia Courts' rulings. The Bankruptcy Court entered two orders, one holding that the License Agreement could be assumed pursuant to the Plan and the other confirming the Plan. Those orders were appealed. The subsequent order in aid of confirmation did not modify the Plan. (*Id.,* Tab 8 at p. 2.) In fact, the Plan apparently expressly authorized changes to the identity of new investors and the terms of the funding of the Plan. That order also did not *change* the fact of the assumption of the License Agreement. The Bankruptcy Court expressly left that issue as it stood: the order allowing assumption being on appeal. The District Court subsequently affirmed the assumption order. (*Id.,* Tab 10 at pp. 3-4.) The Eleventh Circuit *remanded* the case for the Bankruptcy Court to decide the effect, if any, of the order in aid of confirmation on the assumption order. (*Id.* at Tab 12.) That remand is pending, having been stayed by this bankruptcy case.

The Georgia Bankruptcy Court on remand may conclude that the order in aid of confirmation did not affect its assumption order. Normally, we would be inclined to wait until the Georgia Bankruptcy Court renders its decision on whether the License Agreement survived the Georgia case. However, because we conclude below that, even if the License Agreement were still viable, the Debtors/Trustee cannot assume the License Agreement now, ***43** we will not direct the parties to obtain a ruling from the Georgia Court first.

D. *Assumption and Assignment in this Case*

1. *The License Agreement is not assignable*

3Com asserts that the Debtors/Trustee may not assume and assign the License Agreement to Xircom under the plain language of section 365(c)(1) which provides:

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

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

(B) such party does not consent to such assumption or assignment....

11 U.S.C. § 365(c)(1) (emphasis added).

a. *The License Agreement is executor*

Though we cannot rely on the Georgia Courts' decision on this issue, we readily conclude that the contract is executory. There is performance due on each side: permitting the use of patented technology by the other party.

[19] The traditional test is the "Countryman" definition which provides that a contract is executory only where the obligations "of *both* the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other." Countryman, Executory Contracts in Bankruptcy; Part I, 57 Minn.L.Rev. 439, 460 (1973) (emphasis added). The Third Circuit has adopted the Countryman definition, *Sharon Steel Corp. v. National Fuel Gas Distribution Corp.*, 872 F.2d 36, 39 (3d Cir.1989), and has emphasized that it is not a technical definition, but one which requires a court to determine whether the failure to perform an obligation under the contract would constitute a material breach. *In re Columbia Gas System, Inc.*, 50 F.3d 233, 244 n. 20 (3d Cir.1995).

[20] The Debtors/Trustee assert that the License Agreement is not executory, under the traditional test, [FN11] because no performance by them was due at the commencement of these cases. Thus, the Debtors/Trustee submit that the License Agreement was, in fact, a sale. We disagree.

FN11. Because we find the contract is executory under the traditional test, asserted by the Debtors/Trustee, we need not consider 3Com's argument that it is executory under the alternative "functional" approach.

Each party had at least one material duty to perform under the License Agreement: to refrain from suing the other for infringement of any of the patents covered by the license. This performance is material since the licensor's promise to refrain from suing the licensee for infringement is the *raison d'etre* for a patent license. *See, e.g., DeForest Radio Tel. & Tel. Co. v. United States*, 273 U.S. 236, 242, 47 S.Ct. 366, 71 L.Ed. 625 (1927) (a waiver of the right to sue for infringement created a nonexclusive patent license); *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753 (11th Cir.1997) (implied nonexclusive license to use copyrighted material barred suit); *Spindelfabrik Suessen-Schurr Stahlecker & Grill, GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed.Cir.1987) (a patent license agreement is nothing more than a promise by licensor not to sue licensee).

Further, each party was required to grant the other party sub-licenses under *44 third parties, patents, a duty which is coextensive with the terms of the License Agreement. (License Agreement at ¶ 2.3.) While the Debtors/Trustee dispute Hayes' obligation to grant additional licenses under patents owned by Hayes, the Debtors/Trustee do not argue that these sub-license obligations did not exist. We agree with 3Com that even though these sub-licensing obligations may be remote, that does not render the obligations non-executory. *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043, 1046 (4th Cir.1985) (the "contingency of an obligation does not prevent its being executory").

In *Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir.1996), the Ninth Circuit found that a licensor's obligation to forbear from suing the licensee (and to mark all products made under the license) was both a significant and continuing performance obligation that made the contract executory as to the licensor. 89 F.3d at 677. Similarly, we conclude that the License Agreement was executory at the commencement of these cases.

[21] The Debtors/Trustee seek to avoid this conclusion by arguing that the License Agreement was, in fact, a sale. They point to the fact that it was irrevocable and royalty free. The Debtors/Trustee cite *In re DAK Industries, Inc.*, 66 F.3d 1091 (9th Cir.1995) in support of their position. The agreement in *DAK* permitted the debtor nonexclusive rights to

sell Microsoft's Word for Windows software to its customers, who were the ultimate users. In *DAK*, the Court concluded that the software "license" was, in fact, a sale because (1) the pricing, and timing of payments, suggested a sale not a lease, (2) the debtor received all its rights at the commencement of the agreement, and (3) the debtor had the right to sell the technology, not simply use it. *Id.* at 1095-96. [FN12]

> FN12. *DAK* is further distinguishable because it dealt, not with the assumption and assignment of an executory contract, but with a request for a payment of an administrative claim under a prepetition contract which the Court found provided no benefit to the estate post-petition. 66 F.3d at 1096.

[22][23][24] We find the latter element to be missing here: under the License Agreement the Debtors do *not* have the right to sell the Megahertz technology. This is significant. An agreement is a sale of the patent rights only if it conveys: (1) the whole patent, comprising the exclusive right to make, use, and sell the invention; (2) an undivided share of that exclusive right; or (3) an exclusive right to practice the invention within a specified territory. *Waterman v. Mackenzie*, 138 U.S. at 255, 11 S.Ct. 334. Unless the writing conveys some or all of the right to exclude others from practicing the invention, it will not convey an interest in the patent, but is a mere license. 138 U.S. at 256, 11 S.Ct. 334. Therefore, a "non-exclusive" grant of the rights to make, use, and sell the patented invention, by its very terms, is not an assignment, but a mere naked license. *Preload Enterprises, Inc. v. Pacific Bridge Co.*, 86 F.Supp. 976, 979 (D.Del.1949) ("if the rights conferred upon the alienee are not exclusive rights investing in him alone or him jointly with the alienor, the monopoly is not transferred and the conveyance is a license"). [FN13]

> FN13. The other authority cited by the Debtors/Trustee is similarly distinguishable. In *Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp.*, 143 B.R. 360 (Bankr.D.Md.1992) *aff'd*, 8 F.3d 817 (4th Cir.1993), the agreement in dispute contained language of conveyance: "[patent holder] hereby sells, assigns, transfers and sets over to [alienee] its entire right, title and interest in, to, and under the aforesaid Invention(s) and any and all Letters Patent ..." *Id.* at 363. Because of that language, the Court concluded it was a sale not an executory contract or license. There is no similar language in the License Agreement at issue here.

In this case, the License Agreement, by its very terms, is a "non-exclusive" right only to make, use, and sell Megahertz's *45 patented technology in Hayes' licensed products. (License Agreement at ¶ 2.2). In other words, the License Agreement did *not* convey to the Debtors the exclusive right or some part of the exclusive right to practice the invention and did not grant any right to exclude others from practicing the patents. Thus, the License Agreement did not convey any part of the patent monopoly or the underlying patents. We conclude, therefore, that it was not a sale but a license which was executory at the time of the filing of the bankruptcy cases.

b. *Applicable law excuses 3Com from accepting performance from a third party*

[25][26] The "long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee *and not assignable unless expressly made so in the agreement.*" *Unarco Industries, Inc. v. Kelley Co., Inc.*, 465 F.2d 1303, 1306 (7th Cir.1972), *cert. denied*, 410 U.S. 929, 93 S.Ct. 1365, 35 L.Ed.2d 590 (1973) (citations omitted) (emphasis added). This federal rule in favor of allowing a patent holder to choose who, if anyone, may use the patented invention promotes the important federal policy underlying patent law:

> to "foster and reward invention" [which] is primarily accomplished by granting a 17 year monopoly for the patent holder to exploit. Limiting assignability to licenses in which the patent holder expressly agrees to assignment aids the patent holder in exploiting the patent and thus "rewards" the patent holder. Free assignability of a nonexclusive patent license without the consent of the patent holder is inconsistent with patent monopoly and thus inconsistent with federal policy.

In re CFLC, Inc., 174 B.R. 119, 123 (N.D.Cal.1994), *aff'd sub nom., Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir.1996).

c. *3Com does not consent*

3Com clearly does not consent to the sale to Xircom in this case. 3Com's objection to Xircom is very basic: Xircom is a direct competitor of 3Com and allowing Xircom to use 3Com's technology will eliminate any competitive advantage in the market which 3Com may have as a result of that technology. [FN14] This is exactly what the patent laws are designed to prevent.

FN14. The testimony presented at trial by 3Com was that there are effectively three types of products on the market which allow a laptop computer to connect to communications devices: the basic dongle which many manufacturers produce, the 3Com XJack technology (which the Debtors use in the EZJack products) and Xircom's Real Port technology. (N.T. at pp. 25-27.) Thus, allowing Xircom access to 3Com's technology has a significant effect. (*Id.* at pp. 27-28, 51.)

The Debtors/Trustee argue that 3Com (by its predecessor Megahertz) has agreed to the assignment. They point to the language of the License Agreement at ¶ 7.3 which states that Megahertz cannot assign the License Agreement without Hayes' consent. There is no similar provision barring assignment by the Debtors.

[27] The Debtors/Trustee rely on the doctrine of *expressio unius est exclusio alterius* which provides that when certain matters are discussed in a contract, other similar matters not mentioned are intended to be excluded. *See, e.g., Plumbers & Steamfitters Local No. 150 Pension Fund v. Vertex Construction Co., Inc.,* 932 F.2d 1443, 1449 (11th Cir.1991) (collective bargaining agreement which incorporated certain agreements, but did not mention others, held not to incorporate those not mentioned); *Macon Auto Auction, Inc. v. Georgia Cas. & Sur. Co.,* 104 Ga.App. 245, 251, 121 S.E.2d 400 (1961) (because indemnity agreement expressly stated that one provision was a condition precedent, all other provisions were necessarily not conditions precedent).

***46** This rule of construction is well-recognized black-letter law. 3 CORBIN ON CONTRACTS § 552 (1998) ("If one subject is specifically named, ... and there are no general words to show that other subjects of that class are included, it may reasonably be inferred that the subjects not specifically named were intended to be excluded."); 11 WILLISTON ON CONTRACTS § 1295 (1998) ("Covenants are implied in two situations, one where the covenant is so clearly within the contemplation of the parties that they deemed it unnecessary to express it, and the other where the covenant was probably beyond the pale of conscious thought of the parties but is necessary in order to give effect to and effectuate the purpose of the contract as a whole.")

The Debtors/Trustee seek to apply the doctrine of *expressio unius est exclusio alterius* to this case as follows. The License Agreement provides at ¶ 7.3, which relates solely to Megahertz:

> Neither this Agreement, nor any licenses or rights hereunder, in whole or in part, granted by Hayes to Licensee [Megahertz], shall be assignable or otherwise transferable without Hayes' prior written consent.

(License Agreement at ¶ 7.3.) The License Agreement contains no corresponding prohibition with respect to Hayes. Under the *expressio unius* doctrine, the Debtors/Trustee argue that such a deliberate omission is tantamount to an express grant of permission and, thus, this Court may find that the License Agreement expressly provides that Hayes and its subsidiaries may freely assign their rights under the License Agreement.

[28] However, we cannot conclude in this case that silence is express consent to the assignment, particularly where federal law holds the opposite: that silence, i.e., lack of express agreement, means the agreement is *not* assignable. As noted above, license agreements are personal to the licensee and not assignable *unless expressly made so in the agreement. Unarco,* 465 F.2d at 1306. "Under well-established law the holder of a nonexclusive patent license may not assign its license *unless the right to assign is expressly provided for in the license agreement.*" *Verson Corp. v. Verson Int'l Group PLC,* 899 F.Supp. 358, 363 (N.D.Ill.1995) (emphasis added).

The argument of the Debtors/Trustee is based on a faulty legal premise--that under applicable law a patent license *is* assignable in the absence of an express provision *prohibiting* assignment. But this is exactly backwards: "patent licenses are personal and not assignable unless expressly made so ... [and this] has been the rule at least since 1852 when the Supreme Court decided *Troy Iron & Nail v. Corning,* 55 U.S. (14 How.) 193, 14 L.Ed. 383 (1852)." *PPG Industries, Inc. v. Guardian Industries Corp.,* 597 F.2d 1090, 1093 (6th Cir.), *cert. denied,* 444 U.S. 930, 100 S.Ct. 272, 62 L.Ed.2d 187 (1979). Rather, "express" authorization means just that--precise language granting, in black and white, the exact authority that is sought.

[29] Here, the License Agreement is at best silent

with respect to Hayes' entitlement to assign its rights under the contract. Where the provisions of a patent license are silent on the question of assignability, the license is nontransferable. *Walter A. Wood Harvester Co. v. Minneapolis-Esterly Harvester Co.*, 61 F. 256, 258 (C.C.D.Minn.1894) (patent license that did not contain the words "heirs," "successors" or "assigns" or words of similar import was not assignable). Thus, under federal law, the rights of Hayes as licensee under Megahertz's patents are clearly non-assignable.

This finding is bolstered by the language of ¶ 7.1 of the License Agreement which provides:

> Nothing contained in this Agreement shall be construed as ... [c]onferring by *implication, estoppel or otherwise* upon any grantee any license or other right ***47** under any Patent, except the licenses and rights *expressly* granted to such grantee.

(License Agreement at ¶ 7.1 (emphasis added).)

The instant case is distinguishable from the case cited by the Debtors/Trustee in support of their position. *See Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir.1997). In the *Pasteur* case, the written provision was contrary to patent law, while the provision presumed by the contract's silence was consistent with patent law. 104 F.3d at 494. Thus, the application of the *expressio unius est exclusio alterius* doctrine in *Pasteur* did not result in the creation of an unwritten contract in contravention of patent law. Rather, the *Pasteur* court gave effect to the parties' election to deviate from the law where that election was in writing.

Here, the opposite is true. The written provision (¶ 7.3) is consistent with patent law and the provision which the Debtors/Trustee wish us to create by the contract's silence is directly contrary to patent law. In the face of patent law which requires an express undertaking before it is assignable, we will not presume such consent by mere silence. [FN15]

FN15. We are also cognizant of the general doctrine that we should not construe a contract to render one of its provisions meaningless. *See, e.g., Chemical Bank v. Affiliated FM Ins. Co.*, 815 F.Supp. 115 (S.D.N.Y.1993). That is not the result here. Our conclusion simply means that ¶ 7.3 is redundant; it mirrors existing law.

Because the License Agreement is executory, non-assignable under applicable nonbankruptcy law, and 3Com does not consent to its assignment, the Debtors/Trustee may not assign it under the express language of section 365.

2. *The License Agreement cannot be sold pursuant to § 363*

The Debtors/Trustee seek to avoid this result by asserting that they are not seeking to assume and assign the License Agreement under section 365. Rather, they argue they are "selling" the License Agreement pursuant to section 363. However, the courts have held that, with respect to an executory contract, until it is assumed under section 365, the debtor has nothing to sell under section 363. *See, e.g., Qintex*, 950 F.2d 1492; *Tleel*, 876 F.2d at 770-71 (treating motion to sell executory contract as motion to assume and assign).

In *Qintex*, the Court stated:

> Section 363 of the Code allows a debtor to sell assets of the estate, after notice and a hearing, including a sale of substantially all the assets of the estate. 11 U.S.C. § 363(b)(1). An executory contract does not become an asset of the estate until it is assumed pursuant to § 365(a) of the Code. *See* § 365(a); *In re Tleel*, 876 F.2d 769, 770 (9th Cir.1989) ("Unless and until rights under an executory contract are timely and affirmatively assumed by the trustee, they do not become property of the debtor's estate"). Therefore, the sale of Quintex's assets will not include any contract that is executory unless Quintex first assumes the contract.

950 F.2d at 1495.

[30][31] We agree with the *Qintex* conclusion. A debtor cannot avoid the requirements of section 365 by saying it is "selling" a lease or executory contract, rather than assuming and assigning it.

[32] To hold otherwise would lead to ludicrous results. If the debtor does not assume an executory contract, it is deemed rejected. *See, e.g., James Wilson Associates*, 965 F.2d at 169; *Sea Harvest Corp. v. Riviera Land Co.*, 868 F.2d 1077, 1079 (9th Cir.1989) (the statutory presumption of rejection, unless the debtor or trustee acts affirmatively to assume a lease, protects the estate from unexpected liability). Thus, if a debtor does not assume an executory contract before he sells it (as the Debtors/Trustee argue they can here), the buyer may be purchasing an illusion: the ***48** executory contract will disappear on conclusion of the bankruptcy case.

Thus, for the Debtors/Trustee to "sell" the License Agreement to Xircom, they must first assume it under section 365.

3. *The License Agreement is not assumable*

[33] The language of section 365(c)(1) also clearly and unambiguously prohibits the assumption of the License Agreement. That section states a debtor in possession "*may not assume or assign* any executory contract or unexpired lease of the debtor," if applicable nonbankruptcy law precludes it. 11 U.S.C. § 365(c)(1) (emphasis added).

Some federal courts have rejected the plain language of the statute and applied an "actual test" to allow assumption of contracts that are non-assignable and non-delegable under applicable law. *See, e.g., Pasteur,* 104 F.3d at 493. Those federal courts reason that where the contract is merely being assumed by the debtor, the policy behind the nonbankruptcy law which prohibits assignment is still upheld. [FN16]

> FN16. The Georgia Bankruptcy Court adopted this reasoning, even though the Eleventh Circuit had articulated the hypothetical test. (Appendix of Documents, Tab 3 at pp. 7-12.)

[34] The "actual test" approach, however, has been criticized as ignoring the plain language of the statute. The majority of the Circuit Courts that have addressed this issue have concluded that the plain language [FN17] of section 365(c)(1) requires application of a hypothetical test:

> FN17. When a statute is clear and unambiguous on its face, recourse to legislative history is inappropriate. *See, e.g., Toibb v. Radloff,* 501 U.S. 157, 162, 111 S.Ct. 2197, 115 L.Ed.2d 145 (1991) ("this Court has repeated with some frequency: 'Where, as here, the resolution of a question of federal law turns on a statute and the intention of Congress, we look first to the statutory language and then to the legislative history if the statutory language is unclear.' "); *United States v. Rush,* 874 F.2d 1513, 1514 (11th Cir.1989).

> The literal language of § 365(c)(1) is thus said to establish a "hypothetical test": a debtor in possession *may not assume* an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, *even where the debtor in possession has no intention of assigning* the contract in question to any such third party. *See In re James Cable,* 27 F.3d at 537 (characterizing § 365(c)(1)(A) as presenting "a hypothetical question"); *In re West Elecs.,* 852 F.2d at 83 (same).

Perlman v. Catapult Entertainment, Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 750 (9th Cir.1999) (emphasis added). *See also, City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.),* 27 F.3d 534, 537, *reh'g denied,* 38 F.3d 575 (11th Cir.1994).

Of particular significance in this case, the Third Circuit Court of Appeals has followed the express language of the statute and adopted the hypothetical test. *In re West Electronics, Inc.,* 852 F.2d 79 (3d Cir.1988). In *West Electronics,* the Third Circuit held that a debtor could not assume a defense contract because the federal Anti-Assignment Act prohibited the assignment of that contract. Because the debtor could not assume the contract, the Court held that relief from the stay should be granted to permit the government to terminate the contract. 852 F.2d at 82.

Although the *West Electronics* case dealt with a federal statute which barred assignment, the Third Circuit held that section 365(c)(1) similarly applied in other instances:

> Thus, if non-bankruptcy law provides that the government would have to consent to an assignment of the West contract to a third party, *i.e.,* someone "other than the debtor or the debtor in possession," then West, as the debtor in possession, cannot assume that contract. *This provision limiting assumption of *49 contracts is applicable to any contract subject to a legal prohibition against assignment.* See *In re Pioneer Ford Sales, Inc.,* 729 F.2d 27 (1st Cir.1984); *In re Braniff Airways, Inc.,* 700 F.2d 935, 943 (5th Cir.1983).

Id. (emphasis added).

Like the language of the statute, the decision in *West Electronics* is clear and unequivocal. We are bound by Third Circuit law on this point. The Debtors/Trustee may not assume the contract with 3Com. [FN18]

> FN18. The Debtors/Trustee, and NationsCredit, assert that even if they cannot assume and assign the License Agreement to Xircom under section 365, they can still accomplish the same result

through a plan. They argue that they can formulate a plan by which the stock of one or more of the Debtors/Trustee is conveyed to Xircom, thereby giving it rights in the License Agreement. Since the Debtors/Trustee cannot assume the License Agreement, we do not see how this can be accomplished.

IV. *CONCLUSION*

For the foregoing reasons, we conclude that the License Agreement is an executory contract which under its terms and applicable nonbankruptcy law is not assignable without 3Com's consent. Since 3Com does not consent, the Debtors/Trustee may not assume or assign the License Agreement under section 365 or sell it under section 363.

237 B.R. 32, 34 Bankr.Ct.Dec. 919

END OF DOCUMENT

Date of Printing: OCT 28,2004

KEYCITE

In re Access Beyond Technologies, Inc., 237 B.R. 32, 34 Bankr.Ct.Dec. 919 (Bankr.D.Del., Jul 22, 1999) (NO. 98-2276 MFW, 98-2279 MFW, 98-2277 MFW, 98-2280 MFW, 98-2278 MFW, 98-2281 MFW)

History

Direct History

=> 1 **In re Access Beyond Technologies, Inc.,** 237 B.R. 32, 34 Bankr.Ct.Dec. 919 (Bankr.D.Del. Jul 22, 1999) (NO. 98-2276 MFW, 98-2279 MFW, 98-2277 MFW, 98-2280 MFW, 98-2278 MFW, 98-2281 MFW)

Negative Indirect History (U.S.A.)

Distinguished by

H 2 In re Valley Media, Inc., 279 B.R. 105, 47 UCC Rep.Serv.2d 1178 (Bankr.D.Del. Apr 25, 2002) (NO. 01-11353(PJW)) ★★★ **HN: 19,20,33 (B.R.)**

H 3 In re Cellnet Data Systems, Inc., 327 F.3d 242, 50 Collier Bankr.Cas.2d 27, 41 Bankr.Ct.Dec. 72, Bankr. L. Rep. P 78,842, 66 U.S.P.Q.2d 1667 (3rd Cir.(Del.) Apr 30, 2003) (NO. 02-2546) ★★★ **HN: 32 (B.R.)** (BNA Version)

Citing References

Positive Cases (U.S.A.)

★★★ Discussed

H 4 In re Sunterra Corp., 361 F.3d 257, 262+, 51 Collier Bankr.Cas.2d 1276+, 42 Bankr.Ct.Dec. 222, 222+, Bankr. L. Rep. P 80,068, 80068+ (4th Cir.(Md.) Mar 18, 2004) (NO. 03-1193) "" **HN: 20,33 (B.R.)**

★★ Cited

H 5 In re Golden Books Family Entertainment, Inc., 269 B.R. 300, 308+ (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920 - 01-1925 (R) **HN: 20 (B.R.)**

H 6 In re Golden Books Family Entertainment, Inc., 269 B.R. 311, 314+ (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920-01-1925 (RRM) **HN: 33 (B.R.)**

★ Mentioned

H 7 In re CellNet Data Systems, Inc., 277 B.R. 588, 594, 48 Collier Bankr.Cas.2d 1494, 1494, Bankr. L. Rep. P 78,671, 78671 (D.Del. May 02, 2002) (NO. CIV.A.01-8-RRM)

8 Chase Manhattan Bank v. Iridium Africa Corp., 197 F.Supp.2d 120, 132, 48 Collier Bankr.Cas.2d 1504, 1504 (D.Del. Apr 23, 2002) (NO. CIV.A.00-564-RRM JJF) **HN: 19 (B.R.)**

9 RCC Technology Corp. v. Sunterra Corp., 287 B.R. 864, 865, 49 Collier Bankr.Cas.2d 1945, 1945 (D.Md. Jan 10, 2003) (NO. CIV. JFM-02-2539) **HN: 20 (B.R.)**

C 10 In re Novon Intern., Inc., 2000 WL 432848, *5 (W.D.N.Y. Mar 31, 2000) (NO. 98-CV-0677E(F), 96-BK-15463B) **HN: 21 (B.R.)**

H 11 In re HQ Global Holdings, Inc., 290 B.R. 507, 510, 40 Bankr.Ct.Dec. 262, 262 (Bankr.D.Del. Feb 25, 2003) (NO. 02-10760 (MFW)) **HN: 19 (B.R.)**

H 12 In re Philip Services (Delaware), Inc., 284 B.R. 541, 546 (Bankr.D.Del. Oct 18, 2002) (NO. 99-2170 UMFW), ADV.NO.99-346 (MFW), 99-2385 (MFW), 99-2518 (MFW)) **HN: 19,20 (B.R.)**

C 13 In re Waste Systems Intern., Inc., 280 B.R. 824, 827, 48 Collier Bankr.Cas.2d 974, 974 (Bankr.D.Del. Jul 19, 2002) (NO. 01-99 (MFW), 01-100 (MFW), 01-101 (MFW), 01-102 (MFW), 01-103 (MFW), 01-104 (MFW), 01-105 (MFW), 01-106 (MFW), 01-129 (MFW)) **HN: 19 (B.R.)**

14 In re Supernatural Foods, LLC, 268 B.R. 759, 793 (Bankr.M.D.La. Oct 17, 2001) (NO. 01-10403,

01-1014)

H 15 In re Buildnet, Inc., 2002 WL 31103235, *5 (Bankr.M.D.N.C. Sep 20, 2002) (NO. 01-82293, 01-82296, 01-82299, 01-82294, 01-82297, 01-82295, 01-82298) **HN: 28 (B.R.)**

16 In re Arnold, 255 B.R. 845, 854, 45 Collier Bankr.Cas.2d 752, 752 (Bankr.W.D.Tenn. Nov 27, 2000) (NO. 00-27842-K, 00-0565) **HN: 17,18 (B.R.)**

17 In re Lees, 252 B.R. 441, 449, 146 Ed. Law Rep. 752, 752 (Bankr.W.D.Tenn. Jul 24, 2000) (NO. 99-26880K) **HN: 17,18 (B.R.)**

18 In re Hood, 2000 WL 33965623, *5 (Bankr.W.D.Tenn. Jul 24, 2000) (NO. 99-22606-K, 99-0847) **HN: 17,18 (B.R.)**

Secondary Sources (U.S.A.)

C 19 Assignability of licensee's rights under patent licensing contract, 66 A.L.R.2d 606, § 9 (1959) **HN: 9,16,25,28,33 (B.R.)**

20 Bankruptcy Law Manual s 8:41, -WHAT IS AN EXECUTORY CONTRACT? (2003) **HN: 20 (B.R.)**

21 Bankruptcy Law Manual s 8:43, -LIMITATIONS ON THE TRUSTEE'S RIGHT TO ASSUME AN EXECUTORY CONTRACT OR UNEXPIRED LEASE (2003) **HN: 33 (B.R.)**

22 Bankruptcy Service Lawyers Edition s 20:38, s 20:38. Executory contracts, generally (2004) **HN: 30,31,32 (B.R.)**

23 Bankruptcy Service Lawyers Edition s 21:13, s 21:13. Miscellaneous (2004) **HN: 31 (B.R.)**

24 Bankruptcy Service Lawyers Edition s 21:150, s 21:150. Patent agreements (2004) **HN: 9,20,33 (B.R.)**

25 Bankruptcy Service Lawyers Edition s 21:171, s 21:171. Parties able to assume or reject contracts or leases, generally (2004) **HN: 10 (B.R.)**

26 Bankruptcy Service Lawyers Edition s 21:406, s 21:406. Anti-assignment clause in agreement or applicable law (2004) **HN: 9,33 (B.R.)**

27 Bankruptcy Service Lawyers Edition s 21:411, s 21:411. Generally (2004) **HN: 30,31,32 (B.R.)**

28 Bankruptcy Service Lawyers Edition s 21:60, s 21:60. Similar statements of definition (2004) **HN: 19,20 (B.R.)**

29 Bankruptcy Service Lawyers Edition s 29:12, s 29:12. Nature of estate (2004) **HN: 6 (B.R.)**

30 Bankruptcy Service Lawyers Edition s 29:396, s 29:396. Patents, trademarks, and copyrights (2004) **HN: 9,11,20 (B.R.)**

31 Bankruptcy Service Lawyers Edition s 42:245, s 42:245. Generally (2004) **HN: 11 (B.R.)**

32 Bankruptcy Service Lawyers Edition s 44:155, s 44:155. Construction of plan (2004) **HN: 3 (B.R.)**

33 Equipment Leasing - Leveraged Leasing s 7:12.1, Derivative Nature of Legal Rights and Credit Risks (2003) **HN: 15 (B.R.)**

34 2002 Norton Annual Survey of Bankruptcy Law 203, Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits" (2002)

35 Norton Bankruptcy Law and Practice 2d s 151:30, s 151:30. Rights in Intellectual Property as Executory Contracts; Generally -- Patent and Copyright Licenses; Special Considerations (2004) **HN: 33 (B.R.)**

36 Norton Bankruptcy Law and Practice 2d s 39:20, s 39:20. Contracts Which May Not Be Assumed -- Contracts for Specialized Performance (2004) **HN: 3,28 (B.R.)**

37 Williston on Contracts s 63:21, GENERALLY (2004)

C 38 Am. Jur. 2d Bankruptcy s 2140, WHAT CONSTITUTES AN EXECUTORY CONTRACT (2004)

39 Am. Jur. 2d Bankruptcy s 2745, OBJECTIONS TO PLAN CONFIRMATION (2004)

40 FIXING S 365: THE CONGRESSIONAL FIX, 22-JUN Am. Bankr. Inst. J. 6, 51 (2003) **HN: 31 (B.R.)**

C 41 EXCLUSIVE AND NON-EXCLUSIVE IP LICENSES AND EXECUTORY CONTRACT ASSUMPTION AND ASSIGNMENT: DOES EXCLUSIVITY MATTER?, 22-FEB Am. Bankr. Inst. J. 28, 28+ (2003) **HN: 20,24 (B.R.)**

42 THE RISK OF AN OFFENSIVE USE OF CATAPULT, 20-APR Am. Bankr. Inst. J. 14, 39 (2001) **HN: 20 (B.R.)**

C 43 EXECUTORY CONTRACTS: RETENTION WITHOUT ASSUMPTION IN CHAPTER 11-

"RIDE-THROUGH" REVISISTED, 19-MAR Am. Bankr. Inst. J. 33, 35+ (2000) **HN: 20 (B.R.)**

44 BENCHNOTES, 18-JAN Am. Bankr. Inst. J. 3, 4 (2000) **HN: 33 (B.R.)**

C 45 INTELLECTUAL PROPERTY LAW IN BANKRUPTCY COURT: THE SEARCH FOR A MORE COHERENT STANDARD IN DEALING WITH A DEBTOR'S RIGHT TO ASSUME AND ASSIGN TECHNOLOGY LICENSES, 9 Am. Bankr. Inst. L. Rev. 593, 610+ (2001) **HN: 20,21,24 (B.R.)**

C 46 ARE PHYSICIAN PRACTICE MANAGEMENT AGREEMENTS ASSUMABLE UNDER SECTION 365 OF THE BANKRUPTCY CODE?, 8 Am. Bankr. Inst. L. Rev. 77, 94+ (2000) **HN: 20,33 (B.R.)**

C 47 HI-TECH AND TELECOM IN FINANCIAL DISTRESS, 8 Am. Bankr. Inst. L. Rev. 205, 254+ (2000) **HN: 33 (B.R.)**

C 48 RESTART.COM: IDENTIFYING, SECURING AND MAXIMIZING THE LIQUIDATION VALUE OF CYBER-ASSETS IN BANKRUPTCY PROCEEDINGS, 8 Am. Bankr. Inst. L. Rev. 255, 290+ (2000) **HN: 3,20,33 (B.R.)**

C 49 E-COMMERCE AND DOT-COM BANKRUPTCIES: ASSUMPTION, ASSIGNMENT AND REJECTION OF EXECUTORY CONTRACTS INCLUDING INTELLECTUAL PROPERTY AGREEMENTS, AND RELATED ISSUES UNDER SECTION 365(c), AND 365(e)ADN 365(n)OF THE BANKRUPTCY, 8 Am. Bankr. Inst. L. Rev. 307, 316+ (2000) **HN: 9,20,33 (B.R.)**

C 50 THE IMPACT OF BANKRUPTCY ON PATENT AND COPYRIGHT LICENSES, 17 Bankr. Dev. J. 575, 603+ (2001) **HN: 9,20,33 (B.R.)**

C 51 AT THE INTERSECTION OF REGULATION AND BANKRUPTCY: FCC v. NEXTWAVE, 59 Bus. Law. 1, 22 (2003)

C 52 THE EFFECT OF CORPORATE ACQUISITIONS ON THE TARGET COMPANY'S LICENSE RIGHTS, 57 Bus. Law. 767, 772+ (2002) **HN: 3,9,33 (B.R.)**

C 53 LICENSING INTELLECTUAL PROPERTY AND TECHNOLOGY FROM THE FINANCIALLY-TROUBLED OR STARTUP COMPANY: PREBANKRUPTCY STRATEGIES TO MINIMIZE THE RISK IN A LICENSEE'S INTELLECTUAL PROPERTY AND TECHNOLOGY INVESTMENT, 55 Bus. Law. 1649, 1698+ (2000) **HN: 20,33 (B.R.)**

54 LORD OF THE LIENS: TOWARDS GREATER EFFICIENCY IN SECURED SYNDICATED LENDING, 25 Cardozo L. Rev. 1577, 1653 (2004) **HN: 33 (B.R.)**

C 55 NEXTWAVE V. FCC: BATTLE FOR THE C-BLOCK LICENSES, 50 Cath. U. L. Rev. 219, 265 (2000)

56 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 20 NO. 7 Computer & Internet Law. 19, 29 (2003) **HN: 19 (B.R.)**

C 57 HOT ISSUES IN COPYRIGHT AND TRADEMARK LICENSING, 20 NO. 2 Computer & Internet Law. 16, 28+ (2003) **HN: 9,20,33 (B.R.)**

C 58 REORGANIZING HIGH-TECH BUSINESSES: "FIND ME SOME LAWYERS WHO WEAR SUITS", 19 NO. 6 Computer & Internet Law. 7, 16 (2002) **HN: 33 (B.R.)**

C 59 THE INTERSECTION OF PATENT LAW AND BAKRUPTCY: WHAT EVERY PRACTITIONER SHOULD KNOW, 18-WTR Del. Law. 30, 32 (2000) **HN: 33 (B.R.)**

C 60 ANTIASSIGNMENT CLAUSES, MERGERS, AND THE MYTH ABOUT FEDERAL PREEMPTION OF APPLICATION OF STATE CONTRACT LAW TO PATENT LICENSE AGREEMENTS, 50 Drake L. Rev. 639, 659 (2002)

C 61 INTELLECTUAL PROPERTY COLLABORATION STRESSES IN BANKRUPTCY: PROTECTING THE RIGHTS OF THE NONBANKRUPT PARTIES, 54 Hastings L.J. 471, 491+ (2003) **HN: 21 (B.R.)**

62 ASSIGNABILITY OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY NAVIGATING THE MURKY WATERS OF SECTION 365, 21 NO. 1 Intell. Prop. L. Newsl. 11, 15+ (2002)

63 The Plan of Reorganization: A Thing of the Past?,(2004)

64 REORGANIZING HIGH TECH BUSINESSES--"I NEED HELP, FIND ME SOME LAWYERS WHO WEAR SUITS", 9 J. Bankr. L. & Prac. 547, 557 (2000) **HN: 20 (B.R.)**

C 65 DRAFTING THE INTELLECTUAL PROPERTY LICENSE: BANKRUPTCY CONSIDERATIONS, 9 J. Bankr. L. & Prac. 591, 600 (2000) **HN: 9 (B.R.)**

C 66 GOING FOR BROKE WITH INTELLECTUAL PROPERTY, 17 Me. B.J. 178, 180 (2002) **HN:**

20 (B.R.)

67 NONEXCLUSIVE PATENT LICENSES: NOT ASSIGNABLE 9TH CIRCUIT DECISION PRECLUDED DEBTOR IN POSSESSION FROM ASSUMING RIGHTS, SANS CONSENT., 10/16/00 Nat'l L.J. C22, col. 2, C22, col. 2 (2000) **HN: 20 (B.R.)**

C 68 BACK TO EARTH FORM CYBERSPACE: DEALING WITH BUSINESS FAILURE OF INTERNET COMPANIES, 8-JUN Nev. Law. 12, 15 (2000) **HN: 20 (B.R.)**

C 69 LIMITATIONS ON ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS BY "APPLICABLE LAW", 31 N.M. L. Rev. 299, 323 (2001)

70 INTELLECTUAL PROPERTY IN BANKRUPTCY: SEC.365 TACKLES COMPETING INTERESTS, 11/3/2003 N.Y. L.J. S2, col. 4, S2, col. 4+ (2003)

71 PROTECTING AGAINST BANKRUPTCY OF AN ASP BY CAREFULLY NEGOTIATING CONTRACT TERMS, CUSTOMERS CAN REAP ADVANTAGE OF CODE'S SEC.365(N), 3/4/2002 N.Y. L.J. S7, col. 1, S7, col. 1 (2002)

C 72 TRADEMARK ISSUES IN BANKRUPTCY, 93 Trademark Rep. 867, 903+ (2003) **HN: 20 (B.R.)**

73 062404 American Bankruptcy Institute 207, UPDATE ON EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY PROCEEDINGS (2004) **HN: 30 (B.R.)**

74 013003 American Bankruptcy Institute 17, Asset Sales-Executory Contracts and Other Issues Executory Contracts and Technology Transactions (2003) **HN: 33 (B.R.)**

75 120702 American Bankruptcy Institute 139, Concurrent Session: Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licensing & Sales Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licens (2002) **HN: 9 (B.R.)**

76 013102 American Bankruptcy Institute 57, Intellectual Property and Other Issues in High-tech Cases Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits' (2002) **HN: 20 (B.R.)**

77 062801 American Bankruptcy Institute 63, Dot.com Cases (2001) **HN: 19 (B.R.)**

78 113000 American Bankruptcy Institute 451, Intellectual Property and Other Intangible Assets: Valuing, Selling, Reorganizing Assumption of Nonassignable Contracts (2000) **HN: 9 (B.R.)**

79 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SJ082 ALI-ABA 201, 218 (2004)

80 VENUE CONSIDERATIONS: DIFFERENCES AMONG THE CIRCUITS ON COMMON RECURRING ISSUES IN CHAPTER 11 CASES, SJ082 ALI-ABA 451, 478 (2004) **HN: 20 (B.R.)**

81 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ061 ALI-ABA 233, 269+ (2004) **HN: 20 (B.R.)**

82 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ025 ALI-ABA 319, 371+ (2003) **HN: 20 (B.R.)**

83 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SH054 ALI-ABA 243, 259 (2003)

84 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SG108 ALI-ABA 345, 361 (2002)

85 BUYING A DISTRESSED OR BANKRUPT COMPANY, SG033 ALI-ABA 281, 300 (2002) **HN: 33 (B.R.)**

86 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SG001 ALI-ABA 407, 423 (2001)

87 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SE71 ALI-ABA 369, 385 (2000)

88 5/6/2003 BNA Patent, Trademark & Copyright Law Daily D7, (2003) **HN: 30 (B.R.)**

89 66 BNA Patent, Trademark & Copyright Journal 49, ROYALTIES GO TO BANKRUPT PARTY, NOT OWNER (2003) **HN: 30 (B.R.)**

90 DETERMINING AND PRESERVING THE ASSETS OF DOT-COMS, 28 Del. J. Corp. L. 185, 223+ (2003) **HN: 28 (B.R.)**

C 91 POSTPETITION FINANCING OF DOT-COMS, 27 Del. J. Corp. L. 759, 801 (2002)

92 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *10+ (2002) **HN: 3,21,24 (B.R.)**

93 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm

195, 264+ (2004) **HN: 20,24,33 (B.R.)**

94 INTELLECTUAL PROPERTY AND BANKRUPTCY-SALIENT ISSUES, 862 PLI/Comm 313, 324 (2004) **HN: 20 (B.R.)**

95 EXECUTORY CONTRACTS AND LEASES, 862 PLI/Comm 603, 633 (2004) **HN: 20 (B.R.)**

96 EXECUTORY CONTRACTS AND LEASES, 855 PLI/Comm 523, 554+ (2003) **HN: 20 (B.R.)**

97 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1338+ (2003) **HN: 20,24,33 (B.R.)**

98 EXECUTORY CONTRACTS AND LEASES, 850 PLI/Comm 135, 167+ (2003) **HN: 4,20 (B.R.)**

99 THE TANGLED WEB: SOFTWARE FINANCIAL ISSUES -- RIGHTS, 846 PLI/Comm 91, 108 (2003)

100 EXECUTORY CONTRACTS AND LEASES, 842 PLI/Comm 541, 552+ (2002) **HN: 4,5,26 (B.R.)**

101 , 838 PLI/Comm 245, 285+ (2002) **HN: 20,24,33 (B.R.)**

102 , 838 PLI/Comm 453, 478+ (2002) **HN: 4,20 (B.R.)**

103 REORGANIZING HIGH-TECH BUSINESSES - "I NEED HELP, FIND ME SOME LAWYERS WHO WEAR SUITS", 834 PLI/Comm 109, 121 (2002) **HN: 20 (B.R.)**

104 THE TANGLED WEB: SOFTWARE FINANCING ISSUES - RIGHTS OF LICENSEES, CREDITORS AND LICENSORS, 834 PLI/Comm 35, 49 (2002)

105 AN OVERVIEW OF INTELLECTUAL PROPERTY LICENSES AND BANKRUPTCY, 827 PLI/Comm 129, 142 (2001)

106 EXECUTORY CONTRACTS AND LEASES, 820 PLI/Comm 447, 471+ (2001) **HN: 5,33 (B.R.)**

107 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 820 PLI/Comm 1141, 1169+ (2001) **HN: 20,28,33 (B.R.)**

108 BANKRUPTCY IN A BRAVE E-WORLD: PLANNING FOR THE DAY A DOT-COM CRASHES, 816 PLI/Comm 247, 298 (2001) **HN: 18 (B.R.)**

109 EXECUTORY CONTRACTS AND LEASES, 805 PLI/Comm 79, 110+ (2000) **HN: 5,33 (B.R.)**

110 CURRENT DEVELOpMENTS IN INTELLECTUAL pROpERTY ISSUES IN BANKRUpTCY, 805 PLI/Comm 1053, 1061+ (2000) **HN: 9,20,33 (B.R.)**

111 INTELLECTUAL PROPERTY ISSUES IN BANKRUPTCY, 1316 PLI/Corp 73, 90 (2002) **HN: 28,33 (B.R.)**

112 RESTRUCTURING AND BANKRUPTCY ALTERNATIVES FOR THE NEW ECONOMY COMPANY, 1259 PLI/Corp 251, 273 (2001) **HN: 20 (B.R.)**

113 BANKRUPTCY ISSUES FOR HIGH-TECH COMPANIES, 1255 PLI/Corp 351, 373 (2001) **HN: 9 (B.R.)**

114 CREDITORS' RIGHTS ISSUES IN THE PURCHASE AND SALE OF ASSETS OF FINANCIALLY DISTRESSED DEBTOR, 1228 PLI/Corp 957, 970 (2001) **HN: 30,31,32 (B.R.)**

115 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 786 PLI/Pat 631, 652 (2004)

116 PATENT AND HIGH TECHNOLOGY LICENSING, 786 PLI/Pat 687, 755+ (2004) **HN: 18,21 (B.R.)**

117 BANKRUPTCY AND LICENSING, 786 PLI/Pat 757, 788 (2004) **HN: 28 (B.R.)**

118 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 794 PLI/Pat 123, 194+ (2004) **HN: 20 (B.R.)**

119 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 779 PLI/Pat 365, 407 (2004) **HN: 20 (B.R.)**

120 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1116+ (2004) **HN: 31 (B.R.)**

121 OVERVIEW OF LICENSING TECHNOLOGY FROM UNIVERSITIES, 762 PLI/Pat 507, 570 (2004) **HN: 24,28 (B.R.)**

122 SOFTWARE LICENSING, 763 PLI/Pat 903, 914 (2004)

123 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY CODE: RIGHTS AND REMEDIES FOLLOWING, 763 PLI/Pat 963, 1001+ (2004) **HN: 28,33 (B.R.)**

124 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 580+ (2003) **HN: 9,20 (B.R.)**

125 FAILING BIOTECHNOLOGY COMPANIES: FIRE SALES AND BANKRUPTCY: RISKS AND

OPPORTUNITIES IN ACQUIRING, 760 PLI/Pat 833, 865 (2003)

126 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 747 PLI/Pat 461, 488 (2003)

127 BANKRUPTCY AND INTELLECTUAL PROPERTY, 751 PLI/Pat 159, 185 (2003)

128 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 751 PLI/Pat 223, 284+ (2003) **HN: 20,33 (B.R.)**

129 THE TREATMENT OF TRADEMARKS AND TRADEMARK LICENSES IN BANKRUPTCY, 744 PLI/Pat 225, 271+ (2003) **HN: 19,20 (B.R.)**

130 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 740 PLI/Pat 355, 397 (2003) **HN: 20 (B.R.)**

131 PROTECTING CLIENTS AGAINST TECHNOLOGY VENDOR BANKRUPTCY, 735 PLI/Pat 9, 30 (2003) **HN: 20 (B.R.)**

132 SOFTWARE LICENSING, 733 PLI/Pat 267, 273 (2003)

133 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY, 733 PLI/Pat 299, 333+ (2003) **HN: 28,33 (B.R.)**

134 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225+ (2002) **HN: 31 (B.R.)**

135 COPYRIGHT AND TRADEMARK LICENSING, 722 PLI/Pat 799, 819+ (2002) **HN: 9,20,33 (B.R.)**

136 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 716 PLI/Pat 547, 574 (2002)

137 THE DISTRESSED E-COMMERCE COMPANY, 711 PLI/Pat 741, 768 (2002) **HN: 33 (B.R.)**

138 , 704 PLI/Pat 167, 194 (2002)

139 BANKRUPTCY AND INTELLECTUAL PROPERTY, 706 PLI/Pat 343, 354 (2002)

140 BANKRUPTCY AND LICENSING, 672 PLI/Pat 201, 223+ (2001) **HN: 33 (B.R.)**

141 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 670 PLI/Pat 297, 316 (2001) **HN: 9,20 (B.R.)**

142 BANKRUPTCY AND LICENSING, 652 PLI/Pat 279, 292+ (2001) **HN: 20,21,24 (B.R.)**

143 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 652 PLI/Pat 371, 386 (2001) **HN: 9,20 (B.R.)**

144 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 620 PLI/Pat 185, 203+ (2000) **HN: 33 (B.R.)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Petitions, Motions and Filings

145 FUTURESOURCE, LLC, Petitioner, v. REUTERS LIMITED; Reuters Sa; and Reuters America, Inc., Respondents., 2003 WL 21699552, *21699552+ (Appellate Petition, Motion and Filing) (U.S. Feb 25, 2003) **Petition for a Writ of Certiorari** (NO. 02-1269) ★★ **HN: 21 (B.R.)**

Appellate Briefs

146 RANGE RIDER PARTNERS LIMITED PARTNERSHIP, Appellant, v. RANGE RIDER ESTATES, Leo R. Beus, Paul E. Gilbert, Nancy McVety, Trustee of the Nancy Mc Vety Trust, Appellees., 2000 WL 33990413, *33990413+ (Appellate Brief) (9th Cir. 2000) **Appellant's Opening Brief** (NO. 00-16623) ★★

Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

147 In re KMART CORPORATION, et al., Debtors., 2002 WL 32151625, *32151625 (Trial Motion, Memorandum and Affidavit) (Bankr.N.D.Ill. Oct 23, 2002) **Objection by Microsoft to Motion for and Notice ...** (NO. 02B02474) ★★ **HN: 28 (B.R.)**

148 In Re: ALLEGIANCE TELECOM, INC., et al., Debtors., 2004 WL 1778299, *1778299 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Apr 12, 2004) **Objection of Lucent Technologies Inc. to Approval ...** (NO. 03-13057, RDD) ★★

Briefs and Other Related Documents

United States Court of Appeals,
Ninth Circuit.

In re CATAPULT ENTERTAINMENT, INC., a California corporation, aka Storm Systems, Debtor.
Stephen Perlman, Appellant,
v.
Catapult Entertainment, Inc., a California corporation, aka Storm Systems, Appellee.

No. 97-16707.

Argued and Submitted Nov. 6, 1998.
Decided Jan. 28, 1999.

Chapter 11 debtor moved to assume patent licenses as part of its reorganization plan, and licensor objected. The Bankruptcy Court granted debtor's motion and approved plan. On appeal, the United States District Court for the Northern District of California, William A. Ingram, J., affirmed. Licensor appealed. The Court of Appeals, Fletcher, Circuit Judge, held that: (1) debtor-in-possession (DIP) may not assume executory contract over nondebtor's objection if applicable law would bar assignment to hypothetical third party, even where DIP has no intention of assigning contract in question to any such third party, and (2) federal patent law made nonexclusive patent licenses personal and nondelegable, thus barring debtor from assuming patent licenses without licensor's consent.

Reversed.

West Headnotes

[1] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases
Debtor-in-possession (DIP) may not assume executory contract over nondebtor's objection if applicable law would bar assignment to hypothetical third party, even where DIP has no intention of assigning contract in question to any such third party. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

[2] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases
Federal patent law constitutes "applicable law" within meaning of Bankruptcy Code provision barring debtor-in-possession (DIP) from assuming executory contract without nondebtor's consent where applicable law precludes assignment of contract to a third party. Bankr.Code, 11 U.S.C.A. § 365(c).

[3] **Patents 213**
291k213 Most Cited Cases
Nonexclusive patent licenses are personal and assignable only with consent of the licensor.

[4] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases
Bankruptcy Code assumption of contracts provision, barring assumption of executory contract without nondebtor's consent where applicable law precludes assignment of contract to a third party, barred licensee, in its capacity as Chapter 11 debtor-in-possession, from assuming patent licenses without licensor's consent, since federal patent law made nonexclusive patent licenses personal and nondelegable. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

[5] **Statutes 208**
361k208 Most Cited Cases
Court should interpret a statute, if possible, so as to minimize discord among related provisions.

[6] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases
In determining whether "applicable law" bars assumption of executory contract, court must ask why the "applicable law" prohibits assignment, and assumption will be barred only if the law prohibits assignment on the rationale that identity of the contracting party is material to the agreement. Bankr.Code, 11 U.S.C.A. § 365(c)(1), (f)(1).

[7] **Patents 213**
291k213 Most Cited Cases
Federal law principle against the assignability of nonexclusive patent licenses is rooted in personal nature of nonexclusive license, to extent that the identity of a licensee may matter a great deal to a licensor.

[8] **Statutes 217.4**
361k217.4 Most Cited Cases
Absent any ambiguity in plain statutory language, courts need not resort to legislative history, and court will depart from this rule, if at all, only where

legislative history clearly indicates that Congress meant something other than what it said.

[9] Bankruptcy 3105.1
51k3105.1 Most Cited Cases
House committee report could not be relied upon as legislative intent overriding plain meaning analysis of Bankruptcy Code provision governing assumption of executory contracts, since report related to a different proposed bill, predated enactment of relevant subsection by several years, and expressed at most the thoughts of only one committee in the House. Bankr.Code, 11 U.S.C.A. § 365(c)

[10] Statutes 184
361k184 Most Cited Cases
Policy arguments cannot displace plain language of statute.

[11] Bankruptcy 3105.1
51k3105.1 Most Cited Cases
Where applicable nonbankruptcy law makes executory contract nonassignable because identity of the nondebtor party is material, debtor-in-possession (DIP) may not assume the contract absent consent of the nondebtor party. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

*748 Randy Michelson, McCutchen, Doyle, Brown & Enersen, San Francisco, California, for the appellant.

John Walshe Murray, Murray & Murray, Palo Alto, California, for the appellee.

Appeal from the United States District Court for the Northern District of California William A. Ingram, District Judge, Presiding. D.C. No. CV-97-20016 WAI.

Before: FLETCHER and TASHIMA, Circuit Judges, and BRYAN, [FN*] District Judge.

FN* Honorable Robert J. Bryan, United States District Judge for the Western District of Washington, sitting by designation.

FLETCHER, Circuit Judge:

Appellant Stephen Perlman ("Perlman") licensed certain patents to appellee Catapult Entertainment, Inc. ("Catapult"). He now seeks to bar Catapult, which has since become a Chapter 11 debtor in possession, from assuming the patent licenses as part of its reorganization plan. Notwithstanding Perlman's objections, the bankruptcy court approved the assumption of the licenses and confirmed the reorganization plan. The district court affirmed the bankruptcy court on intermediate appeal. Perlman appeals that decision. We are called upon to determine whether, in light of § 365(c)(1) of the Bankruptcy Code, a Chapter 11 debtor in possession may assume certain nonexclusive patent licenses over a licensor's objection. We conclude that the bankruptcy court erred in permitting the debtor in possession to assume the patent licenses in question.

I.

Catapult, a California corporation, was formed in 1994 to create an online gaming network for 16-bit console videogames. That same year, Catapult entered into two license agreements with Perlman, wherein Perlman granted to Catapult the right to exploit certain relevant technologies, including patents and patent applications.

In October 1996, Catapult filed for reorganization under Chapter 11 of the Bankruptcy Code. Shortly before the filing of the bankruptcy petition, Catapult entered into a merger agreement with Mpath Interactive, Inc. ("Mpath"). This agreement contemplated the filing of the bankruptcy petition, followed*749 by a reorganization via a "reverse triangular merger" involving Mpath, MPCAT Acquisition Corporation ("MPCAT"), and Catapult. Under the terms of the merger agreement, MPCAT (a wholly-owned subsidiary of Mpath created for this transaction) would merge into Catapult, leaving Catapult as the surviving entity. When the dust cleared, Catapult's creditors and equity holders would have received approximately $14 million in cash, notes, and securities; Catapult, in turn, would have become a wholly-owned subsidiary of Mpath. The relevant third party creditors and equity holders accepted Catapult's reorganization plan by the majorities required by the Bankruptcy Code.

On October 24, 1996, as part of the reorganization plan, Catapult filed a motion with the bankruptcy court seeking to assume some 140 executory contracts and leases, including the Perlman licenses. Over Perlman's objection, the bankruptcy court granted Catapult's motion and approved the reorganization plan. The district court subsequently affirmed the bankruptcy court. This appeal followed. We have jurisdiction pursuant to 28 U.S.C. § 158(d) and, because the relevant facts are undisputed, review the orders below *de novo*. *See Everex Sys. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 675 (9th Cir.1996).

II.

Section 365 of the Bankruptcy Code gives a trustee in bankruptcy (or, in a Chapter 11 case, the debtor in possession) the authority to assume, assign, or reject the executory contracts and unexpired leases of the debtor, notwithstanding any contrary provisions appearing in such contracts or leases. *See* 11 U.S.C. § 365(a) & (f). This extraordinary authority, however, is not absolute. Section 365(c)(1) provides that, notwithstanding the general policy set out in § 365(a):

> (c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if
>
> (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and
>
> (B) such party does not consent to such assumption or assignment....

11 U.S.C. § 365(c). Our task, simply put, is to apply this statutory language to the facts at hand and determine whether it prohibits Catapult, as the debtor in possession, from assuming the Perlman licenses without Perlman's consent. [FN1]

> FN1. Perlman also contends that, even if Catapult were entitled to *assume* the Perlman licenses, § 365(c)(1) also prohibits the *assignment* of the Perlman licenses to Mpath, accomplished by Catapult here through the contemplated Catapult-MPCAT-Mpath reverse triangular merger. Because we conclude that § 365(c)(1) bars Catapult from assuming the Perlman licenses, we express no opinion regarding whether the merger transaction contemplated by Catapult would have resulted in a prohibited "assignment" within the meaning of § 365(c)(1).

[1] While simply put, our task is not so easily resolved; the proper interpretation of § 365(c)(1) has been the subject of considerable disagreement among courts and commentators. On one side are those who adhere to the plain statutory language, which establishes a so-called "hypothetical test" to govern the assumption of executory contracts. *See In re James Cable Partners,* 27 F.3d 534, 537 (11th Cir.1994) (characterizing § 365(c)(1)(A) as posing "a hypothetical question"); *In re West Elec., Inc.,* 852 F.2d 79, 83 (3d Cir.1988) (same); *In re Catron,* 158 B.R. 629, 633-38 (E.D.Va.1993) (same), *aff'd without op.,* 25 F.3d 1038 (4th Cir.1994). On the other side are those that forsake the statutory language in favor of an "actual test" that, in their view, better accomplishes the intent of Congress. *See Institut Pasteur v. Cambridge Biotech Corp.,* 104 F.3d 489, 493 (1st Cir.) (rejecting the hypothetical test in favor of the actual test), *cert. denied,* 521 U.S. 1120, 117 S.Ct. 2511, 138 L.Ed.2d 1014 (1997). [FN2] Although we have on two occasions ***750** declined to choose between these competing visions, *see Worthington v. General Motors Corp. (In re Claremont Acquisition Corp.),* 113 F.3d 1029, 1032 (9th Cir.1997); *Everex,* 89 F.3d at 676-77, today we hold that we are bound by the plain terms of the statute and join the Third and Eleventh Circuits in adopting the "hypothetical test."

> FN2. The weight of lower court authority appears to favor the "actual test." *See, e.g., Texaco Inc. v. Louisiana Land and Expl. Co.,* 136 B.R. 658, 668-71 (M.D.La.1992); *In re GP Express Airlines, Inc.,* 200 B.R. 222, 231-33 (Bankr.D.Neb.1996); *In re Am. Ship Bldg. Co.,* 164 B.R. 358, 362-63 (Bankr.M.D.Fla.1994); *In re Fastrax,* 129 B.R. 274, 277 (Bankr.M.D.Fla.1991); *In re Hartec Enters., Inc.,* 117 B.R. 865, 871-73 (Bankr.W.D.Tex.1990), *vacated on other grounds,* 130 B.R. 929 (W.D.Tex.1991); *In re Cardinal Indus., Inc.,* 116 B.R. 964, 976-82 (Bankr.S.D.Ohio 1990) (rejecting hypothetical test in connection with similar statutory language of § 365(e)(2)(A)).

III.

We begin, as we must, with the statutory language. *See Connecticut Nat'l Bank v. Germain,* 503 U.S. 249, 253-54, 112 S.Ct. 1146, 117 L.Ed.2d 391 (1992) (noting that the statutory language is the "cardinal canon" to be addressed "before all others"); *Jeffries v. Wood,* 114 F.3d 1484, 1495 (9th Cir.) (en banc) ("In statutory interpretation, the starting point is always the language of the statute itself."), *cert. denied,* 522 U.S. 1008, 118 S.Ct. 586, 139 L.Ed.2d 423 (1997). The plain language of § 365(c)(1) "link[s] nonassignability under 'applicable law' together with a prohibition on assumption in bankruptcy." 1 DAVID G. EPSTEIN, STEVE H. NICKLES & JAMES J. WHITE, BANKRUPTCY § 5-15 at 474 (1992). In other words, the statute by its terms bars a debtor in possession from *assuming* an executory contract without the nondebtor's consent where applicable law precludes *assignment* of the contract to a third party. The literal language of § 365(c)(1) is thus said to establish a "hypothetical test": a debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor in possession has no intention of assigning the contract in question to any such third party. *See In re James Cable,* 27 F.3d at 537 (characterizing § 365(c)(1)(A) as presenting "a hypothetical question"); *In re West Elecs.,* 852 F.2d at 83 (same).

[2][3] Before applying the statutory language to the case at hand, we first resolve a number of preliminary issues that are either not disputed by the parties, or are so clearly established as to deserve no more than passing reference. First, we follow the lead of the parties in assuming that the Perlman licenses are executory agreements within the meaning of § 365. Second, it is well-established that § 365(c)'s use of the term "trustee" includes Chapter 11 debtors in possession. *See Institut Pasteur,* 104 F.3d at 492 n. 7; *In re James Cable Partners,* 27 F.3d at 537; *In re West Elecs.,* 852 F.2d at 82. Third, our precedents make it clear that federal patent law constitutes "applicable law" within the meaning of § 365(c), and that nonexclusive [FN3] patent licenses are "personal and assignable only with the consent of the licensor." *Everex,* 89 F.3d at 680.

FN3. One of the two Perlman licenses began its life as an exclusive license. Perlman in a sworn declaration stated that, pursuant to its terms, the license has since become nonexclusive. Because Catapult has not offered any rebuttal evidence, and because neither party raised the issue in connection with the issues raised in this appeal, we will assume that the Perlman licenses are nonexclusive. Accordingly, we express no opinion regarding the assignability of *exclusive* patent licenses under federal law, and note that we expressed no opinion on this subject in *Everex.* *See Everex,* 89 F.3d at 679 ("Federal law holds a *nonexclusive* patent license to be personal and nonassignable ....") (emphasis added).

[4] When we have cleared away these preliminary matters, application of the statute to the facts of this case becomes relatively straightforward:

> (c) *Catapult* may not assume ... *the Perlman licenses,* ... if
> (1)(A) *federal patent law* excuses *Perlman* from accepting performance from or rendering performance to an entity other than *Catapult...*; and
> (B) *Perlman* does not consent to such assumption....

11 U.S.C. § 365(c) (substitutions in italics). Since federal patent law makes nonexclusive patent licenses personal and nondelegable, § 365(c)(1)(A) is satisfied. Perlman has ***751** withheld his consent, thus satisfying § 365(c)(1)(B). Accordingly, the plain language of § 365(c)(1) bars Catapult from assuming the Perlman licenses.

IV.

Catapult urges us to abandon the literal language of § 365(c)(1) in favor of an alternative approach, reasoning that Congress did not intend to bar debtors in possession from assuming their own contracts where no assignment is contemplated. In Catapult's view, § 365(c)(1) should be interpreted as embodying an "actual test": the statute bars assumption by the debtor in possession only where the reorganization in question results in the nondebtor *actually* having to accept performance from a third party. Under this reading of § 365(c), the debtor in possession would be permitted to assume any executory contract, so long as no assignment was contemplated. Put another way, Catapult suggests that, as to a debtor in possession, § 365(c)(1) should be read to prohibit assumption *and* assignment, rather than assumption *or* assignment.

Catapult has marshalled considerable authority to support this reading. The arguments supporting Catapult's position can be divided into three categories: (1) the literal reading creates inconsistencies within § 365; (2) the literal reading is incompatible with the legislative history; and (3) the literal reading flies in the face of sound bankruptcy policy. Nonetheless, we find that none of these considerations justifies departing from the plain language of § 365(c)(1).

A.

[5] Catapult first argues that a literal reading of §

365(c)(1) sets the statute at war with itself and its neighboring provisions. Deviation from the plain language, contends Catapult, is necessary if internal consistency is to be achieved. We agree with Catapult that a court should interpret a statute, if possible, so as to minimize discord among related provisions. *See* 2A NORMAN J. SINGER, SUTHERLAND STATUTORY CONSTRUCTION § 46.06 (5th ed. 1992) ("A statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant, and so that one section will not destroy another unless the provision is the result of obvious mistake or error."). However, the dire inconsistencies cited by Catapult turn out, on closer analysis, to be no such thing.

Catapult, for example, singles out the interaction between § 365(c)(1) and § 365(f)(1) as a statutory trouble spot. *See In re Catron,* 158 B.R. at 636 (exploring apparent conflict between subsections (c)(1) and (f)(1)); *In re Cardinal Indus.,* 116 B.R. at 976-77 (same). Subsection (f)(1) provides that executory contracts, once assumed, may be assigned notwithstanding any contrary provisions contained in the contract *or applicable law:*

> (f)(1) Except as provided in subsection (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, *or in applicable law,* that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection....

11 U.S.C. § 365(f)(1) (emphasis added).

The potential conflict between subsections (c)(1) and (f)(1) arises from their respective treatments of "applicable law." The plain language of subsection (c)(1) bars assumption (absent consent) whenever "applicable law" would bar assignment. Subsection (f)(1) states that, *contrary provisions in applicable law notwithstanding,* executory contracts may be assigned. Since assumption is a necessary prerequisite to assignment under § 365, *see* 11 U.S.C. § 365(f)(2)(A), a literal reading of subsection (c)(1) appears to render subsection (f)(1) superfluous. In the words of the Sixth Circuit, "[S]ection 365(c), the recognized exception to 365(f), appears at first to resuscitate in full the very anti-assignment 'applicable law' which 365(f) nullifies." *In re Magness,* 972 F.2d 689, 695 (6th Cir.1992) (Guy, J., concurring). Faced with this dilemma, one district court reluctantly concluded that the "[c]onflict between subsections (c) and (f) of § 365 is inescapable." *See In re Catron,* 158 B.R. at 636.

*752 [6][7] Subsequent authority, however, suggests that this conclusion may have been unduly pessimistic. The Sixth Circuit has credibly reconciled the warring provisions by noting that "each subsection recognizes an 'applicable law' of markedly different scope." *In re Magness,* 972 F.2d at 695; *accord In re James Cable,* 27 F.3d at 537-38; *In re Lil' Things, Inc.,* 220 B.R. 583, 590-91 (Bankr.N.D.Tex.1998); *In re Antonelli,* 148 B.R. 443, 448 (D.Md.1992), *aff'd without op.,* 4 F.3d 984 (4th Cir.1993). Subsection (f)(1) states the broad rule--a law that, as a general matter, "prohibits, restricts, or conditions the assignment" of executory contracts is trumped by the provisions of subsection (f)(1). *See In re James Cable,* 27 F.3d at 538; *Magness,* 972 F.2d at 695. Subsection (c)(1), however, states a carefully crafted exception to the broad rule--where applicable law does not merely recite a general ban on assignment, but instead more specifically "excuses a party ... from accepting performance from or rendering performance to an entity" different from the one with which the party originally contracted, the applicable law prevails over subsection (f)(1). *See id.* In other words, in determining whether an "applicable law" stands or falls under § 365(f)(1), a court must ask *why* the "applicable law" prohibits assignment. *See In re Magness,* 972 F.2d at 700 (J. Guy, concurring); *In re Antonelli,* 148 B.R. at 448. Only if the law prohibits assignment on the rationale that the identity of the contracting party is material to the agreement will subsection (c)(1) rescue it. [FN4] *See id.* We agree with the Sixth and Eleventh Circuits that a literal reading of subsection (c)(1) does not inevitably set it at odds with subsection (f)(1).

> FN4. We note that, in the instant case, the federal law principle against the assignability of nonexclusive patent licenses is rooted in the personal nature of a nonexclusive license--the identity of a licensee may matter a great deal to a licensor. *See In re CFLC,* 89 F.3d at 679 (explaining rationale behind federal law rule against assignability).

Catapult next focuses on the internal structure of § 365(c)(1) itself. According to Catapult, the literal approach to subsection (c)(1) renders the phrase "or the debtor in possession" contained in § 365(c)(1)(A) superfluous. [FN5] In the words of one bankruptcy court, "[i]f the directive of Section 365(c)(1) is to prohibit assumption whenever applicable law excuses performance relative to any entity other than the debtor, why add the words 'or debtor in possession?' The [hypothetical] test renders this phrase surplusage." In re Hartec, 117 B.R. at 871-72; *accord* In re Fastrax, Inc., 129 B.R. at 277; In re Cardinal Indus., 116 B.R. at 979.

> FN5. The phrase in question was added by Congress in 1984, replacing an earlier formulation focusing on the "trustee or an assignee":
> (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the trustee or an assignee of such contract or lease *the debtor or the debtor in possession,* whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties.
> 11 U.S.C. § 365(c)(1)(A) (prior language stricken through).

A close reading of § 365(c)(1), however, dispels this notion. By its terms, subsection (c)(1) addresses two conceptually distinct events: assumption and assignment. The plain language of the provision makes it clear that each of these events is contingent on the nondebtor's separate consent. Consequently, where a nondebtor consents to the *assumption* of an executory contract, subsection (c)(1) will have to be applied a second time if the debtor in possession wishes to *assign* the contract in question. On that second application, the relevant question would be whether "applicable law excuses a party from accepting performance from or rendering performance to an entity other than ... *the debtor in possession.*" 11 U.S.C. § 365(c)(1)(A) (emphasis added). Consequently, the phrase "debtor in possession," far from being rendered superfluous by a literal reading of subsection (c)(1), dovetails neatly with the disjunctive language that opens subsection (c)(1): "The trustee may not assume *or* assign...." 11 U.S.C. § 365(c) (emphasis added); *cf.* In re Catron, 158 B.R. at 636 (rejecting argument that literal reading of § 365(c) makes "or assign" superfluous insofar as assumption is a prerequisite to assignment).

***753** A third potential inconsistency identified by Catapult relates to § 365(c)(2). According to Catapult, a literal reading of subsection (c)(1) renders subsection (c)(2) a dead letter. *See* In re Cardinal Indus., 116 B.R. at 980 (explicating this argument). Subsection (c)(2) provides:

> (c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if
> (2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor....

11 U.S.C. § 365(c)(2). According to Catapult, the contracts encompassed by subsection (c)(2) are all nonassignable as a matter of applicable state law. As a result, a literal reading of subsection (c)(1) would seem to snare and dispose of every executory contract within subsection (c)(2)'s scope. Perlman, however, persuasively rebuts this argument, noting that even if the state law governing the assignability of loan agreements and financing contracts is relatively uniform today, Congress by enacting subsection (c)(2) cemented nationwide uniformity in the bankruptcy context, effectively ensuring creditors that these particular contracts would not be assumable in bankruptcy. Put another way, it is the national uniformity of applicable state law that has rendered subsection (c)(2) superfluous, not the terms of subsection (c)(1).

In any event, subsection (c)(1) does not completely swallow up subsection (c)(2). Subsection (c)(1) by its terms permits assumption and assignment of executory loan agreements *so long as the nondebtor consents. See* 11 U.S.C. § 365(c)(1)(B). Subsection (c)(2), in contrast, bans assumption and assignment of such agreements, *consent of the nondebtor notwithstanding. See* *Transamerica Commercial Fin. Corp. v. Citibank, N.A. (In re Sun Runner Marine, Inc.)*, 945 F.2d 1089, 1093 (9th Cir.1991) ("Section 365(c)(2) unambiguously prohibits the assumption of financial accommodation contracts, regardless of the consent of the non-debtor party."); 2 WILLIAM L. NORTON, JR., NORTON BANKRUPTCY LAW AND PRACTICE 2D § 39:19 ("[T]he correct view is that executory credit contracts may not be assumed in bankruptcy regardless of the desires of the parties."). Accordingly, contrary to Catapult's assertion, subsection (c)(1) does not necessarily catch upriver all the fish that would otherwise be netted by subsection (c)(2). Once again, the "inconsistency" identified by Catapult proves evanescent under close scrutiny. We see no reason why these two provisions cannot happily coexist. [FN6]

FN6. Catapult also advances what it claims is a fourth inconsistency by contrasting the plain language of § 365(c)(1) with the provisions of § 365(e)(1), which nullifies "ipso facto" clauses. In rejecting this contention, it is enough to note that § 365(e)(2)(A) expressly revives "ipso facto" clauses in precisely the same executory contracts that fall within the scope of § 365(c)(1).

We conclude that the claimed inconsistencies are not actual and that the plain language of § 365(c)(1) compels the result Perlman urges: Catapult may not assume the Perlman licenses over Perlman's objection. Catapult has not demonstrated that, in according the words of subsection (c)(1) their plain meaning, we do violence to subsection (c)(1) or the provisions that accompany it.

B.

[8] Catapult next urges that legislative history requires disregard of the plain language of § 365(c)(1). First off, because we discern no ambiguity in the plain statutory language, we need not resort to legislative history. *See* *Davis v. Michigan Dep't of Treasury,* 489 U.S. 803, 808-09 n. 3, 109 S.Ct. 1500, 103 L.Ed.2d 891 (1989) ("Legislative history is irrelevant to the interpretation of an unambiguous statute."); *Gumport v. Sterling Press (In re Transcon Lines),* 58 F.3d 1432, 1437 (9th Cir.1995); *Brooker v. Desert Hosp. Corp.,* 947 F.2d 412, 414 (9th Cir.1991).

[9] We will depart from this rule, if at all, only where the legislative history clearly indicates that Congress meant something other than what it said. *See* *City of Auburn v. United States,* 154 F.3d 1025, 1029 (9th Cir.1998); *California v. Montrose Chem. Corp.,* 104 F.3d 1507, 1515 (9th Cir.1997). Here, *754 the legislative history unearthed by Catapult falls far short of this mark. The legislative history behind § 365(c) was exhaustively analyzed by the bankruptcy court in *In re Cardinal Industries,* 116 B.R. at 978-80. Its discussion makes it clear that there exists no contemporaneous legislative history regarding the current formulation of subsection (c)(1). *Id.* at 978 ("[T]here is no authoritative legislative history for BAFJA as enacted in 1984."). Catapult, however, argues that the language as ultimately enacted in 1984 had its genesis in a 1980 House amendment to an earlier Senate technical corrections bill. The amendment was accompanied by "a relatively obscure committee report." 1 DAVID G. EPSTEIN, STEVE H. NICKLES & JAMES J. WHITE, BANKRUPTCY § 5-15 (1992). In explaining the amendment, the report stated:

> This amendment makes it clear that the prohibition against a trustee's power to assume an executory contract does not apply where it is the debtor that is in possession and the performance to be given or received under a personal service contract will be the same as if no petition had been filed because of the personal service nature of the contract.

In re Cardinal Indus., 116 B.R. at 979 (quoting H.R.Rep. No. 1195, 96th Cong., 2d Sess. § 27(b) (1980)). [FN7] However, since the report relates to a different proposed bill, predates enactment of § 365(c)(1) by several years, and expresses at most the thoughts of only one committee in the House, we are not inclined to view it as the sort of clear indication of contrary intent that would overcome the unambiguous language of subsection (c)(1). [FN8]

FN7. We note that several courts have relied on this legislative history in rejecting the "hypothetical test" in favor of the "actual test." *See, e.g.,* *Summit Invest. and Dev. Corp. v. Leroux,* 69 F.3d 608, 613 (1st Cir.1995); *In re Fastrax,* 129 B.R. at 277. For the reasons set forth herein, we respectfully disagree with their analysis.

FN8. Catapult also would find favorable legislative history in the enactment of § 365(c)(2). Its argument draws an inference against the hypothetical test from Congress' enactment of subsection (c)(2) in the face of statements in the House report implying that (c)(2) is unnecessary in light of (c)(1). As noted above, subsection (c)(2) is not inconsistent with the literal reading of subsection (c)(1), and thus its adoption does not undermine the hypothetical test.

C.

Catapult makes the appealing argument that, as a leading bankruptcy commentator has pointed out, there are policy reasons to prefer the "actual test." *See* 3 LAWRENCE P. KING, COLLIER ON BANKRUPTCY § 365.06[1][d][iii] (15th ed. revised) (arguing that sound bankruptcy policy supports the actual test). That may be so, but Congress is the policy maker, not the courts.

[10] Policy arguments cannot displace the plain language of the statute; that the plain language of § 365(c)(1) may be bad policy does not justify a judicial rewrite. And a rewrite is precisely what the actual test requires. The statute expressly provides that a debtor in possession "may not assume *or* assign" an executory contract where applicable law bars assignment and the nondebtor objects. 11 U.S.C. § 365(c)(1) (emphasis added). The actual test effectively engrafts a narrow exception onto § 365(c)(1) for debtors in possession, providing that, as to them, the statute only prohibits assumption *and* assignment, as opposed to assumption *or* assignment. *See In re Fastrax,* 129 B.R. at 277 (admitting that, by adopting the actual test, the court reads the word "assume" out of subsection (c) with respect to debtors in possession).

V.

[11] Because the statute speaks clearly, and its plain language does not produce a patently absurd result or contravene any clear legislative history, we must "hold Congress to its words." [FN9] *Brooker,* 947 F.2d at 414- 15. Accordingly, we hold that, where applicable nonbankruptcy law makes an executory contract nonassignable because the ***755** identity of the nondebtor party is material, a debtor in possession may not assume the contract absent consent of the nondebtor party. A straightforward application of § 365(c)(1) to the circumstances of this case precludes Catapult from assuming the Perlman licenses over Perlman's objection. Consequently, the bankruptcy court erred when it approved Catapult's motion to assume the Perlman licenses, and the district court erred in affirming the bankruptcy court.

FN9. We emphasize that our holding today is based on the plain language of the statute, and does not rely on the "separate entity" theory touched on in *In re West Elecs.,* 852 F.2d at 83, and subsequently discredited in *NLRB v. Bildisco & Bildisco,* 465 U.S. 513, 528, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984).

REVERSED.

165 F.3d 747, 41 Collier Bankr.Cas.2d 858, 33 Bankr.Ct.Dec. 1058, Bankr. L. Rep. P 77,886, 99 Cal. Daily Op. Serv. 787, 1999 Daily Journal D.A.R. 957, 3 Cal. Bankr. Ct. Rep. 41

Briefs and Other Related Documents (Back to top)

• 1998 WL 34089995 (Appellate Brief) Reply Brief of Appellant Stephen Perlman (Jun. 01, 1998)Original Image of this Document (PDF)

• 1998 WL 34090003 (Appellate Brief) Appellee's Brief (Feb. 26, 1998)Original Image of this Document (PDF)

• 1998 WL 34090008 (Appellate Brief) Opening Brief of Appellant Stephen Perlman (Jan. 14, 1998)Original Image of this Document (PDF)

• 97-16707 (Docket) (Sep. 15, 1997)

END OF DOCUMENT

Westlaw.

Date of Printing: OCT 28,2004

KEYCITE

In re Catapult Entertainment, Inc., 165 F.3d 747, 41 Collier Bankr.Cas.2d 858, 33 Bankr.Ct.Dec. 1058, Bankr. L. Rep. P 77,886, 99 Cal. Daily Op. Serv. 787, 1999 Daily Journal D.A.R. 957, 3 Cal. Bankr. Ct. Rep. 41 (9th Cir.(Cal.), Jan 28, 1999) (NO. 97-16707)

History

Direct History

=> 1 **In re Catapult Entertainment, Inc.,** 165 F.3d 747, 41 Collier Bankr.Cas.2d 858, 33 Bankr.Ct.Dec. 1058, Bankr. L. Rep. P 77,886, 99 Cal. Daily Op. Serv. 787, 1999 Daily Journal D.A.R. 957, 3 Cal. Bankr. Ct. Rep. 41 (9th Cir.(Cal.) Jan 28, 1999) (NO. 97-16707)

Certiorari Dismissed by

H 2 Catapult Entertainment, Inc. v. Perlman, 528 U.S. 924, 120 S.Ct. 369, 145 L.Ed.2d 248, 67 USLW 3749, 68 USLW 3263 (U.S. Oct 12, 1999) (NO. 98-1915)

Negative Indirect History (U.S.A.)

Disagreed With by

3 In re Supernatural Foods, LLC, 268 B.R. 759 (Bankr.M.D.La. Oct 17, 2001) (NO. 01-10403, 01-1014) ★★★★ **HN: 2,4,6 (F.3d)**

Distinguished by

C 4 In re Neuhoff Farms, Inc., 258 B.R. 343, 44 UCC Rep.Serv.2d 397 (Bankr.E.D.N.C. Apr 26, 2000) (NO. 99-05869-8-JRL) ★★★ **HN: 1,2 (F.3d)**

H 5 In re ANC Rental Corp., Inc., 277 B.R. 226 (Bankr.D.Del. May 03, 2002) (NO. 01-11200(MFW)) ★★ **HN: 4 (F.3d)**

H 6 In re ANC Rental Corp., Inc., 278 B.R. 714 (Bankr.D.Del. May 23, 2002) (NO. 01-11200(MFW)) ★★

Court Documents

Appellate Court Documents (U.S.A.)

C.A.9 Appellate Briefs

7 Stephen PERLMAN, Appellant, v. CATAPULT ENTERTAINMENT, INC., a California corporation, a.k.a. Storm Systems, Appellee., 1998 WL 34090008 (Appellate Brief) (C.A.9 Jan. 14, 1998) **Opening Brief of Appellant Stephen Perlman** (NO. 97-16707)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

8 Stephen PERLMAN, Appellant, v. CATAPULT ENTERTAINMENT, INC., a California corporation, f.k.a Storm Systems, Appellee., 1998 WL 34090003 (Appellate Brief) (C.A.9 Feb. 26, 1998) **Appellee's Brief** (NO. 97-16707)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

9 Stephen PERLMAN, Appellant, v. CATAPULT ENTERTAINMENT, INC., a California corporation, a.k.a. Storm Systems, Appellee., 1998 WL 34089995 (Appellate Brief) (C.A.9 Jun. 01, 1998) **Reply Brief of Appellant Stephen Perlman** (NO. 97-16707)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

Dockets (U.S.A.)

C.A.9

10 PERLMAN, ET AL v. CATAPULT ENTERTAIN, NO. 97-16707 (Docket) (C.A.9 Sep. 15, 1997)

Citing References

Positive Cases (U.S.A.)

★★★★ **Examined**

H 11 In re Sunterra Corp., 361 F.3d 257, 261+, 51 Collier Bankr.Cas.2d 1276+, 42 Bankr.Ct.Dec. 222, 222+, Bankr. L. Rep. P 80,068, 80068+ (4th Cir.(Md.) Mar 18, 2004) (NO. 03-1193) "" **HN: 2,4,9 (F.3d)**

H 12 In re Hernandez, 285 B.R. 435, 438+ (Bankr.D.Ariz. Sep 09, 2002) (NO. 99-01192-YUM-EWH) "" **HN: 1,2,4 (F.3d)**

★★★ **Discussed**

13 Carson Harbor Village, Ltd. v. Unocal Corp., 270 F.3d 863, 877+, 53 ERC 1321, 1321+, 32 Envtl. L. Rep. 20,180, 20180+, 1 Cal. Daily Op. Serv. 9080, 9080+ (9th Cir.(Cal.) Oct 24, 2001) (NO. 98-55056, 98-55213, 98-55107, 98-55215, 98-55210, 98-55422) "" **HN: 8 (F.3d)**

14 Waxman v. Evans, 2002 WL 32377615, *7+ (C.D.Cal. Jan 18, 2002) (NO. CV014530LGB(AJWX)) "" **HN: 8,9 (F.3d)**

H 15 In re Hernandez, 287 B.R. 795, 797+ (Bankr.D.Ariz. Dec 23, 2002) (NO. 99-01192-YUM-EWH) **HN: 4,6 (F.3d)**

16 In re TechDyn Systems Corp., 235 B.R. 857, 860+, 34 Bankr.Ct.Dec. 825, 825+, 11 Fourth Cir. & D.C. Bankr. 624, 624+ (Bankr.E.D.Va. Jul 07, 1999) (NO. 99-11706-SSM, 99-0818) "" **HN: 9 (F.3d)**

★★ **Cited**

H 17 In re Woskob, 305 F.3d 177, 187, Bankr. L. Rep. P 78,725, 78725 (3rd Cir.(Pa.) Sep 20, 2002) (NO. 01-1482) ""

C 18 Cinicola v. Scharffenberger, 248 F.3d 110, 126, Bankr. L. Rep. P 78,396, 78396, 17 IER Cases 1089, 1089 (3rd Cir.(Pa.) Apr 25, 2001) (NO. 00-3318) **HN: 1 (F.3d)**

H 19 State of California Dept. of Social Services v. Thompson, 321 F.3d 835, 852, 3 Cal. Daily Op. Serv. 1812, 1812, 2003 Daily Journal D.A.R. 2359, 2359 (9th Cir.(Cal.) Mar 03, 2003) (NO. 00-17266) **HN: 8 (F.3d)**

20 U.S. v. Follet, 269 F.3d 996, 999, 1 Cal. Daily Op. Serv. 8941, 8941, 2001 Daily Journal D.A.R. 11,139, 11139 (9th Cir.(Mont.) Oct 18, 2001) (NO. 00-30339) **HN: 8 (F.3d)**

H 21 U.S. v. Daas, 198 F.3d 1167, 1174, 00 Cal. Daily Op. Serv. 50, 50, 1999 Daily Journal D.A.R. 74, 74 (9th Cir.(Cal.) Dec 30, 1999) (NO. 98-10490) **HN: 8 (F.3d)**

22 In re Silicon Graphics Inc. Securities Litigation, 183 F.3d 970, 992, Fed. Sec. L. Rep. P 90,610, 90610, 44 Fed.R.Serv.3d 1311, 1311, 99 Cal. Daily Op. Serv. 6339, 6339 (9th Cir.(Cal.) Aug 04, 1999) (NO. 97-16204, 97-16240) "" **HN: 8 (F.3d)**

C 23 In re Morgan Sangamon Partnership, 269 B.R. 652, 654 (N.D.Ill. Jul 03, 2001) (NO. 01 B 06298) "" **HN: 9 (F.3d)**

24 RCC Technology Corp. v. Sunterra Corp., 287 B.R. 864, 865, 49 Collier Bankr.Cas.2d 1945, 1945 (D.Md. Jan 10, 2003) (NO. CIV. JFM-02-2539) **HN: 1 (F.3d)**

25 In re Garcia, 276 B.R. 627, 639 (Bankr.D.Ariz. Apr 22, 2002) (NO. 01-12584-PHX-RJH) **HN: 4 (F.3d)**

H 26 In re World Auxiliary Power Co., 244 B.R. 149, 156, 35 Bankr.Ct.Dec. 154, 154, 54 U.S.P.Q.2d 1329, 1329, 40 UCC Rep.Serv.2d 1099, 1099, 4 Cal. Bankr. Ct. Rep. 61, 61 (Bankr.N.D.Cal. Dec 30, 1999) (NO. 96-46735 TK, 98-4753 AT, 96-46736 TK, 98-4754 AT, 96-46737 TK, 98-4755 AT) **HN: 10 (F.3d)** (BNA Version)

H 27 In re Golden Books Family Entertainment, Inc., 269 B.R. 300, 309+ (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920 - 01-1925 (R) **HN: 3,7 (F.3d)**

H 28 In re Golden Books Family Entertainment, Inc., 269 B.R. 311, 314+ (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920-01-1925 (RRM) **HN: 4,7 (F.3d)**

29 In re Access Beyond Technologies, Inc., 237 B.R. 32, 48, 34 Bankr.Ct.Dec. 919, 919 (Bankr.D.Del. Jul 22, 1999) (NO. 98-2276 MFW, 98-2279 MFW, 98-2277 MFW, 98-2280 MFW, 98-2278 MFW, 98-2281 MFW) "" **HN: 1 (F.3d)**

H 30 In re Travelot Co., 286 B.R. 447, 454+ (Bankr.S.D.Ga. Jun 14, 2002) (NO. 02-40020) "" **HN: 1,2 (F.3d)**

C 31 In re Quad-Cities Const., Inc., 254 B.R. 459, 470 (Bankr.D.Idaho Sep 01, 2000) (NO. 99-20666, 00-6052) **HN: 4 (F.3d)**

H 32 In re Kmart Corp., 290 B.R. 614, 619 (Bankr.N.D.Ill. Jan 23, 2003) (NO. 02 B 02474) **HN: 4 (F.3d)**

H 33 In re Schick, 235 B.R. 318, 323+ (Bankr.S.D.N.Y. Jun 18, 1999) (NO. 96 B 42902 (SMB), 96 B 45033 (SMB), 96 B 43969 (SMB), 96 B 46282 (SMB))

★ Mentioned

H 34 Mark v. Valley Ins. Co., 275 F.Supp.2d 1307, 1312 (D.Or. Jul 17, 2003) (NO. CV 01-1575-BR) **HN: 8 (F.3d)**

35 In re Barton, 249 B.R. 561, 564, 44 Collier Bankr.Cas.2d 782, 782, 36 Bankr.Ct.Dec. 67, 67 (Bankr.E.D.Wash. Jun 15, 2000) (NO. 98-03294-W13) **HN: 5 (F.3d)**

Administrative Decisions (U.S.A.)

H 36 In re Certified Abatement Technologies, Inc., 1999 WL 322641 (A.S.B.C.A.), *322641+, 99-1 BCA P 30,389, 30389+, ASBCA No. 39,852, 39852+ (A.S.B.C.A. May 18, 1999) (NO. N62477-87-D-1554) ** **HN: 2,9 (F.3d)**

C 37 IRS LB 200038040, 2000 WL 33120164,(IRS LB Sep 22, 2000) ** **HN: 11 (F.3d)**

C 38 IRS CCA 200027050, 2000 WL 33116166,(IRS CCA Jul 07, 2000) ** **HN: 11 (F.3d)**

Secondary Sources (U.S.A.)

C 39 Assignability of licensee's rights under patent licensing contract, 66 A.L.R.2d 606, § 9 (1959) **HN: 3,4,7 (F.3d)**

40 Anderson on the Uniform Commercial Code s 503:1UC, OFFICIAL COMMENT (2004) **HN: 4 (F.3d)**

41 Asset-Based Lending: A Prac. Guide to Sec. Financ. s 7:8.2, Lender/Borrower Covenants (2002)

42 Asset Protection: Legal Planning, Strat. & Forms P 9.03, BANKRUPTCY (2004) **HN: 4 (F.3d)**

43 Bankruptcy Deskbook s 11:3.4, Assumption and Rejection of Executory Contracts and Leases (2003)

44 Bankruptcy Deskbook s 11:3.5, Assumption and Rejection of Executory Contracts and Leases (2001) **HN: 6 (F.3d)**

45 Bankruptcy Law Manual s 8:43, -LIMITATIONS ON THE TRUSTEE'S RIGHT TO ASSUME AN EXECUTORY CONTRACT OR UNEXPIRED LEASE (2003) **HN: 4 (F.3d)**

46 Bankruptcy Practice for the General Practitioner s 9:5, TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES (2004)

47 Bankruptcy Service Lawyers Edition s 21:208, s 21:208. Generally (2004) **HN: 1,2,4 (F.3d)**

48 Chapter 11: Reorganizations, Second Edition s 9:13, s 9:13. Executory contracts and unexpired leases (2004) **HN: 4 (F.3d)**

49 Commercial Bankruptcy Litigation s 8:19, -CONTRACTS NOT ASSIGNABLE UNDER NONBANKRUPTCY LAW (2004) **HN: 4 (F.3d)**

50 Creditors' Rights in Bankruptcy s 9:12, s 9:12. Exceptions to the power to assume or assign (2004) **HN: 2 (F.3d)**

51 Creditors' Rights in Bankruptcy s 9:13, s 9:13. Effect of bankruptcy termination clauses (2004) **HN: 4 (F.3d)**

52 Equipment Leasing - Leveraged Leasing s 7:6.2, Restrictions on Assumption and Assignment (2003) **HN: 4 (F.3d)**

53 Financial Handbook for Bankruptcy Professionals s 6.13, Executory Contracts and Unexpired Leases (2003)

54 Law of Computer Technology s 7:79, -LICENSEE'S SOLE USE (1998) **HN: 4,7 (F.3d)**

55 Law of Computer Technology APP C, APPENDIX C. UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT: INFORMATION AGE IN CONTRACTS (1998) **HN: 4 (F.3d)**

56 Law of Electronic Commercial Transactions, The APP 5, APPENDIX 5: UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT (2003) **HN: 4 (F.3d)**

57 2002 Norton Annual Survey of Bankruptcy Law 203, Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits" (2002)

58 1999 Norton Bankruptcy Law Adviser 1, NINTH CIRCUIT RENDERS PATENT LICENSES AND FEDERAL CONTRACTS NOT ASSUMABLE (1999)

59 1999 Norton Bankruptcy Law Adviser 7, ORIGINS OF S 365 AND ITS 1984 AMENDMENT (1999)

60 2001 Norton Bankruptcy Law Adviser 1, BUSINESS BANKRUPTCY ASPECTS OF THE BANKRUPTCY REFORM ACT (2001)

61 2002 Norton Bankruptcy Law Adviser 2, TIME TO ELIMINATE IPSO FACTO CLAUSES (2002)

62 2004 Norton Bankruptcy Law Adviser 1, CIRCUIT SPLITS 2004: A DISCUSSION OF BANKRUPTCY ISSUES CURRENTLY IN DISPUTE AMONG THE COURTS OF APPEALS (2004) **HN: 1 (F.3d)**

63 2004 Norton Bankruptcy Law Adviser 2, (2004)

64 Norton Bankruptcy Law and Practice 2d s 151:30, s 151:30. Rights in Intellectual Property as Executory Contracts; Generally -- Patent and Copyright Licenses; Special Considerations (2004) **HN: 4,6 (F.3d)**

65 Norton Bankruptcy Law and Practice 2d s 39:20, s 39:20. Contracts Which May Not Be Assumed -- Contracts for Specialized Performance (2004) **HN: 4 (F.3d)**

66 Norton Bankruptcy Law and Practice 2d s 39:32, s 39:32. Assignment of Executory Contracts and Unexpired Leases (2004) **HN: 2 (F.3d)**

67 Norton Bankruptcy Law and Practice 2d s 39:56, s 39:56. Special Treatment of Certain Executory Contracts Not Involving Real Property -- Partnership Agreements (2004) **HN: 11 (F.3d)**

68 Norton Bankruptcy Law and Practice 2d 11 USC s 365, EXECUTORY CONTRACTS AND UNEXPIRED LEASES. (2003) **HN: 4 (F.3d)**

69 Sutherland Statutes and Statutory Construction s 46:6, EACH WORD GIVEN EFFECT (2004) **HN: 5 (F.3d)**

70 Tenn. Prac., Debtor-Creditor Law & Practice s 31.25, EXECUTORY CONTRACTS AND UNEXPIRED LEASES (2003)

71 28 Wash. Prac. Series s 9.78, Executory Contracts and Unexpired Leases (2004) **HN: 2,4 (F.3d)**

72 28 Wash. Prac. Series s 9.81, Executory Contracts-Intellectual Property (2004)

73 6A West's Federal Forms s 10016, Notice Of Motion To Assume Or Reject Executory Contract Or Lease-11 U.S.C.A. S 365(a) (2000) **HN: 1,4 (F.3d)**

74 9A West's Legal Forms s 30.01, Introduction **HN: 1,4 (F.3d)**

75 27A West's Legal Forms s 10.6, Legislation

76 Williston on Contracts s 78:49, ASSIGNMENT PROHIBITED OR RESTRICTED BY APPLICABLE LAW (2004) **HN: 1,2,4 (F.3d)**

C 77 6 Am. Jur. 2d Assignments s 104, -TRANSFER IN CONNECTION WITH BANKRUPTCY (2004)

78 Am. Jur. 2d Bankruptcy s 1723, CONTRACT AND LEASE TERMINATION (2004)

79 Am. Jur. 2d Bankruptcy s 3495, PARTICULAR JUDGMENTS, ORDERS, AND DECREES AS FINAL (2004)

C 80 CJS Bankruptcy s 221, -RESTRICTIONS ON ASSIGNMENT OR DELEGATION (2004)

81 CJS Patents s 351, ASSIGNMENTS AND SUBLICENSEE (2004) **HN: 3,4,7 (F.3d)**

C 82 EXCLUSIVE AND NON-EXCLUSIVE IP LICENSES AND EXECUTORY CONTRACT ASSUMPTION AND ASSIGNMENT: DOES EXCLUSIVITY MATTER?, 22-FEB Am. Bankr. Inst. J. 28, 28 (2003) **HN: 6 (F.3d)**

83 THE RISK OF AN OFFENSIVE USE OF CATAPULT, 20-APR Am. Bankr. Inst. J. 14, 14+ (2001) **HN: 1,2,4 (F.3d)**

84 TEXAS ATTORNEY GENERAL: PRIVACY IS NOT FOR SALE, 19-OCT Am. Bankr. Inst. J. 1, 51 (2000) **HN: 4 (F.3d)**

C 85 CREATING VALUE IN THE BANKRUPTCY CASE OF A PHYSICIAN PRACTICE

MANAGEMENT COMPANY, 19-AUG Am. Bankr. Inst. J. 12, 40 (2000) **HN: 1,2,4 (F.3d)**

C 86 EXECUTORY CONTRACTS: RETENTION WITHOUT ASSUMPTION IN CHAPTER 11- "RIDE-THROUGH" REVISISTED, 19-MAR Am. Bankr. Inst. J. 33, 33+ (2000) **HN: 1,4,11 (F.3d)**

87 BENCHNOTES, 18-JAN Am. Bankr. Inst. J. 3, 4 (2000) **HN: 1 (F.3d)**

C 88 NINTH CIRCUIT SLAMS SHUT THE "BACK DOOR" ACCESS TO PATENTED TECHNOLOGY, 18-APR Am. Bankr. Inst. J. 18, 18+ (1999) **HN: 1,2,4 (F.3d)**

C 89 THE NEW FACE OF CHAPTER 11, 12 Am. Bankr. Inst. L. Rev. 69, 99 (2004)

90 THE ULTIMATE DOWNSIDE OF OUTSOURCING: BANKRUPTCY OF THE SERVICE PROVIDER, 11 Am. Bankr. Inst. L. Rev. 47, 92 (2003) **HN: 4 (F.3d)**

C 91 INTERNET DOMAIN NAME SECURITY INTERESTS: WHY DEBTORS CAN GRANT THEM AND LENDERS CAN TAKE THEM IN THIS NEW TYPE OF HYBRID PROPERTY, 10 Am. Bankr. Inst. L. Rev. 853, 889+ (2002) **HN: 4 (F.3d)**

C 92 "WORKOUTS" UNDER REVISED ARTICLE 9: A REVIEW OF CHANGES AND PROPOSAL FOR STUDY, 9 Am. Bankr. Inst. L. Rev. 115, 176 (2001) **HN: 11 (F.3d)**

C 93 INTELLECTUAL PROPERTY LAW IN BANKRUPTCY COURT: THE SEARCH FOR A MORE COHERENT STANDARD IN DEALING WITH A DEBTOR'S RIGHT TO ASSUME AND ASSIGN TECHNOLOGY LICENSES, 9 Am. Bankr. Inst. L. Rev. 593, 618+ (2001) **HN: 1,2,4 (F.3d)**

C 94 ARE PHYSICIAN PRACTICE MANAGEMENT AGREEMENTS ASSUMABLE UNDER SECTION 365 OF THE BANKRUPTCY CODE?, 8 Am. Bankr. Inst. L. Rev. 77, 94+ (2000) **HN: 1,2,4 (F.3d)**

C 95 HI-TECH AND TELECOM IN FINANCIAL DISTRESS, 8 Am. Bankr. Inst. L. Rev. 205, 216+ (2000) **HN: 2,4,7 (F.3d)**

C 96 RESTART.COM: IDENTIFYING, SECURING AND MAXIMIZING THE LIQUIDATION VALUE OF CYBER-ASSETS IN BANKRUPTCY PROCEEDINGS, 8 Am. Bankr. Inst. L. Rev. 255, 288+ (2000) **HN: 2,4,7 (F.3d)**

C 97 E-COMMERCE AND DOT-COM BANKRUPTCIES: ASSUMPTION, ASSIGNMENT AND REJECTION OF EXECUTORY CONTRACTS INCLUDING INTELLECTUAL PROPERTY AGREEMENTS, AND RELATED ISSUES UNDER SECTION 365(c), AND 365(e)ADN 365(n)OF THE BANKRUPTCY, 8 Am. Bankr. Inst. L. Rev. 307, 347+ (2000) **HN: 1,2,4 (F.3d)**

C 98 WHEN YOU CAN'T SELL TO YOUR CUSTOMERS, TRY SELLING YOUR CUSTOMERS (BUT NOT UNDER THE BANKRUPTCY CODE), 8 Am. Bankr. Inst. L. Rev. 395, 425+ (2000) **HN: 2,6 (F.3d)**

C 99 THE LIMITS ON ASSUMING AND ASSIGNING EXECUTORY CONTRACTS, 74 Am. Bankr. L.J. 321, 339+ (2000) **HN: 4,11 (F.3d)**

C 100 THE DUBIOUS ROLE OF PRECEDENT IN THE QUEST FOR FIRST PRINCIPLES IN THE REFORM OF THE BANKRUPCTY CODE: SOME LESSONS FROM THE CIVIL LAW AND REALIST TRADITIONS, 74 Am. Bankr. L.J. 173, 226 (2000) **HN: 8 (F.3d)**

101 CRASH AND LEARN, 87-JUN A.B.A. J. 42, 45+ (2001) **HN: 3,4 (F.3d)**

C 102 STARTING FROM SCRATCH: A LAWYER'S GUIDE TO REPRESENTING A START-UP COMPANY, 56 Ark. L. Rev. 773, 869 (2004)

103 HOW BANKRUPTCY CAN AFFECT A CLIENT'S INTELLECTUAL PROPERTY RIGHTS, 38-SPG Ark. Law. 20, 25 (2003) **HN: 4,7 (F.3d)**

C 104 THE IMPACT OF BANKRUPTCY ON PATENT AND COPYRIGHT LICENSES, 17 Bankr. Dev. J. 575, 603+ (2001) **HN: 1,2,4 (F.3d)**

105 Assumption of Nonassignable Executory Contracts: Herein of Ambiguous "Applicable Law," Meaningless Statutory Amendments, and an Absurd View of the Absurd (2004) **HN: 2,6 (F.3d)**

106 2004 Bankruptcy Service Current Awareness Alert 7, section 365(c)(1) literally, Fourth Circuit holds that a debtor may not assume software license agreement without licensor's consent even if debtor has no intention of assigning the agreement (2004)

C 107 AT THE INTERSECTION OF REGULATION AND BANKRUPTCY: FCC v. NEXTWAVE, 59 Bus. Law. 1, 22 (2003) **HN: 1 (F.3d)**

C 108 THE EFFECT OF CORPORATE ACQUISITIONS ON THE TARGET COMPANY'S LICENSE RIGHTS, 57 Bus. Law. 767, 792+ (2002) **HN: 4,7 (F.3d)**

C 109 WHO OWNS THE CUSTOMER? THE EMERGING LAW OF COMMERCIAL TRANSACTIONS IN ELECTRONIC CUSTOMER DATA, 56 Bus. Law. 213, 271+ (2000) **HN: 4,6 (F.3d)**

C 110 LICENSING INTELLECTUAL PROPERTY AND TECHNOLOGY FROM THE FINANCIALLY-TROUBLED OR STARTUP COMPANY: PREBANKRUPTCY STRATEGIES TO MINIMIZE THE RISK IN A LICENSEE'S INTELLECTUAL PROPERTY AND TECHNOLOGY INVESTMENT, 55 Bus. Law. 1649, 1698+ (2000) **HN: 2,4 (F.3d)**

C 111 HISTORICAL DEFAULTS AND CROSS-DEFAULTS: HERE A DEFAULT, THERE A DEFAULT, EVERYWHERE A DEFAULT, DEFAULT, DEFAULT, 26 Cal. Bankr. J. 286, 306 (2003) **HN: 4 (F.3d)**

C 112 RECENT DEVELOPMENTS IN BUSINESS BANKRUPTCY - 1999, 25 Cal. Bankr. J. 261, 277+ (2000) **HN: 11 (F.3d)**

113 LORD OF THE LIENS: TOWARDS GREATER EFFICIENCY IN SECURED SYNDICATED LENDING, 25 Cardozo L. Rev. 1577, 1653 (2004) **HN: 4,7 (F.3d)**

C 114 NEXTWAVE V. FCC: BATTLE FOR THE C-BLOCK LICENSES, 50 Cath. U. L. Rev. 219, 265 (2000) **HN: 4 (F.3d)**

C 115 THE FINANCING OF INTELLECTUAL PROPERTY UNDER REVISED UCC ARTICLE 9, 74 Chi.-Kent L. Rev. 1077, 1107 (1999) **HN: 4 (F.3d)**

116 SECTION 365 OF THE BANKRUPTCY CODE: WHEN THE WORDS GET IN THE WAY, 105 Com. L.J. 413, 445+ (2000) **HN: 1,4,9 (F.3d)**

117 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 20 NO. 7 Computer & Internet Law. 19, 29 (2003) **HN: 4 (F.3d)**

118 INTERNET DOMAIN NAME SECURITY INTERESTS: WHY DEBTORS CAN GRANT THEM AND LENDERS CAN TAKE THEM, 20 NO. 6 Computer & Internet Law. 7, 15+ (2003) **HN: 4 (F.3d)**

C 119 HOT ISSUES IN COPYRIGHT AND TRADEMARK LICENSING, 20 NO. 2 Computer & Internet Law. 16, 28+ (2003) **HN: 4,7 (F.3d)**

C 120 REORGANIZING HIGH-TECH BUSINESSES: "FIND ME SOME LAWYERS WHO WEAR SUITS", 19 NO. 6 Computer & Internet Law. 7, 16 (2002)

121 DOT-COM AND HIGH-TECHNOLOGY COMPANIES: NUCLEAR WASTE AND CHAPTER 11?, 17 NO. 8 Computer Law. 25, 28 (2000)

C 122 THE INTERSECTION OF PATENT LAW AND BAKRUPTCY: WHAT EVERY PRACTITIONER SHOULD KNOW, 18-WTR Del. Law. 30, 32 (2000) **HN: 4 (F.3d)**

123 2 DePaul Bus. & Com. L.J. 593, NEXTWAVE: THE DOUBLE EDGED SWORD (2004) **HN: 1 (F.3d)**

C 124 MASS MARKET TRANSACTIONS IN THE UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT, 38 Duq. L. Rev. 371, 458 (2000) **HN: 4 (F.3d)**

C 125 FINANCING INTELLECTUAL PROPERTY UNDER FEDERAL LAW: A NATIONAL IMPERATIVE, 23 Hastings Comm. & Ent. L.J. 195, 311 (2001) **HN: 7 (F.3d)**

C 126 FINANCING INTELLECTUAL PROPERTY UNDER REVISED ARTICLE 9: NATIONAL AND INTERNATIONAL CONFLICTS, 23 Hastings Comm. & Ent. L.J. 313, 455 (2001) **HN: 7 (F.3d)**

C 127 THE TRANSFERABILITY OF NON-EXCLUSIVE COPYRIGHT LICENSES: A NEW DEFAULT RULE FOR SOFTWARE IN THE NINTH CIRCUIT?, 22 Hastings Comm. & Ent. L.J. 153, 176+ (1999) **HN: 1,2,4 (F.3d)**

C 128 INTELLECTUAL PROPERTY COLLABORATION STRESSES IN BANKRUPTCY: PROTECTING THE RIGHTS OF THE NONBANKRUPT PARTIES, 54 Hastings L.J. 471, 491+ (2003) **HN: 1,2,4 (F.3d)**

C 129 BANKRUPTCY LAW V. PRIVACY RIGHTS: WHICH HOLDS THE TRUMP CARD?, 38 Hous. L. Rev. 777, 854 (2001) **HN: 4 (F.3d)**

130 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY LICENSE AGREEMENTS, 8 NO. 2 Intell. Prop. L. Bull. 12, 14+ (2003) **HN: 4 (F.3d)**

131 ASSIGNABILITY OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY NAVIGATING THE MURKY WATERS OF SECTION 365, 21 NO. 1 Intell. Prop. L. Newsl. 11, 16+ (2002)

132 The Plan of Reorganization: A Thing of the Past?,(2004)

... FIRST DAY MOTIONS AND ORDERS IN LARGE CHAPTER 11 CASES: (Critical Vendor, DIP Financing and Cash Management Issues),(2003)

134 FIRST DAY MOTIONS AND ORDERS IN LARGE CHAPTER 11 CASES: (Critical Vendor, DIP Financing and Cash Management Issues),(2003) **HN: 4 (F.3d)**

135 FIRST DAY MOTIONS AND ORDERS IN LARGE CHAPTER 11 CASES: (Critical Vendor, DIP Financing and Cash Management Issues),(2003) **HN: 4 (F.3d)**

136 FIRST DAY MOTIONS AND ORDERS IN LARGE CHAPTER 11 CASES: (Critical Vendor, DIP Financing and Cash Management Issues),(2003)

137 BANKRUPTCY CONSIDERATIONS IN TECHNOLOGY TRANSACTIONS, 12 J. Bankr. L. & Prac. 317, 324 (2003) **HN: 6 (F.3d)**

138 FIRST DAY MOTIONS AND ORDERS IN LARGE CHAPTER 11 CASES: (CRITICAL VENDOR, DIP FINANCING AND CASH MANAGEMENT ISSUES), 12 J. Bankr. L. & Prac. 59, 79 (2003) **HN: 4 (F.3d)**

C 139 RECENT DEVELOPMENTS IN EXECUTORY CONTRACTS, 10 J. Bankr. L. & Prac. 121, 122+ (2001) **HN: 1,2,4 (F.3d)**

C 140 THE FEDERAL INTEREST IN THE TRANSFER OF PATENT LICENSE RIGHTS IN BANKRUPTCY, 10 J. Bankr. L. & Prac. 3, 28+ (2000) **HN: 2,4,7 (F.3d)**

141 REORGANIZING HIGH TECH BUSINESSES--"I NEED HELP, FIND ME SOME LAWYERS WHO WEAR SUITS", 9 J. Bankr. L. & Prac. 547, 556+ (2000) **HN: 1,4,7 (F.3d)**

C 142 DRAFTING THE INTELLECTUAL PROPERTY LICENSE: BANKRUPTCY CONSIDERATIONS, 9 J. Bankr. L. & Prac. 591, 600 (2000) **HN: 4 (F.3d)**

143 ADVISING DISTRESSED BUSINESSES ON AN ALTERNATIVE TO BANKRUPTCY, 24-SEP L.A. Law. 18, 22 (2001) **HN: 4,7 (F.3d)**

C 144 GOING FOR BROKE WITH INTELLECTUAL PROPERTY, 17 Me. B.J. 178, 181+ (2002) **HN: 4 (F.3d)**

145 NONEXCLUSIVE PATENT LICENSES: NOT ASSIGNABLE 9TH CIRCUIT DECISION PRECLUDED DEBTOR IN POSSESSION FROM ASSUMING RIGHTS, SANS CONSENT., 10/16/00 Nat'l L.J. C22, col. 2, C22, col. 2+ (2000) **HN: 4,7 (F.3d)**

C 146 BACK TO EARTH FORM CYBERSPACE: DEALING WITH BUSINESS FAILURE OF INTERNET COMPANIES, 8-JUN Nev. Law. 12, 14+ (2000) **HN: 2,4,9 (F.3d)**

C 147 LIMITATIONS ON ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS BY "APPLICABLE LAW", 31 N.M. L. Rev. 299, 323+ (2001) **HN: 1,2,4 (F.3d)**

148 CONFLICTING CLAUSES OF SEC.365 STILL MAKING COURTS STRUGGLE, 2/17/2004 N.Y. L.J. S1, col. 3, S1, col. 3 (2004)

149 INTELLECTUAL PROPERTY IN BANKRUPTCY: SEC.365 TACKLES COMPETING INTERESTS, 11/3/2003 N.Y. L.J. S2, col. 4, S2, col. 4 (2003)

150 PLANS MAY GO AWRY IF PROVIDERS ENTER BANKRUPTCY, 12/3/2001 N.Y. L.J. S8, col. 3, S8, col. 3 (2001) **HN: 3,4,7 (F.3d)**

151 EMERGING COMPANIES, PLAN FOR YOUR SURVIVAL ALLOCATE YOUR TIME AND REMAINING ASSETS WISELY IF NEW FUNDING NOT AVAILABLE NOW, 6/11/2001 N.Y. L.J. S4, col. 1, S4, col. 1 (2001) **HN: 4 (F.3d)**

152 BANKRUPTCY IMPLICATIONS OF TROUBLED DOT-COMS, 5/18/2000 N.Y. L.J. 1, col. 1, 1, col. 1+ (2000)

153 BANKRUPTCY IMPLICATIONS OF TROUBLED DOT-COMS, 5/18/2000 N.Y. L.J. 1, col. 1, 1, col. 1+ (2000)

154 THE PERFECTION OF LIENS IN UNREGISTERED COPYRIGHTS: AEROCON AND BEYOND, 28 Okla. City U. L. Rev. 645, 674+ (2003) **HN: 4,6 (F.3d)**

155 DATA AS A "TANGIBLE RESULT', 21-JUN Pa. Law. 50, 50 (1999)

C 156 REVERSE AGE DISCRIMINATION SUITS AND THE AGE DISCRIMINATION IN EMPLOYMENT ACT, 18 St. John's J. Legal Comment. 271, 309 (2003)

C 157 BANKRUPTCY AND INSOLVENCY ISSUES FOR PARTNERSHIPS, LLCS, AND THEIR OWNERS-THE GOOD, THE BAD, AND THE UGLY, 39-SPG Tex. J. Bus. L. 51, 96+ (2003) **HN: 2,4 (F.3d)**

C 158 TRADEMARK ISSUES IN BANKRUPTCY, 93 Trademark Rep. 867, 903+ (2003) **HN: 1 (F.3d)**

C 159 THE RELATIONSHIP OF ANTITRUST LAWS TO REGULATED INDUSTRIES AND

INTELLECTUAL PROPERTY IN THE NEW MARKETPLACE, 4 Tul. J. Tech. & Intell. Prop. 1, 27 (2002) **HN: 4 (F.3d)**

C 160 "DELAWARE IS NOT A STATE': ARE WE WITNESSING JURISDICTIONAL COMPETITION IN BANKRUPTCY?, 55 Vand. L. Rev. 1845, 1916+ (2002) **HN: 4 (F.3d)**

C 161 TEXTUALISM'S FAILURES: A STUDY OF OVERRULED BANKRUPTCY DECISIONS, 53 Vand. L. Rev. 887, 946 (2000)

C 162 PRAGMATIC TEXTUALISM AND THE LIMITS OF STATUTORY INTERPRETATION: DALE V. BOY SCOUTS OF AMERICA, 35 Wake Forest L. Rev. 973, 1027 (2000) **HN: 10 (F.3d)**

C 163 MUDDY PROPERTY: GENERATING AND PROTECTING INFORMATION PRIVACY NORMS IN BANKRUPTCY, 44 Wm. & Mary L. Rev. 1801, 1881 (2003) **HN: 4 (F.3d)**

C 164 GAME OVER PERLMAN V. CATAPULT ENTERTAINMENT (IN RE CATAPULT ENTERTAINMENT), 165 F.3D 747 (9TH CIR.), CERT. DISMISSED, 120 S. CT. 369 (1999)., 109 Yale L.J. 1709, 1716+ (2000) **HN: 2,4,7 (F.3d)**

165 062404 American Bankruptcy Institute 207, UPDATE ON EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY PROCEEDINGS (2004) **HN: 1 (F.3d)**

166 091203 American Bankruptcy Institute 215, Executory Contracts: Cutting-Edge Issues and Recurring Problems (Intellectual Property Dilemmas; Professional Service Debtors; Effect of Member Bankruptcy) (2003) **HN: 6 (F.3d)**

167 091203 American Bankruptcy Institute 23, First-Day Issues (Payment of Critical Vendors; Abuses of DIP Financing; Cash Management) First Day Motions and Orders in Large Chapter 11 Cases (Critical Vendor, DIP Financing and Cash Management Issues) (2003)

168 013003 American Bankruptcy Institute 17, Asset Sales-Executory Contracts and Other Issues Executory Contracts and Technology Transactions (2003) **HN: 6 (F.3d)**

169 013003 American Bankruptcy Institute 245, Bankruptcy Issues in Construction Cases A Selection of Legal Issues Confronting Construction Companies Facing Bankruptcy (2003) **HN: 1,2,4 (F.3d)**

170 120702 American Bankruptcy Institute 139, Concurrent Session: Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licensing & Sales Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licens (2002) **HN: 4 (F.3d)**

171 092002 American Bankruptcy Institute 413, Limited Liability Companies & Partnership Issues (Professional Service Debtors: Effect of Member Bankruptcy Issues Relating to Limited Liability Companies in Bankruptcy Cases (2002) **HN: 1,2 (F.3d)**

172 013102 American Bankruptcy Institute 57, Intellectual Property and Other Issues in High-tech Cases Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits' (2002) **HN: 1,4,7 (F.3d)**

173 062801 American Bankruptcy Institute 63, Dot.com Cases (2001) **HN: 2,4,6 (F.3d)**

174 062801 American Bankruptcy Institute 91, Section 365 (2001) **HN: 4,7 (F.3d)**

175 020801 American Bankruptcy Institute 89, E-commerce and High-tech Bankruptcies Dotcom Bankruptcies (2001) **HN: 4 (F.3d)**

176 113000 American Bankruptcy Institute 451, Intellectual Property and Other Intangible Assets: Valuing, Selling, Reorganizing Assumption of Nonassignable Contracts (2000) **HN: 2,4,11 (F.3d)**

177 LEASE TERMNATIONS, SOLVENT TENANTS AND BANKRUPTCY LAW, SK005 ALI-ABA 2251, 2267 (2004) **HN: 4 (F.3d)**

178 FIRST DAY ORDERS, SJ082 ALI-ABA 1, 25 (2004) **HN: 4 (F.3d)**

179 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SJ082 ALI-ABA 201, 205+ (2004) **HN: 3,4,7 (F.3d)**

180 VENUE CONSIDERATIONS: DIFFERENCES AMONG THE CIRCUITS ON COMMON RECURRING ISSUES IN CHAPTER 11 CASES, SJ082 ALI-ABA 451, 479 (2004) **HN: 3,4,7 (F.3d)**

181 SECURITY INTERESTS IN INTELLECTUAL PROPERTY, SJ093 ALI-ABA 341, 354+ (2004) **HN: 4 (F.3d)**

182 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ061 ALI-ABA 233, 270 (2004) **HN: 1 (F.3d)**

183 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SJ076 ALI-ABA 573, 609+ (2004) **HN: 4 (F.3d)**

184 LEASE TERMINATIONS, SOLVENT TENANTS, AND BANKRUPTCY LAWS, SJ076 ALI-ABA 677, 693 (2004) **HN: 4 (F.3d)**
185 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ025 ALI-ABA 319, 373 (2003) **HN: 1 (F.3d)**
186 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SH054 ALI-ABA 243, 247+ (2003) **HN: 3,4,7 (F.3d)**
187 SECURITY INTERESTS IN INTELLECUTAL PROPERTY, SH081 ALI-ABA 271, 287+ (2003) **HN: 4 (F.3d)**
188 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SG108 ALI-ABA 345, 349+ (2002) **HN: 3,4,7 (F.3d)**
189 SECURITY INTERESTS IN INTELLECTUAL PROPERTY, SG085 ALI-ABA 385, 397+ (2002) **HN: 4 (F.3d)**
190 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SG064 ALI-ABA 505, 538+ (2001) **HN: 4 (F.3d)**
191 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SG001 ALI-ABA 407, 411+ (2001) **HN: 3,4,7 (F.3d)**
192 SECURITY INTERESTS IN INTELLECTUAL PROPERTY, SF80 ALI-ABA 329, 356+ (2001) **HN: 4 (F.3d)**
193 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SF40 ALI-ABA 447, 485+ (2001) **HN: 4 (F.3d)**
194 SECURITY INTERESTS IN INTELLECTUAL PROPERTY, SF01 ALI-ABA 249, 277+ (2000) **HN: 4 (F.3d)**
195 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SE71 ALI-ABA 369, 384+ (2000) **HN: 1,2,4 (F.3d)**
196 OUTLINE OF SELECTED PROBLEMS IN PARTNERSHIP AND PARTNER BANKRUPTCY CASES, SE71 ALI-ABA 533, 551+ (2000) **HN: 6 (F.3d)**
197 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SE33 ALI-ABA 435, 473+ (1999) **HN: 4 (F.3d)**
198 DETERMINING AND PRESERVING THE ASSETS OF DOT-COMS, 28 Del. J. Corp. L. 185, 223+ (2003) **HN: 4 (F.3d)**
199 CONSL Florida Bar Continuing Legal Education Materials 16-1, THE IMPACT OF BANKRUPTCY (2003) **HN: 4 (F.3d)**
200 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *13+ (2002) **HN: 1,2,4 (F.3d)**
201 TPMII Massachusetts Continuing Legal Education Materials S-16-1, RESIDENTIAL AND NONRESIDENTIAL REAL PROPERTY LEASES IN BANKRUPTCY (2004) **HN: 2 (F.3d)**
202 LEASII Massachusetts Continuing Legal Education Materials 12-1, IMPACT OF BANKRUPTCY ON THE LANDLORD-TENANT RELATIONSHIP (2001) **HN: 1,2,4 (F.3d)**
203 TPMII Massachusetts Continuing Legal Education Materials 16-1, RESIDENTIAL AND NONRESIDENTIAL REAL PROPERTY LEASES IN BANKRUPTCY (2001) **HN: 2 (F.3d)**
204 DISTRESSED ASSET SALES: SELLING AND ACQUIRING FROM THE DEBTOR ESTATE, 861 PLI/Comm 935, 989 (2004) **HN: 4 (F.3d)**
205 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 258+ (2004) **HN: 1,2,4 (F.3d)**
206 RECENT DEVELOPMENTS AFFECTING CHAPTER 11 CASES, 862 PLI/Comm 337, 346+ (2004) **HN: 2,4,11 (F.3d)**
207 EXECUTORY CONTRACTS AND LEASES, 862 PLI/Comm 603, 632+ (2004) **HN: 1,4 (F.3d)**
208 EXECUTORY CONTRACTS AND LEASES, 855 PLI/Comm 523, 553+ (2003) **HN: 1,2,4 (F.3d)**
209 THE DELAWARE ALTERNATIVE, 853 PLI/Comm 189, 218 (2003) **HN: 4 (F.3d)**
210 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1337+ (2003) **HN: 1,2,4 (F.3d)**
211 EXECUTORY CONTRACTS AND LEASES, 850 PLI/Comm 135, 167+ (2003) **HN: 1,2,4 (F.3d)**
212 RECENT DEVELOPMENTS AFFECTING CHAPTER 11 CASES, 850 PLI/Comm 7, 15+ (2003) **HN: 2,4,11 (F.3d)**
213 THE TANGLED WEB: SOFTWARE FINANCIAL ISSUES -- RIGHTS, 846 PLI/Comm 91, 106+

(2003) **HN: 4,7 (F.3d)**

214 EXECUTORY CONTRACTS AND LEASES, 842 PLI/Comm 541, 552+ (2002) **HN: 1,2,4 (F.3d)**

215 THE BANKRUPTCY POWER AND STRUCTURE OF THE BANKRUPTCY CODE, 842 PLI/Comm 9, 16 (2002) **HN: 8 (F.3d)**

216 THE DELAWARE ALTERNATIVE, 840 PLI/Comm 141, 172 (2002) **HN: 4 (F.3d)**

217 , 838 PLI/Comm 245, 284+ (2002) **HN: 1,2,4 (F.3d)**

218 , 838 PLI/Comm 453, 478+ (2002) **HN: 1,2,4 (F.3d)**

219 REORGANIZING HIGH-TECH BUSINESSES - "I NEED HELP, FIND ME SOME LAWYERS WHO WEAR SUITS", 834 PLI/Comm 109, 120+ (2002) **HN: 1,4,7 (F.3d)**

220 THE TANGLED WEB: SOFTWARE FINANCING ISSUES - RIGHTS OF LICENSEES, CREDITORS AND LICENSORS, 834 PLI/Comm 35, 48+ (2002) **HN: 4,7 (F.3d)**

221 EXECUTORY CONTRACTS, 828 PLI/Comm 461, 504 (2001) **HN: 4,7 (F.3d)**

222 AN OVERVIEW OF INTELLECTUAL PROPERTY LICENSES AND BANKRUPTCY, 827 PLI/Comm 129, 133+ (2001) **HN: 4 (F.3d)**

223 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 820 PLI/Comm 1141, 1156+ (2001) **HN: 1,2,4 (F.3d)**

224 RECENT DEVELOPMENTS AFFECTING CHAPTER 11 CASES, 820 PLI/Comm 375, 382+ (2001) **HN: 2,4,11 (F.3d)**

225 EXECUTORY CONTRACTS AND LEASES, 820 PLI/Comm 447, 471+ (2001) **HN: 1,2,4 (F.3d)**

226 BANKRUPTCY IN A BRAVE E-WORLD: PLANNING FOR THE DAY A DOT-COM CRASHES, 816 PLI/Comm 247, 281+ (2001) **HN: 4 (F.3d)**

227 THE BANKRUPTCY POWER AND STRUCTURE OF THE BANKRUPTCY CODE, 810 PLI/Comm 9, 16 (2000) **HN: 8 (F.3d)**

228 CURRENT DEVELOpMENTS IN INTELLECTUAL pROpERTY ISSUES IN BANKRUpTCY, 805 PLI/Comm 1053, 1062+ (2000) **HN: 4 (F.3d)**

229 RECENT DEVELOpMENTS AFFECTING CHApTER 11 CASES, 805 PLI/Comm 7, 13+ (2000) **HN: 2,4,11 (F.3d)**

230 EXECUTORY CONTRACTS AND LEASES, 805 PLI/Comm 79, 110+ (2000) **HN: 1,2,4 (F.3d)**

231 EXECUTORY CONTRACTS, 796 PLI/Comm 599, 642 (1999) **HN: 4,7 (F.3d)**

232 CURRENT DEVELOPMENTS IN BANKRUPTCY AND REORGANIZATION: EXECUTORY CONTRACTS AND LEASES, 788 PLI/Comm 73, 99+ (1999) **HN: 1,4 (F.3d)**

233 INTELLECTUAL PROPERTY ISSUES IN BANKRUPTCY, 1316 PLI/Corp 73, 90+ (2002) **HN: 2,4,11 (F.3d)**

234 INTELLECTUAL PROPERTY ISSUES IN AN INSOLVENCY CONTEXT, 1307 PLI/Corp 173, 182+ (2002) **HN: 2,4,7 (F.3d)**

235 B-SQUARE: BANKRUPTCY FOR BEGINNERS, 1267 PLI/Corp 853, 884 (2001) **HN: 2 (F.3d)**

236 TELECOM BANKRUPTCIES AND REORGANIZATIONS, 1263 PLI/Corp 711, 718+ (2001) **HN: 2,4 (F.3d)**

237 RESTRUCTURING AND BANKRUPTCY ALTERNATIVES FOR THE NEW ECONOMY COMPANY, 1259 PLI/Corp 251, 272 (2001) **HN: 3,4 (F.3d)**

238 BANKRUPTCY ISSUES FOR HIGH-TECH COMPANIES, 1255 PLI/Corp 351, 373 (2001) **HN: 8 (F.3d)**

239 ACQUISITIONS OF FINANCIALLY TROUBLED COMPANIES, 1228 PLI/Corp 915, 920 (2001)

240 CREDITORS' RIGHTS ISSUES IN THE PURCHASE AND SALE OF ASSETS OF FINANCIALLY DISTRESSED DEBTOR, 1228 PLI/Corp 957, 970 (2001) **HN: 4 (F.3d)**

241 , 1167 PLI/Corp 623, 628 (2000)

242 BANKRUPTCY, INSOLVENCY AND LICENSING, 801 PLI/Pat 269, 296+ (2004) **HN: 3,4,7 (F.3d)**

243 DRAFTING TECHNOLOGY LICENSES IN A DOWN MARKET, 801 PLI/Pat 299, 304 (2004)

244 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 786 PLI/Pat 631, 660 (2004) **HN: 4 (F.3d)**

245 PATENT AND HIGH TECHNOLOGY LICENSING, 786 PLI/Pat 687, 734+ (2004) **HN: 4,7 (F.3d)**

246 BANKRUPTCY AND LICENSING, 786 PLI/Pat 757, 788+ (2004) **HN: 4,11 (F.3d)**
247 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 794 PLI/Pat 123, 197 (2004) **HN: 1 (F.3d)**
248 BUYING AND LICENSING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 779 PLI/Pat 303, 362+ (2004) **HN: 4,7 (F.3d)**
249 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 779 PLI/Pat 365, 408 (2004) **HN: 4 (F.3d)**
250 STRUCTURING DEALS INVOLIVNG SIGNIFICANT INTELLECTUAL PROPERTY ASSETS, 779 PLI/Pat 905, 962+ (2004) **HN: 3,4,7 (F.3d)**
251 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1112+ (2004) **HN: 4,7 (F.3d)**
252 OVERVIEW OF LICENSING TECHNOLOGY FROM UNIVERSITIES, 762 PLI/Pat 507, 570+ (2004) **HN: 4,11 (F.3d)**
253 SOFTWARE LICENSING, 763 PLI/Pat 903, 914 (2004) **HN: 4 (F.3d)**
254 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY CODE: RIGHTS AND REMEDIES FOLLOWING, 763 PLI/Pat 963, 1001 (2004) **HN: 2,4,11 (F.3d)**
255 ADDRESSING BANKRUPTCY ISSUES IN COMPLEX TECHNOLOGY TRANSACTIONS-POWERPOINT SLIDES, 767 PLI/Pat 649, 653+ (2003) **HN: 4,7 (F.3d)**
256 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 583+ (2003) **HN: 2,4 (F.3d)**
257 FAILING BIOTECHNOLOGY COMPANIES: FIRE SALES AND BANKRUPTCY: RISKS AND OPPORTUNITIES IN ACQUIRING, 760 PLI/Pat 833, 856+ (2003) **HN: 1,2,4 (F.3d)**
258 DRAFTING TECHNOLOGY: LICENSES IN A DOWN MARKET, 765 PLI/Pat 9, 16 (2003) **HN: 6 (F.3d)**
259 BUILDING A STRATEGIC INTERNET IP PORTFOLIO IN A "DOWN" ECONOMY, 754 PLI/Pat 391, 426 (2003) **HN: 4 (F.3d)**
260 BANKRUPTCY ISSUES IN NEGOTIATING ECOMMERCE TRANSACTIONS, 755 PLI/Pat 763, 771+ (2003) **HN: 3,4,7 (F.3d)**
261 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 747 PLI/Pat 461, 498 (2003) **HN: 4,7 (F.3d)**
262 PATENT AND HIGHT TECHNOLOGY LICENSING, 747 PLI/Pat 541, 548+ (2003) **HN: 3,4,7 (F.3d)**
263 BANKRUPTCY AND INTELLECTUAL PROPERTY, 751 PLI/Pat 159, 185 (2003) **HN: 4 (F.3d)**
264 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 751 PLI/Pat 223, 287 (2003) **HN: 1 (F.3d)**
265 THE TREATMENT OF TRADEMARKS AND TRADEMARK LICENSES IN BANKRUPTCY, 744 PLI/Pat 225, 271 (2003) **HN: 4 (F.3d)**
266 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 740 PLI/Pat 355, 398 (2003) **HN: 4 (F.3d)**
267 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 740 PLI/Pat 407, 451+ (2003) **HN: 4 (F.3d)**
268 STRUCTURING DEALS INVOLVING SIGNIFICANT INTELLECTUAL PROPERTY ASSETS, 740 PLI/Pat 947, 1002 (2003) **HN: 4,7 (F.3d)**
269 PROTECTING CLIENTS AGAINST TECHNOLOGY VENDOR BANKRUPTCY -- POWERPOINT SLIDES, 734 PLI/Pat 697, 700+ (2003) **HN: 4,7 (F.3d)**
270 PROTECTING CLIENTS AGAINST TECHNOLOGY VENDOR BANKRUPTCY, 735 PLI/Pat 9, 23 (2003) **HN: 1 (F.3d)**
271 SOFTWARE LICENSING, 733 PLI/Pat 267, 273 (2003) **HN: 4 (F.3d)**
272 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY, 733 PLI/Pat 299, 333 (2003) **HN: 2,4,11 (F.3d)**
273 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225+ (2002) **HN: 3,4,7 (F.3d)**
274 COPYRIGHT AND TRADEMARK LICENSING, 722 PLI/Pat 799, 830+ (2002) **HN: 2,4,6 (F.3d)**
275 ADDRESSING BANKRUPTCY IN COMPLEX TECHNOLOGY TRANSACTIONS, 724 PLI/Pat 617, 620+ (2002) **HN: 4,7 (F.3d)**

276 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 716 PLI/Pat 547, 584 (2002) **HN: 4,7 (F.3d)**

277 DRAFTING TECHNOLOGY LICENSES IN A DOWN MARKET-PROTECTING LICENSES FROM THE BANKRUPTCY OR BUSINESS FAILURE OF LICENSORS, 716 PLI/Pat 627, 633 (2002) **HN: 6 (F.3d)**

278 THE DISTRESSED E-COMMERCE COMPANY, 711 PLI/Pat 741, 768 (2002) **HN: 4 (F.3d)**

279 , 704 PLI/Pat 167, 204 (2002) **HN: 4,7 (F.3d)**

280 , 704 PLI/Pat 247, 254+ (2002) **HN: 1,2,4 (F.3d)**

281 BANKRUPTCY AND INTELLECTUAL PROPERTY, 706 PLI/Pat 343, 354 (2002) **HN: 4 (F.3d)**

282 WHERE HAVE ALL THE ASSETS GONE? FINDING THE INTANGIBLE VALUE OF THE BANKRUPT E-COMMERCE COMPANY, 697 PLI/Pat 41, 63+ (2002) **HN: 4 (F.3d)**

283 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 690 PLI/Pat 219, 254 (2002) **HN: 4 (F.3d)**

284 STRUCTURING DEALS INVOLVING SIGNIFICANT INTELLECTUAL PROPERTY ASSETS, 690 PLI/Pat 673, 686 (2002) **HN: 4,7 (F.3d)**

285 BANKRUPTCY CONCERNS IN NEW MEDIA TRANSACTIONS, 686 PLI/Pat 729, 732+ (2002) **HN: 2,4 (F.3d)**

286 BANKRUPTCY AND LICENSING, 672 PLI/Pat 201, 223+ (2001) **HN: 3,4,7 (F.3d)**

287 THE TREATMENT OF INTELLECTUAL PROPERTY IN BANKRUPTCY, 670 PLI/Pat 297, 322 (2001) **HN: 4,7 (F.3d)**

288 DRAFTING AGREEMENTS FOR A CHANGING ECONOMY: BANKRUPTCY AND IP ISSUES IN JOINT-DEVELOPMENT RELATIONSHIPS, 670 PLI/Pat 349, 355 (2001) **HN: 6 (F.3d)**

289 BANKRUPTCY AND LICENSING, 652 PLI/Pat 279, 346+ (2001) **HN: 3,4,7 (F.3d)**

290 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 620 PLI/Pat 185, 203+ (2000) **HN: 3,4,7 (F.3d)**

291 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 576 PLI/Pat 199, 216+ (1999) **HN: 3,4,7 (F.3d)**

292 , 457 PLI/Real 603, 624+ (2000) **HN: 1 (F.3d)**

293 "WELCOME TO THE HOTEL (BANKRUPTCY IN) HOTEL CALIFORNIA" SELECT ISSUES IN HOTEL/MOTEL BANKRUPTCIES, 446 PLI/Real 395, 416+ (1999) **HN: 1 (F.3d)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Petitions, Motions and Filings

294 TRW, INC., Petitioner, v. Adelaide ANDREWS, Respondent., 2001 WL 34090259, *34090259+ (Appellate Petition, Motion and Filing) (U.S. Jan 26, 2001) **Brief in Opposition** (NO. 00-1045) "" ★★ **HN: 5 (F.3d)**

Appellate Briefs

295 In re: NEXTWAVE PERSONAL COMMUNICATIONS, INC., Debtor. FEDERAL COMMUNICATIONS COMMISSION, Appellant, v. NEXTWAVE PERSONAL COMMUNICATIONS, INC., Appellee., 1999 WL 33607680, *33607680+ (Appellate Brief) (2nd Cir. Sep 14, 1999) **Brief for Appellant** (NO. 99-5063) ★★ **HN: 4,7 (F.3d)**

296 John CINICOLA; Bonnie K. Case; Phillip F. Rabinowitz; Michael Farrell; Michele R. Mathews-Mlakar; Marsha Fino; Elliot Smith; Hubert Shick t/d/b/a North Allegheny Internal Medicine, Appellants, v. William J. SCHARFFENBERGER, Chapter 11 Trustee, et al.; Allegheny General Hospital; Western Pennsylvania Healthcare System, Inc., Appellees., 2000 WL 33982228, *33982228+ (Appellate Brief) (3rd Cir. 2000) **Brief for Appellants** (NO. 00-3318) ★★ **HN: 4 (F.3d)**

297 WESTERN ATLAS INTERNATIONAL, INC; Western Geophysical, Plaintiffs - Counter Claimants - Appellees, v. OCEAN CHEMICAL CARRIERS, INC, Defendant - Counter Defendant

- Appellant., 2002 WL 32178717, *32178717+ (Appellate Brief) (5th Cir. Jan 02, 2002) **Brief of Defendant - Counter Defendant - Appellant** (NO. 01-20711) ★★

298 CITY OF CHICAGO, Plaintiff-Appellee, v. UNITED STATES DEPARTMENT OF JUSTICE, Bureau of Alcohol, Tobacco, Firearms, and Explosives, Defendant-Appellant., 2004 WL 912656, *912656+ (Appellate Brief) (7th Cir. 2004) **Brief of Plaintiff-Appellee City of Chicago on ...** (NO. 01-2167, 00C3417) ★★ **HN: 8 (F.3d)**

299 Matthew RAUSCH and Jason Reynolds, Plaintiffs-Appellants, v. THE HARTFORD FINANCIAL SERVICES GROUP, INC., and Hartford Fire Insurance Company, Defendants-Appellees., 2004 WL 1125578, *1125578+ (Appellate Brief) (9th Cir. Apr 02, 2004) **Appellees' Brief** (NO. 03-35695) ★★★ **HN: 8,9 (F.3d)**

300 In Re: WILKINSON, David, Debtor-in-Possession. David J. Wilkinson, Appellant, v. Rug Doctor, Inc., Appellee., 2003 WL 22724318, *22724318+ (Appellate Brief) (9th Cir. Oct 06, 2003) **Appellant's Closing Brief on Appeal** (NO. 03-35329) ★★★★

301 In Re: David J. WILKINSON, Debtor. David J. Wilkinson, Appellant, v. Rug Doctor, Inc., et al., Appellees., 2003 WL 22724317, *22724317+ (Appellate Brief) (9th Cir. Sep 30, 2003) **Brief of Appellees Rug Doctor, L.P., Rug Doctor, ...** (NO. 03-35329) ★★★★

302 In Re: WILKINSON, David, Debtor-in-Possession. David J. Wilkinson, Appellant, v. Rug Doctor, Inc., Appellee., 2003 WL 22724314, *22724314+ (Appellate Brief) (9th Cir. Sep 02, 2003) **Appellant's Brief on Appeal** (NO. 03-35329) ★★★★

303 Henry A. WAXMAN, et al., Plaintiffs-Appellees, v. Donald L. EVANS, Secretary of Commerce, Defendant-Appellant., 2002 WL 32115556, *32115556+ (Appellate Brief) (9th Cir. Jun 2002) **Brief of Appellees** (NO. 02-55825) ★★ **HN: 8 (F.3d)**

304 Wendy N. LATCHUM, Individually and as parent and guardian ad litem of her minor children, and as special administrator of the estate of John Russell Latchum, Jr.; Joshua Ryan Latchum, a minor; Breanna Nichole Latchum, a minor, Plaintiffs-Appellants, v. UNITED STATES OF AMERICA, Defendant-Appellee., 2002 WL 32123144, *32123144+ (Appellate Brief) (9th Cir. Mar 11, 2002) **Plaintiffs-Appellants' Opening Brief and ...** (NO. 01-17403) ★★

305 UNITED STATES OF AMERICA, Plaintiff-Appellee, v. Pierre, a JUVENILE, Defendant-Appellant., 2001 WL 34093061, *34093061+ (Appellate Brief) (9th Cir. May 07, 2001) **Reply Brief of Defendant-Appellant** (NO. 00-30411) ★★ **HN: 5 (F.3d)**

306 UNITED STATES OF AMERICA, Appellee/Plaintiff, v. Manuel GAMEZ, Appellant/Defendant., 2001 WL 34090078, *34090078+ (Appellate Brief) (9th Cir. Apr 04, 2001) **Appellant's Opening Brief** (NO. 00-10307) ★★ **HN: 8 (F.3d)**

307 Anis Shokri Salama MALTY, A72 441 899, Petitioner, v. IMMIGRATION AND NATURALIZATION SERVICE, Respondent., 2001 WL 34104669, *34104669+ (Appellate Brief) (9th Cir. Jan 09, 2001) **Brief for Respondent** (NO. 00-71062) ★★

308 STATE OF HAWAII, by and through Its Attorney General, Plaintiff-Appellant, v. FEDERAL EMERGENCY MANAGEMENT AGENCY; James Lee Witt, Director, Federal Emergency Management Agency; Lacy E. Suiter, Executive Associate, Director, Response and Recovery Directorate, Federal Emergency Management Agency; Martha Z. Whetstone, Regional Director, Region IX, Federal Emergency Management Agency, Gary D. Johnson, Chief Financial Officer, Federal Emergency Management, 2000 WL 33992442, *33992442+ (Appellate Brief) (9th Cir. Sep 11, 2000) **Brief for Appellant State of Hawaii** (NO. 00-15895) ★★ **HN: 5 (F.3d)**

309 Belen Gallenito SESBRENO, Ins No. A70 784 917, Petitioner, v. IMMIGRATION AND NATURALIZATION SERVICE, Respondent., 2000 WL 33980197, *33980197+ (Appellate Brief) (9th Cir. Aug 11, 2000) **Brief for Respondent** (NO. 00-70278) ★★

310 In re: SOUTHERN PACIFIC FUNDING CORPORATION, Debtor. SPIEKER PROPERTIES, L.P., Appellant, v. BANK OF NEW YORK, Appellee., 2000 WL 34004804, *34004804+ (Appellate Brief) (9th Cir. Jun 16, 2000) **Reply Brief of Appellant Spieker Properties, L.P.** (NO. 00-35019) ★★ **HN: 8 (F.3d)**

311 In re: SOUTHERN PACIFIC FUNDING CORPORATION, Debtor. SPIEKER PROPERTIES, L.P., Appellant, v. THE BANK OF NEW YORK, et al., Appellees., 2000 WL 34004810, *34004810+ (Appellate Brief) (9th Cir. Jun 01, 2000) **Joint Answering Brief of Appellees** (NO.

00-35019) "" ★★★ **HN: 9 (F.3d)**

312 In re: SOUTHERN PACIFIC FUNDING CORPORATION, Debtor. SPIEKER PROPERTIES, L.P., Appellant, v. BANK OF NEW YORK, Appellee., 2000 WL 34004798, *34004798+ (Appellate Brief) (9th Cir. Apr 07, 2000) **Brief of Appellant Spieker Properties, L.P.** (NO. 00-35019) ★★★ **HN: 9 (F.3d)**

313 Alma Ignacio ALMODIEL, A72 440 553, Petitioner, v. IMMIGRATION AND NATURALIZATION SERVICE, Respondent., 1999 WL 33628869, *33628869+ (Appellate Brief) (9th Cir. Dec 01, 1999) **Brief for Respondent** (NO. 99-70815) "" ★★ **HN: 8 (F.3d)**

314 Isabel Nohemi CANAS-QUINTERO, A 70 818 520, Petitioner, v. IMMIGRATION AND NATURALIZATION SERVICE, Respondent., 1999 WL 33628868, *33628868+ (Appellate Brief) (9th Cir. Nov 22, 1999) **Brief for Respondent** (NO. 99-70798) "" ★★ **HN: 8 (F.3d)**

315 UNITED STATES OF AMERICA, Plaintiff, Appellant, Cross-Appellee, v. David L. ERTSGAARD, Defendant, Appellee, Cross-Appellant., 1999 WL 33612530, *33612530+ (Appellate Brief) (9th Cir. Sep 13, 1999) **Brief for the United States as Appellant** (NO. 99-30242, 99-30243) ★★ **HN: 8,9 (F.3d)**

316 In re: R.B.B., INC., d/b/a Ferrari of Los Gatos, Debtor. EIN: 94-2770629 Ferrari North America, Inc., Appellant, v. Charles E. Sims, Chapter 11 Trustee for R.B.B., Inc., dba Ferrari of Los Gatos; and Official Committee of Unsecured Creditors, Appellees., 1999 WL 33623910, *33623910+ (Appellate Brief) (9th Cir. Sep 03, 1999) **Appellant Ferrari's Reply Brief** (NO. 99-16059) ★★

317 Thomas von THURY and Elizabeth M. Setlak-von Thury, Plaintiffs/Appellants, v. GNC FRANCHISING, INC., Defendant/Appellee., 1999 WL 33627473, *33627473+ (Appellate Brief) (9th Cir. May 28, 1999) **Appellants' Reply Brief** (NO. 99-15030) ★★

318 In Re: Raejean BONHAM, et al., Debtor. Richard K. ALFORD, et al., Appellants, v. Larry D. COMPTON, Trustee, Appellee., 1999 WL 33631539, *33631539+ (Appellate Brief) (9th Cir. Apr 28, 1999) **Appellants' Reply Brief** (NO. 98-36081, 98-36083, 98-36086, 98-36089, 98-36093, 98-36108, 98-36109) "" ★★ **HN: 5,9 (F.3d)**

319 SUPER DISCOUNT MARKETS, INC., Debtor/Appellee, v. J.H. MILL, LLC, and H/S Mall, LLC, Respondents/Appellants., 2003 WL 23004129, *23004129+ (Appellate Brief) (11th Cir. Jul 18, 2003) **Reply Brief of Appellants J.H. Mill, LLC, and H/S ...** (NO. 03-11605-JJ) ★★ **HN: 1 (F.3d)**

320 In Re SUPER DISCOUNT MARKETS, INC., Debtor. J.H. Mill, LLC and H/S Mall, LLC, Appellants, v. Super Discount Markets, Inc., Appellee., 2003 WL 23004128, *23004128+ (Appellate Brief) (11th Cir. Jun 30, 2003) **Brief of Appellee, Super Discount Markets, Inc.** (NO. 03-11605-JJ) ★★ **HN: 4 (F.3d)**

321 SUPERBRACE, INC., et al., Plaintiffs and Respondents, v. Kelly TIDWELL, et al., Defendants and Appellants., 2004 WL 1683288, *1683288+ (Appellate Brief) (Cal.App. 4 Dist. Jun 11, 2004) **Respondents' Brief** (NO. G033363) ★★★

322 SUPERBRACE, INC., Robert J. Gebauer, Barbara J. Gebauer, American Metal Engineering, LLC, and Scott Edwards, Respondents/Plaintiffs, v. Kelly TIDWELL, Fran Cyrus and Does 1 through 20, inclusive, Appellants/Defendants., 2004 WL 1284979, *1284979+ (Appellate Brief) (Cal.App. 4 Dist. Apr 21, 2004) **Appellants' Opening Brief** (NO. G033363) ★★★

323 F.C.C. v. NextWave Personal Communications Inc., 2002 WL 1885762, *1885762+ (Appellate Brief) (U.S. Aug 12, 2002) **REPLY BRIEF FOR PETITIONERS ARCTIC SLOPE REGIONAL ...** (NO. 01-653, 01-657) ★★ **HN: 4 (F.3d)**

Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

324 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT AMERICAS ENERGY MARKETING, L.P., Appellee, In Re Mirant Corporation, et al., Debtros., 2004 WL 2233179, *2233179+ (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Mar 24, 2004) **Brief of the Appellee Maem** (NO. 404-CV-00034-Y) ★★★

325 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT CORPORATION,

Appellee, In Re: Mirant Corporation, et al.,Debtors., 2004 WL 2233167, *2233167+ (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Mar 15, 2004) **Reply Brief of Appellant Bonneville Power ...** (NO. 404-CV-34-Y) ★★

326 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT CORPORATION, Appellee, In Re: Mirant Corporation, et al., Debtors., 2004 WL 2233160, *2233160 (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Mar 03, 2004) **Brief of Appellant Bonneville Power Administration** (NO. 404-CV-34-Y) ★★

327 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT CORPORATION, Appellee, In Re Mirant Corporation, et al., Debtors., 2004 WL 2233146, *2233146+ (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Feb 25, 2004) **Brief of the Appellee Maem** (NO. 404-CV-00034) ★★★

328 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT CORPORATION, Appellee, In Re: Mirant Corporation, et al., Debtors., 2004 WL 2233133, *2233133+ (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Feb 05, 2004) **Brief of Appellant Bonneville Power Administration** (NO. 404-CV-00034) ★★

329 In re KMART CORPORATION, et al., Debtors., 2002 WL 32151625, *32151625+ (Trial Motion, Memorandum and Affidavit) (Bankr.N.D.Ill. Oct 23, 2002) **Objection by Microsoft to Motion for and Notice ...** (NO. 02B02474) ★★ **HN: 4 (F.3d)**

330 In re: ENRON CORP., et al., Debtors., 2002 WL 32155880, *32155880+ (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Feb 12, 2002) **Motion of the United States for an Order (i) ...** (NO. 01-16034, AJG) ★★ **HN: 2,4,11 (F.3d)**

331 In re: ENRON CORP., et al., Debtors and Debtors-in-Possession., 2002 WL 32153835, *32153835 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Feb 05, 2002) **Notice of Presentment and Hearing on Motion by ...** (NO. 01-16034, AJG) "" ★★ **HN: 3,4,7 (F.3d)**

332 In re: ENRON CORP., et al., Debtors and Debtors-in-Possession., 2002 WL 32155889, *32155889 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Feb 05, 2002) **Notice of Presentment and Hearing on Motion by ...** (NO. 01-16034, AJG) "" ★★ **HN: 3,4,7 (F.3d)**

Briefs and Other Related Documents

United States Court of Appeals,
Ninth Circuit.

In re DAK INDUSTRIES, INCORPORATED,
Debtor.
MICROSOFT CORPORATION, Appellant,
v.
DAK INDUSTRIES, INCORPORATED; Official
Committee of Unsecured Creditors; The
Tokai Bank, Limited, Appellees.

No. 94-55029.

Argued and Submitted May 2, 1995.
Decided Oct. 2, 1995.

Computer software vendor, which had entered prepetition agreement allowing debtor to install software on computers that debtor sold, sought administrative expense claim based on debtor's distribution of software on its computers postpetition. The Bankruptcy Court denied its administrative expense claim, and vendor appealed. The United States District Court for the Central District of California, Wm. Matthew Byrne, Jr., Chief Judge, affirmed, and vendor appealed. The Court of Appeals, Brunetti, Circuit Judge, held that parties' agreement was best characterized as lump-sum sale of software units to debtor, rather than grant of permission to use intellectual property and, thus, debt arose prepetition so vendor was not entitled to administrative expense claim.

Affirmed.

West Headnotes

[1] Bankruptcy 3782
51k3782 Most Cited Cases

[1] Bankruptcy 3786
51k3786 Most Cited Cases

Court of Appeals and federal district court review bankruptcy court's findings of fact for clear error, and its conclusions of law de novo.

[2] Bankruptcy 2926
51k2926 Most Cited Cases

Burden of proving administrative expense claim is on claimant. Bankr.Code, 11 U.S.C.A. § 503.

[3] Bankruptcy 2871
51k2871 Most Cited Cases

Administrative expense claimant must show that debt asserted to be administrative expense (1) arose from transaction with debtor-in-possession as opposed to the preceding entity (or, alternatively, that claimant gave consideration to debtor-in-possession) and (2) directly and substantially benefitted the estate. Bankr.Code, 11 U.S.C.A. § 503.

[4] Bankruptcy 2871
51k2871 Most Cited Cases

To keep administrative costs to bankruptcy estate at minimum, actual, necessary costs and expenses of preserving the estate are construed narrowly. Bankr.Code, 11 U.S.C.A. § 503(b)(1)(A).

[5] Bankruptcy 3115.1
51k3115.1 Most Cited Cases

If debtor rejects executory contract without ever assuming it, that rejection constitutes breach of the contract immediately prepetition. Bankr.Code, 11 U.S.C.A. § 365(g)(1).

[6] Bankruptcy 2873
51k2873 Most Cited Cases

[6] Bankruptcy 2876
51k2876 Most Cited Cases

Computer software vendor, which had entered prepetition agreement allowing debtor to install software on computers that debtor sold, was not entitled to administrative expense claim for software that debtor distributed postpetition; agreement was lump sum sale of software units to debtor, rather than grant of permission to use intellectual property and, thus, the debt arose prepetition, and the vendor gave no consideration postpetition. Bankr.Code, 11 U.S.C.A. § 503.

[7] Bankruptcy 2876
51k2876 Most Cited Cases

To determine whether prepetition agreement between debtor and another party was lump sum sale of goods or grant of permission to use intellectual property postpetition, court had to look through form of transaction to the economic realities of the particular arrangement, to determine whether creditor was entitled to administrative expense for debtor's postpetition use of subject property. Bankr.Code, 11 U.S.C.A. § 503.

[8] Bankruptcy 3101

51k3101 Most Cited Cases
For purposes of applying statute concerning leases and executory contracts, royalty payments owed to debtor are interpreted broadly to ensure that estate receives full payment when licensee takes advantage of debtor's intellectual property. Bankr.Code, 11 U.S.C.A. § 365(n).

[9] Bankruptcy 2871
51k2871 Most Cited Cases
Administrative expenses are construed narrowly because they give one unsecured creditor absolute priority in payment over other unsecured creditors and over the estate. Bankr.Code, 11 U.S.C.A. § 503.

***1092** Michael S. Kogan, Arter & Hadden, Los Angeles, CA, for appellant.

Joseph A. Eisenberg, Timothy T. Read, and Werner Disse, Levene & Eisenberg, Los Angeles, CA, for appellee DAK Industries, Incorporated.

Steven N. Bloom and Gary Owen Caris, Frandzel & Share, Los Angeles, CA, for appellee The Tokai Bank, Ltd. and Los Angeles Agency.

Thomson Young and Harry D. Hochman, Pachulski, Stang, Ziehl & Young, Los Angeles, CA, for Official Creditors Committee.

Appeal from the United States District Court for the Central District of California.

Before FLETCHER, BRUNETTI, and T.G. NELSON, Circuit Judges.

BRUNETTI, Circuit Judge:

Microsoft Corporation appeals from an order of the district court affirming the bankruptcy court's denial of its administrative expense claim filed pursuant to 11 U.S.C. § 503. We have jurisdiction under 28 U.S.C. § 158(d), and we affirm.

FACTS AND PROCEEDINGS BELOW

In April 1991, Microsoft, a distributor of computer software, and DAK Industries, Inc., a distributor of computer hardware, entered into a "License Agreement" granting DAK certain nonexclusive, worldwide "license rights" to Microsoft's Word for Windows software (Word). The agreement gave DAK the right to adapt Word to enable it to run on computer systems sold by DAK, to copy Word, and to distribute and license Word to consumers during a specified term. DAK also received the right to accept updates and new versions of Word, as well as the right to distribute copyrighted documentation that explained how to use Word. As a practical matter, the agreement provided that Microsoft would furnish DAK with a master disk containing Word, and that DAK would copy the program and load it onto computer hardware units, which it then sold to end consumers.

The agreement provided that DAK would pay a "royalty rate" of $55 per copy of Word that it distributed. Upon signing the agreement, DAK became obligated to pay Microsoft a "minimum commitment" of $2,750,000 ***1093** in five installments, regardless of how many copies of Word it sold. The payment schedule was:

1)	Signing of agreement:	$250,000
2)	First payment date:	$406,250
3)	3 months after first payment date:	$697,917
4)	6 months after first payment date:	$697,917
5)	9 months after first payment date:	$697,917

The first payment date depended upon when DAK first sold a copy of Word to a consumer. The term of the agreement expired one year after the first payment date.

DAK's $2,750,000 minimum commitment paid Microsoft royalties at the $55 per unit price for the distribution of 50,000 copies of Word. DAK could sell any and all of those copies to consumers at any time during the term. The agreement provided that if DAK sold more copies than those paid for by the minimum commitment, DAK would pay Microsoft $55 for each additional copy sold. However, if DAK sold fewer copies than those paid for by the minimum commitment, Microsoft would not refund any of the commitment. Microsoft did not perfect a security interest in any of DAK's property, which might have protected it against DAK's failure to pay the entire minimum commitment in the event of bankruptcy.

Sometime between July and December of 1991, the parties amended the agreement by reducing the royalty rate to $45. As a result of the amendment, the minimum commitment paid royalties for the sale of more than 50,000 copies of Word.

The first payment date was December 30, 1991. In accordance with the payment schedule, DAK paid the first three installments, totaling $1,354,167. On June 11, 1992, DAK filed a petition for bankruptcy. The debtor has not paid the final two installments, totaling $1,395,833.

On December 1, 1992, Microsoft moved in the bankruptcy court for an order compelling the debtor to assume or reject the executory contract with Microsoft. On January 12, 1993, Microsoft filed a motion for the payment of an administrative expense, claiming it should be compensated for the debtor's post-bankruptcy petition "use" of the license agreement, because the debtor continued to distribute Word.

On February 3, 1993, the bankruptcy court denied Microsoft's administrative expense claim. The court concluded that the payment structure of the agreement was more analogous to payments on a sale of goods than to royalty payments for the continuing use of an intellectual property. As such, the debt was a prepetition unsecured claim, not a postpetition administrative expense claim. The court also concluded that the agreement was an executory contract, and that the debtor had until May 4, 1993, to assume or reject the agreement.

In April 1993, Microsoft moved for reconsideration of the denial of its administrative expense claim. The bankruptcy court denied that motion on June 16, 1993.

The debtor rejected the agreement on May 4, 1993. The parties agree that DAK had sold approximately 13,244 copies of Word prior to filing for bankruptcy on June 11, 1992. They also agree that the debtor sold approximately another 7,600 copies between June 11, 1992, and January 21, 1993, a date one week before the bankruptcy court hearing on Microsoft's administrative expense claim. The record does not reflect how many copies of Word the debtor sold between January 21, 1993, and May 4, 1993, the date when it formally rejected the agreement and stopped selling Word. [FN1]

FN1. In its brief to this court, DAK calculates that at the amended royalty rate of $45 per copy, it could have sold a total of 30,092 copies before exceeding the number for which it had paid prior to bankruptcy. According to this calculation, DAK could have sold 9248 additional copies between January 21, 1993, and May 4, 1993. (9248 + 7600 + 13,244 = 30,092).
In its reply brief, Microsoft states that DAK's brief admits that DAK sold 9248 copies during that time. This mischaracterizes the statement in DAK's brief. DAK did not state how many units it actually sold during that time, but only that it never exceeded the amount for which it had paid.
The record before this court does not establish how many copies of Word DAK sold between January 21, 1993, and May 4, 1993, when it stopped selling Word.

Microsoft appealed the bankruptcy court's denial of its administrative expense claim to the district court. The district court concluded that the debtor had received benefits ***1094** from its postpetition distribution of Word. However, the court concluded that the payment schedule resembled installment payments for the sale of goods, not periodic royalties for the use of intellectual property. Therefore, the obligations for the amounts due under the agreement were incurred prepetition. The court also concluded that Microsoft was neither induced to nor continued to provide software units at its expense after the filing of the petition. Accordingly, Microsoft had provided no postpetition consideration to debtor. The court rejected Microsoft's administrative expense claim, thereby leaving the remaining amount due under the agreement as a prepetition, unsecured claim.

STANDARD OF REVIEW

[1] The role of the district court and this court are basically the same in the bankruptcy appellate process. *In re Christian Life Center*, 821 F.2d 1370, 1373 (9th Cir.1987). Therefore, we review the bankruptcy court decision directly. *Id.* We review the bankruptcy court's findings of fact for clear error, and its conclusions of law *de novo*. *In re Comer*, 723 F.2d 737, 739 (9th Cir.1984).

ANALYSIS

Under the bankruptcy code, an administrative expense claim has priority over other unsecured claims. 11 U.S.C. § 503 provides in pertinent part:

(a) An entity may file a request for payment of an administrative expense.

(b) After notice and a hearing, there shall be allowed administrative expenses ... including--

(1)(A) the actual, necessary costs and expenses of preserving the estate, including wages, salaries, or commissions for services rendered after the commencement of the case....

[2][3][4] The burden of proving an administrative expense claim is on the claimant. *In re Sinclair,* 92 B.R. 787, 788 (Bank.S.D.Ill.1988). The claimant must show that the debt asserted to be an administrative expense

(1) arose from a transaction with the debtor-in-possession as opposed to the preceding entity (or, alternatively, that the claimant gave consideration to the debtor-in-possession); and (2) directly and substantially benefitted the estate.

In re White Motor Corp., 831 F.2d 106, 110 (6th Cir.1987). The bankruptcy court has broad discretion to determine whether to grant such a claim. *In re Dant & Russell, Inc.,* 853 F.2d 700, 706 (9th Cir.1988). In order to keep administrative costs to the estate at a minimum, "the actual, necessary costs and expenses of preserving the estate," § 503(1)(A), are construed narrowly. *In re Palau,* 139 B.R. 942, 944 (9th Cir. BAP 1992), *aff'd,* 18 F.3d 746 (9th Cir.1994).

[5][6] In this case, the debtor rejected an executory contract without ever assuming it. Under 11 U.S.C. § 365(g)(1), for purposes of bankruptcy proceedings, that rejection constitutes breach of the contract immediately prior to the date on which the bankruptcy petition was filed. Nonetheless, after the petition, the debtor continued to distribute copies of the software provided under that contract. The estate directly and substantially benefited from these postpetition sales of Word. Therefore, Microsoft is entitled to an administrative expense claim if the debt outstanding on the contract arose after the petition or if Microsoft provided consideration to the debtor after the petition. *See White Motor Corp.,* 831 F.2d at 110. Otherwise, Microsoft is entitled only to a prepetition, unsecured claim.

Microsoft argues that this transaction should be viewed as an agreement granting DAK the use of intellectual property. Accordingly, Microsoft claims that the debt arose after the petition as periodic payments for use of the property became due. Microsoft also argues that even though the transaction was initiated prior to the petition, Microsoft provided consideration after the petition by continuing to make the intellectual property available for the debtor's use. Characterized this way, the transaction is analogous to a debtor's postpetition use of leased property under an agreement signed prepetition. Such use gives rise to an administrative expense claim for the payment of rent. ***1095***Philadelphia Co. v. Dipple,* 312 U.S. 168, 174, 61 S.Ct. 538, 540, 85 L.Ed. 651 (1941).

DAK, the Tokai Bank, (DAK's largest creditor), and the committee of unsecured creditors all respond that this transaction should be viewed as a prepetition sale by Microsoft of software units to DAK. Accordingly, DAK claims that the entire debt arose prior to the petition, when the sale took place. DAK also argues that Microsoft did not provide consideration to DAK after the petition; rather, DAK only sold software units which it had already purchased from Microsoft prepetition. Characterized this way, the transaction is analogous to a debtor selling goods out of its inventory postpetition that it bought prepetition on unsecured credit. While the estate benefits, the creditor is not entitled to an administrative expense claim. Rather, it simply has an unsecured claim.

[7] When applying the bankruptcy code to this transaction, we must look through its form to the "economic realities of th[e] particular arrangement." *In re Moreggia & Sons, Inc.,* 852 F.2d 1179, 1182 (9th Cir.1988). [FN2] We conclude that this agreement is best characterized as a lump sum sale of software units to DAK, rather than a grant of permission to use an intellectual property. Accordingly, debt arose prepetition and Microsoft gave no consideration postpetition. We reach this conclusion for several reasons.

FN2. Because we look to the economic realities of the agreement, the fact that the agreement labels itself a "license" and calls the payments "royalties," both terms that arguably imply periodic payment for the use rather than sale of technology, does not control our analysis.

First, DAK's entire debt to Microsoft arose prepetition. The bankruptcy code defines "debt" as liability on a "claim." 11 U.S.C. § 101(11). It defines a "claim" in part as the "right to payment, whether or not such right is ... contingent, matured, [or] unmatured...." 11 U.S.C. § 101(4). The agreement here provided that upon signing, DAK was absolutely obligated to pay $2,750,000, even if it sold only one copy of Word. The fact that some of the payments became due postpetition does not alter the fact that the entire debt was absolutely owed prepetition, and was therefore prepetition debt. *See In re A & B Homes, Ltd.,* 98 B.R. 243, 249 (Bankr.E.D.Va.1989).

Second, the pricing structure of the agreement indicates that it was more akin to a sale of an intellectual property than to a lease for use of that property. The amount of the minimum commitment, as well as any additional payments, was calculated based upon quantity of units DAK obtained, as in most sales arrangements, not upon the duration of the "use" of the property, as in most rental arrangements.

Third, as in a sale, DAK received all of its rights under the agreement when the term of the agreement commenced. Initially, DAK made a down payment on its $2,750,000 minimum commitment. At that point, the agreement permitted DAK to distribute immediately the full quantity of units covered by its $2,750,000 commitment. The remaining amount due on that commitment was to be paid in future installments. This arrangement is similar to a purchase of goods on unsecured credit: The purchaser makes a down payment, obtains and can dispose of the goods immediately, and then pays the remainder of the purchase price in subsequent installments. The timing of DAK's installment payments confirms this analysis. The installment dates did not correlate with when DAK could sell the 50,000 programs in the way that rent payment dates generally correlate with time during which rental property is used. Instead, DAK could sell all of the programs at the outset of the term, even though the installments were due three, six and nine months into the term.

Fourth, it is more accurate to describe this agreement as granting DAK a "right to sell" than "permission to use" an intellectual property. Microsoft relies upon various cases in which the claimant granted debtor temporary permission to employ the claimant's property to run its operation. In *In re B-K of Kansas, Inc.,* 82 B.R. 135 (Bankr.D.Kan.1988), *aff'd,* 99 B.R. 446 (D.Kan.1989), the court allowed an administrative expense claim for the debtor's postpetition display of the Burger King trademark in order to attract customers. 82 B.R. at 137; *109699 B.R. at 448. In *In re Neville Island Glass Co., Inc.,* 78 F.Supp. 508 (W.D.Penn.1948), the court allowed an administrative expense claim for the debtor's use in its glass manufacturing process of the claimant's patented equipment, which was installed in the debtor's plant pursuant to a lease-license agreement. *Id.* at 508- 09. Unlike those cases, DAK did not employ Word over a period of time in order to run its operation. Rather, it sold the program to consumers. Accordingly, DAK's postpetition distribution of Word is more like the sale of inventory than the utilization of the claimant's trademark or device described in *B-K of Kansas* and *Neville Island.*

Finally, Microsoft did not provide anything at its expense to the debtor after the petition. As discussed above, at the time of the petition, Microsoft had already granted DAK the right to sell at least 50,000 copies of Word. Microsoft does not contend that DAK sold more than this amount. Furthermore, the district court found that the debtor did not accept any Word updates offered by Microsoft after the petition. The district court also found that Microsoft did not incur any additional expense postpetition by making its generally available software hotline service also available to DAK's customers. Microsoft challenges neither of these factual findings on appeal. For these reasons, this case is distinguishable from *Broadcast Corp. of Georgia v. Broadfoot,* 54 B.R. 606 (N.D.Ga.1985), *aff'd sub nom. In re Subscription Television of Greater Atlanta,* 789 F.2d 1530 (11th Cir.1986), upon which Microsoft relies. In that case, the court allowed an administrative expense claim because the claimant had continued to provide video scrambling services to the debtor, a subscription television station, after it had filed for bankruptcy. 54 B.R. at 612. In this case, Microsoft provided no services to the debtor postpetition.

For these reasons, the economic realities of this agreement indicate that it was basically a sale, not a license to use. The debt arose prepetition, and Microsoft did not provide the debtor any consideration postpetition. Microsoft was not entitled to an administrative expense claim. [FN3] *See White Motor,* 831 F.2d at 110.

FN3. We also note that Microsoft's reliance upon *In re Prize Frize,* 150 B.R. 456 (9th Cir. BAP 1993), *aff'd,* 32 F.3d 426 (9th Cir.1994), is misplaced. In that case, Prize Frize had granted a licensee an exclusive license to manufacture, use and sell its patented french fry vending machine. 32

> F.3d at 427. In exchange, the licensee agreed to pay certain license fees to Prize Frize. *Id.* After Prize Frize filed for bankruptcy, it rejected the agreement. The court held that the license fees still owed by the licensee were "royalty payments" within the meaning of § 365(n), and that therefore § 365(n) required the licensee to pay those fees to the debtor in order to retain its rights under the agreement. *Prize Frize,* 32 F.3d at 428.
>
> Microsoft claims that *Prize Frize* supports its argument that the "royalty payments" owed by DAK in this case were payments for continuous "use" of Word. However, the question in this case is not whether the payments owed are "royalty payments" under § 365(n), but rather whether either the debt arose postpetition or Microsoft provided postpetition consideration to the debtor, such that Microsoft is entitled to a § 503 administrative expense claim.
>
> Furthermore, the balance struck by § 365(n) and the policies underlying that section are entirely different from those underlying § 503. "Royalty payments" owed to the debtor under § 365(n) are interpreted broadly in order to insure that the estate receives full payment when a licensee takes advantage of the debtor's intellectual property. *See Prize Frize,* 32 F.3d at 428. On the other hand, administrative expenses under § 503 are construed narrowly because they give one unsecured creditor absolute priority in payment over other unsecured creditors and over the estate. The narrow construction of administrative expenses insures that payments out of the estate are kept to a minimum. *In re Palau,* 139 B.R. at 944.

[8][9] Several policy considerations also counsel against granting Microsoft an administrative expense claim, which has priority over other unsecured claims. First, denying Microsoft's claim will not unjustly enrich the estate for the benefit of all other creditors. DAK paid Microsoft $1,354,167 prior to filing for bankruptcy. At the $45 per copy royalty rate provided by the amended agreement, DAK paid for up to 30,092 copies of Word. While the record is not clear as to the total number of copies sold, Microsoft does not contend that DAK sold more than 30,092. Therefore, DAK has not sold any copies for which it did not pay Microsoft at least the $45 royalty rate. Under these circumstances, granting Microsoft a priority over other unsecured creditors would be unjust. ***1097** In addition, Microsoft might still recover some of the outstanding amount due under the agreement. That amount remains an unsecured claim. If any proceeds from the bankruptcy are distributed to unsecured creditors, Microsoft will receive a share.

Secondly, granting Microsoft priority over other unsecured creditors would not serve the purpose of § 503. § 503's principal purpose is to induce entities to do business with a debtor after bankruptcy by insuring that those entities receive payment for services rendered. *See Christian Life Center,* 821 F.2d at 1373. Payment of administrative expenses allows the debtor to secure goods and services necessary to administer the estate, which ultimately accrues to the benefit of all creditors. *Id.* In this case, Microsoft was not induced to and did not do business with the debtor postpetition. As we have described above, the transaction in this case took place before bankruptcy.

CONCLUSION

The bankruptcy court and the district court properly denied Microsoft's administrative expense claim.

AFFIRMED.

66 F.3d 1091, 34 Collier Bankr.Cas.2d 531, 27 Bankr.Ct.Dec. 1185, Bankr. L. Rep. P 76,648, 95 Cal. Daily Op. Serv. 7694, 95 Daily Journal D.A.R. 13,159

Briefs and Other Related Documents (Back to top)

- 1994 WL 16066626 (Appellate Brief) Reply Brief of Appellant Microsoft Corporation (May. 20, 1994)Original Image of this Document (PDF)

- 1994 WL 16014657 (Appellate Brief) Opening Brief of Appellee Dak Industries Incorporated (May. 09, 1994)Original Image of this Document (PDF)

- 1994 WL 16014658 (Appellate Brief) Opening Brief of Appellee the Tokai Bank, Ltd., Los Angeles Agency (Apr. 25, 1994)Original Image of this Document (PDF)

- 1994 WL 16014656 (Appellate Brief) Opening Brief of Appellant Microsoft Corporation (Mar. 28, 1994)Original Image of this Document (PDF)

END OF DOCUMENT

Date of Printing: OCT 28,2004

KEYCITE

In re DAK Industries, Inc., 66 F.3d 1091, 34 Collier Bankr.Cas.2d 531, 27 Bankr.Ct.Dec. 1185, Bankr. L. Rep. P 76,648, 95 Cal. Daily Op. Serv. 7694, 95 Daily Journal D.A.R. 13,159 (9th Cir.(Cal.), Oct 02, 1995) (NO. 94-55029)

History
Direct History

=> 1 **In re DAK Industries, Inc.,** 66 F.3d 1091, 34 Collier Bankr.Cas.2d 531, 27 Bankr.Ct.Dec. 1185, Bankr. L. Rep. P 76,648, 95 Cal. Daily Op. Serv. 7694, 95 Daily Journal D.A.R. 13,159 (9th Cir.(Cal.) Oct 02, 1995) (NO. 94-55029)

Negative Indirect History (U.S.A.)

Declined to Extend by

H 2 In re D.M. Kaye & Sons Transport, Inc., 259 B.R. 114 (Bankr.D.S.C. Feb 01, 2001) (NO. CIV. A. 00-04867-W) ** **HN: 6,7 (F.3d)**

C 3 In re Colorado Springs Symphony Orchestra Ass'n, 308 B.R. 508, 42 Bankr.Ct.Dec. 275 (Bankr.D.Colo. Apr 08, 2004) (NO. 03-10421 HRT) ** **HN: 6 (F.3d)**

Distinguished by

4 In re Access Beyond Technologies, Inc., 237 B.R. 32, 34 Bankr.Ct.Dec. 919 (Bankr.D.Del. Jul 22, 1999) (NO. 98-2276 MFW, 98-2279 MFW, 98-2277 MFW, 98-2280 MFW, 98-2278 MFW, 98-2281 MFW) *** **HN: 6,7,8 (F.3d)**

Court Documents
Appellate Court Documents (U.S.A.)

C.A.9 Appellate Briefs

5 In re DAK INDUSTRIES, INC., a California corporation, Debtor, MICROSOFT CORPORATION, Appellant, v. DAK INDUSTRIES, INC., et. al., Appellee., 1994 WL 16014656 (Appellate Brief) (C.A.9 Mar. 28, 1994) **Opening Brief of Appellant Microsoft Corporation** (NO. 94-55029)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

6 In re DAK INDUSTRIES, INCORPORATED, Debtor, MICROSOFT CORPORATION, Appellant, v. DAK INDUSTRIES, INC., et al., Appellees., 1994 WL 16014658 (Appellate Brief) (C.A.9 Apr. 25, 1994) **Opening Brief of Appellee the Tokai Bank, Ltd., Los Angeles Agency** (NO. 94-55029)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

7 In re DAK INDUSTRIES INCORPORATED, Debtor, MICROSOFT CORPORATION, Appellant, v. DAK INDUSTRIES INCORPORATED, et. al., Appellees., 1994 WL 16014657 (Appellate Brief) (C.A.9 May. 09, 1994) **Opening Brief of Appellee Dak Industries Incorporated** (NO. 94-55029)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

8 IN RE DAK INDUSTRIES, INC., a California corporation, Debtor, Microsoft Corporation, Appellant, v. DAK INDUSTRIES, INC., et al., Appellee., 1994 WL 16066626 (Appellate Brief) (C.A.9 May. 20, 1994) **Reply Brief of Appellant Microsoft Corporation** (NO. 94-55029)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

Citing References

Positive Cases (U.S.A.)
****** Examined**

9 In re Abercrombie, 139 F.3d 755, 757+, 32 Bankr.Ct.Dec. 475, 475+, Bankr. L. Rep. P 77,653,

77653+, 98 Cal. Daily Op. Serv. 2099, 2099+, 98 Daily Journal D.A.R. 2941, 2941+, 2 Cal. Bankr. Ct. Rep. 40, 40+ (9th Cir.(Wash.) Mar 24, 1998) (NO. 96-35676) "" **HN: 3,6,7 (F.3d)**

★★★ Discussed

10 In re BCE West, L.P., 319 F.3d 1166, 1172+, 50 Collier Bankr.Cas.2d 154, 154+, 40 Bankr.Ct.Dec. 239, 239+, Bankr. L. Rep. P 78,800, 78800+, 3 Cal. Daily Op. Serv. 1378, 1378+, 2003 Daily Journal D.A.R. 1797, 1797+ (9th Cir. Feb 14, 2003) (NO. 01-16724) "" **HN: 2,6,7 (F.3d)**

11 In re Megafoods Stores, Inc., 163 F.3d 1063, 1072+, 33 Bankr.Ct.Dec. 741, 741+, Bankr. L. Rep. P 77,866, 77866+, 98 Cal. Daily Op. Serv. 9104, 9104+, 98 Daily Journal D.A.R. 12,764, 12764+, 3 Cal. Bankr. Ct. Rep. 42, 42+ (9th Cir. Dec 15, 1998) (NO. 97-16229, 97-16291) "" **HN: 3 (F.3d)**

12 In re Milden, 111 F.3d 138, 138+ (9th Cir.(Cal.) Apr 16, 1997) (Table, text in WESTLAW, NO. 94-56151, 94-56503) "" **HN: 1 (F.3d)**

13 In re MacFarlane, 83 F.3d 1041, 1044+, 64 USLW 2726, 2726+, 35 Collier Bankr.Cas.2d 1272, 1272+, Bankr. L. Rep. P 77,002, 77002+, 96 Cal. Daily Op. Serv. 3363, 3363+, 96 Daily Journal D.A.R. 5487, 5487+ (9th Cir.(Cal.) May 13, 1996) (NO. 94-56064, 94-56065) "" **HN: 1 (F.3d)**

14 Softman Products Co., LLC v. Adobe Systems, Inc., 171 F.Supp.2d 1075, 1084+, 45 UCC Rep.Serv.2d 945, 945+ (C.D.Cal. Oct 19, 2001) (NO. CV 00-04161DDP(AJWX)) "" **HN: 6,7 (F.3d)**

15 In re Metro Fulfillment, Inc., 294 B.R. 306, 309+, 41 Bankr.Ct.Dec. 140, 140+, Bankr. L. Rep. P 78,872, 78872+, 3 Cal. Daily Op. Serv. 5429, 5429+, 2003 Daily Journal D.A.R. 6740, 6740+ (9th Cir.BAP (Cal.) Jun 04, 2003) (NO. CC02-1527-BMOP, SV01-21763-AG) **HN: 3 (F.3d)**

16 In re Valley Media, Inc., 279 B.R. 105, 141+, 47 UCC Rep.Serv.2d 1178, 1178+ (Bankr.D.Del. Apr 25, 2002) (NO. 01-11353(PJW)) **HN: 6,7 (F.3d)**

★★ Cited

17 In re Schafler, 2003 WL 1793258, *1, 62 Fed.Appx. 138, 140 (9th Cir.(Cal.) Mar 25, 2003) (Table, text in WESTLAW, NO. 01-16250, 02-15619, 01-16270, 01-17516) "" **HN: 4 (F.3d)**

18 In re Audre Inc., 2003 WL 1459637, *1, 59 Fed.Appx. 925, 926 (9th Cir.(Cal.) Mar 18, 2003) (Table, text in WESTLAW, NO. 02-55535) "" **HN: 3 (F.3d)**

19 In re Kadjevich, 220 F.3d 1016, 1019, 44 Collier Bankr.Cas.2d 975, 975, 36 Bankr.Ct.Dec. 149, 149, 00 Cal. Daily Op. Serv. 6578, 6578, 2000 Daily Journal D.A.R. 8707, 8707, 4 Cal. Bankr. Ct. Rep. 32, 32 (9th Cir. Aug 08, 2000) (NO. 99-15367, 99-15372) "" **HN: 7 (F.3d)**

20 In re Prater, 210 F.3d 385, 385, 4 Cal. Bankr. Ct. Rep. 44, 44 (9th Cir.(Cal.) Feb 03, 2000) (Table, text in WESTLAW, NO. 99-15260) **HN: 1 (F.3d)**

21 In re George, 177 F.3d 885, 887+, 42 Collier Bankr.Cas.2d 196, 196+, 34 Bankr.Ct.Dec. 514, 514+, Bankr. L. Rep. P 77,930, 77930+, 99 Cal. Daily Op. Serv. 3880, 3880+, 1999 Daily Journal D.A.R. 4957, 4957+, 3 Cal. Bankr. Ct. Rep. 44, 44+ (9th Cir.(Cal.) May 24, 1999) (NO. 97-56628) **HN: 1 (F.3d)**

22 In re Bakersfield Westar Ambulance, Inc., 123 F.3d 1243, 1245+, 31 Bankr.Ct.Dec. 436, 436+, 33 UCC Rep.Serv.2d 615, 615+, 97 Cal. Daily Op. Serv. 6725, 6725+, 97 Daily Journal D.A.R. 10,937, 10937+ (9th Cir.(Cal.) Aug 22, 1997) (NO. 96-16287) **HN: 1 (F.3d)**

23 In re Sovereign Partners, 110 F.3d 70, 70 (9th Cir.(Nev.) Apr 04, 1997) (Table, text in WESTLAW, NO. 95-15804) **HN: 1 (F.3d)**

24 In re Allen Care Centers, Inc., 96 F.3d 1328, 1330, 65 USLW 2271, 2271, 29 Bankr.Ct.Dec. 1031, 1031, Bankr. L. Rep. P 77,122, 77122, 96 Cal. Daily Op. Serv. 7280, 7280, 96 Daily Journal D.A.R. 11,968, 11968 (9th Cir.(Or.) Sep 30, 1996) (NO. 94-36060) **HN: 2,4 (F.3d)**

25 Arizona Cartridge Remanufacturers Ass'n, Inc. v. Lexmark Intern., Inc., 290 F.Supp.2d 1034, 1043, 68 U.S.P.Q.2d 1786, 1786 (N.D.Cal. Sep 30, 2003) (NO. C 01-4626 SBA) **HN: 7 (F.3d)** (BNA Version)

26 In re Borrego Springs Development Corp., 253 B.R. 271, 275 (S.D.Cal. Sep 06, 2000) (NO. 99-2243-IEG) **HN: 1 (F.3d)**

27 In re Brown, 239 B.R. 204, 206, 1999 Daily Journal D.A.R. 10,593, 10593, 3 Cal. Bankr. Ct. Rep. 50, 50 (S.D.Cal. Jul 29, 1999) (NO. 98-2329-IEG, 99-0033-IEG) **HN: 1 (F.3d)**

28 In re Maruko, Inc., 219 B.R. 567, 569, 32 Bankr.Ct.Dec. 317, 317, 2 Cal. Bankr. Ct. Rep. 133, 133 (S.D.Cal. Feb 24, 1998) (NO. 97-CV-1145-K) **HN: 1 (F.3d)**

29 In re Boulders on the River, Inc., 218 B.R. 528, 532 (D.Or. Dec 18, 1997) (NO. CIV.97-6138-HO, 692-64208-AER11) **HN: 1 (F.3d)**

30 In re Sherwood, 1996 WL 523750, *2, 78 A.F.T.R.2d 96-5787, 96-5787, 96-2 USTC P 50,428, 50428 (D.Or. Jul 10, 1996) (NO. 96-6140) **HN: 1 (F.3d)**

31 In re Ybarra, 295 B.R. 609, 619+, 41 Bankr.Ct.Dec. 160, 160+, 3 Cal. Daily Op. Serv. 6227, 6227+, 2003 Daily Journal D.A.R. 7725, 7725+ (9th Cir.BAP (Cal.) Jun 26, 2003) (NO. CC-02-1356-KBAP, ND91-11779-RR)

32 In re Taylor, 223 B.R. 747, 753, 40 Collier Bankr.Cas.2d 999, 999, Bankr. L. Rep. P 77,818, 77818, 98 Cal. Daily Op. Serv. 6733, 9536, 98 Cal. Daily Op. Serv. 9536, 2 Cal. Bankr. Ct. Rep. 54, 54 (9th Cir.BAP (Wash.) Aug 12, 1998) (NO. WW-97-1385, 95-09922, 96-05138, WW-97-1386)

33 In re Santa Monica Beach Hotel, Ltd., 209 B.R. 722, 725+, 31 Bankr.Ct.Dec. 13, 13+, Bankr. L. Rep. P 77,482, 77482+, 97 Cal. Daily Op. Serv. 5612, 5612+, 97 Daily Journal D.A.R. 9875, 9875+ (9th Cir.BAP (Cal.) Jun 16, 1997) (NO. CC-96-1705-VOH, LA 91-90269 BR) **HN: 3,4,9 (F.3d)**

34 In re National Refractories & Minerals Corp., 297 B.R. 614, 617+, 51 Collier Bankr.Cas.2d 305, 305+ (Bankr.N.D.Cal. Aug 27, 2003) (NO. 01-445482 T) **HN: 2,3 (F.3d)**

35 In re Napa Valley Physicians Plan, 266 B.R. 455, 456+ (Bankr.N.D.Cal. Aug 06, 2001) (NO. 01-10255) **HN: 3 (F.3d)**

36 In re Unidigital, Inc., 262 B.R. 283, 288 (Bankr.D.Del. May 07, 2001) (NO. 00-3806 MFW, 00-3809 MFW, 00-3807 MFW, 00-3810 MFW, 00-3808 MFW, 00-3811 MFW) **HN: 7 (F.3d)**

37 In re Pinnacle Brands, Inc., 259 B.R. 46, 50, 45 Collier Bankr.Cas.2d 1037, 1037, 37 Bankr.Ct.Dec. 127, 127 (Bankr.D.Del. Feb 06, 2001) (NO. 98-1716 (MFW)) **HN: 7 (F.3d)**

38 In re Mid-American Waste Systems, Inc., 228 B.R. 816, 821, 33 Bankr.Ct.Dec. 958, 958 (Bankr.D.Del. Jan 13, 1999) (NO. 97-104 PJW) **HN: 3 (F.3d)**

39 In re Hepworth, 2000 WL 33712220, *1+ (Bankr.D.Idaho May 30, 2000) (NO. 99-41514) "" **HN: 3,9 (F.3d)**

40 In re Molnar Bros., 200 B.R. 555, 559, 29 Bankr.Ct.Dec. 966, 966 (Bankr.D.N.J. Sep 13, 1996) (NO. 91-35776, 92-34917, 92-34918) **HN: 3 (F.3d)**

41 In re Cole, 189 B.R. 40, 47+ (Bankr.S.D.N.Y. Nov 06, 1995) (NO. 90 B 10109 (TLB)) **HN: 3,9 (F.3d)**

42 In re Ernst Home Center, Inc., 209 B.R. 955, 962 (Bankr.W.D.Wash. Feb 10, 1997) (NO. 96-10129) **HN: 3 (F.3d)**

★ Mentioned

43 In re Harnischfeger Industries, Inc., 293 B.R. 650, 659 (Bankr.D.Del. May 15, 2003) (NO. 99-2171 PJW) **HN: 3 (F.3d)**

44 In re Szombathy, 1996 WL 417121, *9 (Bankr.N.D.Ill. Jul 09, 1996) (NO. 94 B 15536, 95 A 01035) **HN: 5 (F.3d)**

45 In re FAMCO, Inc., 2001 WL 1700023, *2 (Bankr.M.D.N.C. Apr 02, 2001) (NO. 99-51952C-11W) **HN: 2 (F.3d)**

46 In re Canton Jubilee, Inc., 253 B.R. 770, 774, 45 Collier Bankr.Cas.2d 310, 310 (Bankr.E.D.Tex. Sep 29, 2000) (NO. 98-61433) **HN: 9 (F.3d)**

47 In re Bentley Funding Group, LLC, 2001 WL 34054525, *2 (Bankr.E.D.Va. Jan 02, 2001) (NO. 00-13386)

48 Atiyeh v. Bear, 690 A.2d 1245, 1249, 456 Pa.Super. 548, 557 (Pa.Super. Feb 27, 1997) (NO. 02046 PHILA. 1996) **HN: 5,8 (F.3d)**

Secondary Sources (U.S.A.)

49 What are "administrative expenses' under sec. 503(b) of Bankruptcy Code (11 U.S.C.A. sec. 503(b)) granted first priority for payment pursuant to sec. 507(a)(1) of Code (11 U.S.C.A. sec. 507(a)(1)), 140 A.L.R. Fed. 1, § 8 (1998) **HN: 6 (F.3d)**

50 Bankruptcy Evidence Manual s 301.53, Administrative Expenses-Section 503 (2005) **HN: 2,9 (F.3d)**

51 Bankruptcy Practice for the General Practitioner s 7:3, -ADMINISTRATIVE EXPENSES (2004)

52 Chapter 11: Reorganizations, Second Edition s 10:5, s 10:5. Allowance of administrative claims (2004) **HN: 4 (F.3d)**

53 Creditors' Rights in Bankruptcy s 5:12, s 5:12. Allowance of administrative expenses (2004)

54 Equipment Leasing - Leveraged Leasing s 7:1.2, Definition of Unexpired Lease or Executory Contract (2003)

55 Federal Appellate Practice Guide 9th Circuit 2d s 12:15, -ABUSE OF DISCRETION (2002) **HN: 9 (F.3d)**

56 Law of Computer Technology s 6:9, -ROLE OF CONTRACT SPECIFICATIONS (1998)

57 Law of Computer Technology s 7:171, SOFTWARE DISTRIBUTION FORMATS (2003) **HN: 6 (F.3d)**

58 Law of Computer Technology s 7:188, EFFECT OF BANKRUPTCY ON LICENSES (2003) **HN: 6 (F.3d)**

59 Law of Computer Technology s 7:67, NONDISCLOSURE AND INFORMATION USE (1998)

60 Law of Computer Technology s 7:68, NONCIRCUMVENTION AND COMPETITION (1998) **HN: 6 (F.3d)**

61 New York Practice Series VOLUME F-G s 20:249, ---COMMERCIAL LANDLORD NEED NOT DEMONSTRATE BENEFIT TO THE ESTATE (2003) **HN: 6 (F.3d)**

62 2002 Norton Annual Survey of Bankruptcy Law 203, Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits" (2002)

63 2002 Norton Annual Survey of Bankruptcy Law 263, The Super Duper Priority Administrative Expense: What It Is, Where It Comes From, What It Does and How You Get One (2002)

64 Norton Bankruptcy Law and Practice 2d s 42:15, s 42:15. First Priority: Administrative Expenses -- Requirement of Postpetition Incurrence; Exceptions (2004) **HN: 6,7 (F.3d)**

65 The Law of Debtors and Creditors s 14:36, -FIRST PRIORITY: ADMINISTRATIVE EXPENSES (2004) **HN: 6,7 (F.3d)**

C 66 INTELLECTUAL PROPERTY LAW IN BANKRUPTCY COURT: THE SEARCH FOR A MORE COHERENT STANDARD IN DEALING WITH A DEBTOR'S RIGHT TO ASSUME AND ASSIGN TECHNOLOGY LICENSES, 9 Am. Bankr. Inst. L. Rev. 593, 636+ (2001) **HN: 6 (F.3d)**

C 67 E-COMMERCE AND DOT-COM BANKRUPTCIES: ASSUMPTION, ASSIGNMENT AND REJECTION OF EXECUTORY CONTRACTS INCLUDING INTELLECTUAL PROPERTY AGREEMENTS, AND RELATED ISSUES UNDER SECTION 365(c), AND 365(e)ADN 365(n)OF THE BANKRUPTCY, 8 Am. Bankr. Inst. L. Rev. 307, 319+ (2000) **HN: 6,7,8 (F.3d)**

C 68 THE IMPACT OF BANKRUPTCY ON PATENT AND COPYRIGHT LICENSES, 17 Bankr. Dev. J. 575, 603+ (2001) **HN: 6,7 (F.3d)**

C 69 IN RE MICROSOFT CORP. ANTITRUST LITIGATION, 17 Berkeley Tech. L.J. 295, 315 (2002) **HN: 6 (F.3d)**

C 70 CONTRACTUAL ASSENT AND ENFORCEABILITY IN CYBERSPACE, 17 Berkeley Tech. L.J. 475, 493+ (2002) **HN: 7 (F.3d)**

C 71 BREAKING BARRIERS: THE RELATION BETWEEN CONTRACT AND INTELLECTUAL PROPERTY LAW, 13 Berkeley Tech. L.J. 827, 889 (1998) **HN: 6 (F.3d)**

C 72 LICENSING INTELLECTUAL PROPERTY AND TECHNOLOGY FROM THE FINANCIALLY-TROUBLED OR STARTUP COMPANY: PREBANKRUPTCY STRATEGIES TO MINIMIZE THE RISK IN A LICENSEE'S INTELLECTUAL PROPERTY AND TECHNOLOGY INVESTMENT, 55 Bus. Law. 1649, 1698+ (2000) **HN: 8 (F.3d)**

C 73 RECENT DEVELOPMENTS IN BUSINESS BANKRUPTCY - 2002, 26 Cal. Bankr. J. 341, 358 (2003) **HN: 6,7 (F.3d)**

C 74 BEYOND PREEMPTION: THE LAW AND POLICY OF INTELLECTUAL PROPERTY LICENSING, 87 Cal. L. Rev. 111, 172 (1999) **HN: 7 (F.3d)**

75 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 20 NO. 7 Computer & Internet Law. 19, 29 (2003) **HN: 7 (F.3d)**

C 76 REORGANIZING HIGH-TECH BUSINESSES: "FIND ME SOME LAWYERS WHO WEAR SUITS", 19 NO. 6 Computer & Internet Law. 7, 16 (2002) **HN: 8 (F.3d)**

C 77 WHY ARTICLE 2 CANNOT APPLY TO SOFTWARE TRANSACTIONS, 38 Duq. L. Rev. 459, 589+ (2000) **HN: 6,7,8 (F.3d)**

C 78 BANKRUPTCY AND FEDERALISM, 71 Fordham L. Rev. 1063, 1131 (2002) **HN: 6 (F.3d)**
C 79 FINANCING INTELLECTUAL PROPERTY UNDER FEDERAL LAW: A NATIONAL IMPERATIVE, 23 Hastings Comm. & Ent. L.J. 195, 311+ (2001) **HN: 8 (F.3d)**
C 80 FINANCING INTELLECTUAL PROPERTY UNDER REVISED ARTICLE 9: NATIONAL AND INTERNATIONAL CONFLICTS, 23 Hastings Comm. & Ent. L.J. 313, 455 (2001) **HN: 6 (F.3d)**
81 ASSIGNABILITY OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY NAVIGATING THE MURKY WATERS OF SECTION 365, 21 NO. 1 Intell. Prop. L. Newsl. 11, 14+ (2002)
C 82 FORECLOSING ON FAME: EXPLORING THE UNCHARTED BOUNDARIES OF THE RIGHT OF PUBLICITY, 11 J. Bankr. L. & Prac. 441, 497 (2002)
83 HIGH-TECH BANKRUPCTY: PREVENTING TERMINATION OF THE LICENSE AGREEMENT, 6 J. Bankr. L. & Prac. 581, 589 (1997)
84 AN UPDATE ON FINANCING WITH INTELLECTUAL PROPERTY AS COLLATERAL: PART II OF II, 9 NO. 11 J. Proprietary Rts. 10, 19+ (1997) **HN: 6,7 (F.3d)**
85 MOWING THE PLAYING FIELD: ADDRESSING INFORMATION DISTORTION AND ASYMMETRY IN THE TRIPS GAME, 88 Minn. L. Rev. 249, 314+ (2003) **HN: 6 (F.3d)**
86 REJECTING THE EXECUTIVE EMPLOYMENT AGREEMENT PETITIONER MUST ANTICIPATE ISSUES RELATING TO SEVERANCE PAY ADMINISTRATIVE EXPENSE REQUESTS, 2/20/2001 N.Y. L.J. S2, col. 1, S2, col. 1 (2001)
87 CHALLENGES FOR BANKRUPTCY IN MILLENNIUM, 9/13/99 N.Y. L.J. 13, col. 1, 13, col. 1+ (1999)
C 88 FORECLOSING ON FAME: EXPLORING THE UNCHARTED BOUNDARIES OF THE RIGHT OF PUBLICITY, 77 N.Y.U. L. Rev. 1322, 1368 (2002) **HN: 7 (F.3d)**
89 STOP MUCKING UP COPYRIGHT LAW: A PROPOSAL FOR A FEDERAL COMMON LAW OF CONTRACT, 35 Rutgers L.J. 959, 1033 (2004) **HN: 7 (F.3d)**
C 90 ARTICLE 2B: AN INTRODUCTION, 16 J. Marshall J. Computer & Info. L. 211, 253 (1997) **HN: 6 (F.3d)**
C 91 TRADEMARK ISSUES IN BANKRUPTCY, 93 Trademark Rep. 867, 903+ (2003) **HN: 7 (F.3d)**
C 92 DON'T JUDGE A SALE BY ITS LICENSE: SOFTWARE TRANSFERS UNDER THE FIRST SALE DOCTRINE IN THE UNITED STATES AND THE EUROPEAN COMMUNITY, 36 U.S.F. L. Rev. 1, 107 (2001) **HN: 6 (F.3d)**
C 93 LICENSING IN THE CONTEMPORARY INFORMATION ECONOMY, 8 Wash. U. J.L. & Pol'y 99, 166 (2002) **HN: 6 (F.3d)**
94 120702 American Bankruptcy Institute 139, Concurrent Session: Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licensing & Sales Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licens (2002) **HN: 2,6 (F.3d)**
95 041802 American Bankruptcy Institute 329, Executory Contracts and Administrative Claims - Troublesome Issues Made Easier What is an Actual and Necessary Expense? The status of Postpetition, Pre-Rejection Claims Under Prepetion Executory Contracts (2002)
96 013102 American Bankruptcy Institute 57, Intellectual Property and Other Issues in High-tech Cases Reorganizing High-Tech Businesses - "I Need Help, Find Me Some Lawyers Who Wear Suits' (2002)
97 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SJ082 ALI-ABA 201, 215+ (2004) **HN: 7 (F.3d)**
98 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SH054 ALI-ABA 243, 256+ (2003) **HN: 7,8 (F.3d)**
99 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SG108 ALI-ABA 345, 358+ (2002) **HN: 7,8 (F.3d)**
100 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SG001 ALI-ABA 407, 420+ (2001) **HN: 7,8 (F.3d)**
101 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SE71 ALI-ABA 369, 382+ (2000) **HN: 7 (F.3d)**
102 THE EFFECT OF BANKRUPTCY ON INTELLECTUAL PROPERTY RIGHTS, SD24 ALI-ABA 69, 79+ (1998) **HN: 7 (F.3d)**
103 INTELLECTUAL PROPERTY AND BANKRUPTCY, SB37 ALI-ABA 67, 77 (1997)

104 242 BNA Daily Report for Executives K-9, 1998, BANKRUPTCY: FACTS. (1998) **HN: 3 (F.3d)**

105 1996 BNA Daily Report for Executives 94 D83, BANKRUPTCY-ULTIMATE BURDEN OF PROOF FOR TAX CLAIM LIES WITH TAXING AUTHORITY; Taxing authority has the ultimate burden of proving its claim in bankruptcy proceedings (CA 9; Skopil, J.; California Franchise Tax Board v. M (1996) **HN: 1 (F.3d)**

106 242 BNA Daily Tax Report K-9, 1998, BANKRUPTCY: FACTS. (1998) **HN: 3 (F.3d)**

107 1996 BNA Daily Tax Report 94 D24, BANKRUPTCY-ULTIMATE BURDEN OF PROOF FOR TAX CLAIM LIES WITH TAXING AUTHORITY; Taxing authority has the ultimate burden of proving its claim in bankruptcy proceedings (CA 9; Skopil, J.; California Franchise Tax Board v. M (1996) **HN: 1 (F.3d)**

108 63 BNA Patent, Trademark & Copyright Journal 29, COPYRIGHTS/TRADEMARKS: FIRST SALE DOCTRINE PERMITS UNBUNDLING AND RESALE OF SOFTWARE WITH SHRINKWRAP LICENSE (2001) **HN: 6 (F.3d)**

109 DETERMINING AND PRESERVING THE ASSETS OF DOT-COMS, 28 Del. J. Corp. L. 185, 223+ (2003) **HN: 6 (F.3d)**

110 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *24+ (2002) **HN: 6 (F.3d)**

111 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 223+ (2004) **HN: 6,7 (F.3d)**

112 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1311+ (2003) **HN: 6,7 (F.3d)**

113 , 838 PLI/Comm 245, 262+ (2002) **HN: 6,7 (F.3d)**

114 AN OVERVIEW OF INTELLECTUAL PROPERTY LICENSES AND BANKRUPTCY, 827 PLI/Comm 129, 145+ (2001) **HN: 6 (F.3d)**

115 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 820 PLI/Comm 1141, 1151+ (2001) **HN: 6,7 (F.3d)**

116 BANKRUPTCY IN A BRAVE E-WORLD: PLANNING FOR THE DAY A DOT-COM CRASHES, 816 PLI/Comm 247, 284 (2001) **HN: 6 (F.3d)**

117 CURRENT DEVELOpMENTS IN INTELLECTUAL pROpERTY ISSUES IN BANKRUpTCY, 805 PLI/Comm 1053, 1061+ (2000)

118 CLAIMS ISSUES, 767 PLI/Comm 819, 831 (1998) **HN: 6,7 (F.3d)**

119 INTELLECTUAL PROPERTY ISSUES IN AN INSOLVENCY CONTEXT, 1307 PLI/Corp 173, 191 (2002) **HN: 6 (F.3d)**

120 PATENT AND HIGH TECHNOLOGY LICENSING, 786 PLI/Pat 687, 707+ (2004) **HN: 6,7 (F.3d)**

121 BANKRUPTCY AND LICENSING, 786 PLI/Pat 757, 788+ (2004) **HN: 6,7 (F.3d)**

122 COPYRIGHT LICENSING, 787 PLI/Pat 145, 160+ (2004) **HN: 6 (F.3d)**

123 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 779 PLI/Pat 365, 410 (2004) **HN: 6 (F.3d)**

124 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1116+ (2004) **HN: 7 (F.3d)**

125 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY CODE: RIGHTS AND REMEDIES FOLLOWING, 763 PLI/Pat 963, 978+ (2004) **HN: 6 (F.3d)**

126 ADDRESSING BANKRUPTCY ISSUES IN COMPLEX TECHNOLOGY TRANSACTIONS-POWERPOINT SLIDES, 767 PLI/Pat 649, 668 (2003) **HN: 6,7 (F.3d)**

127 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 740 PLI/Pat 355, 400 (2003) **HN: 6 (F.3d)**

128 PROTECTING CLIENTS AGAINST TECHNOLOGY VENDOR BANKRUPTCY -- POWERPOINT SLIDES, 734 PLI/Pat 697, 712 (2003) **HN: 6,7 (F.3d)**

129 PROTECTING CLIENTS AGAINST TECHNOLOGY VENDOR BANKRUPTCY, 735 PLI/Pat 9, 39 (2003)

130 INTELLECTUAL PROPERTY LICENSING ISSUES UNDER THE BANKRUPTCY, 733 PLI/Pat 299, 311+ (2003) **HN: 6 (F.3d)**

131 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225+ (2002) **HN: 6 (F.3d)**

132 ADDRESSING BANKRUPTCY IN COMPLEX TECHNOLOGY TRANSACTIONS, 724 PLI/Pat 617, 632 (2002) **HN: 6,7 (F.3d)**

133 , 700 PLI/Pat 33, 88 (2002) **HN: 6 (F.3d)**

134 BANKRUPTCY AND FINANCING ISSUES IN INTELLECTUAL PROPERTY LAW, 683 PLI/Pat 485, 523+ (2001) **HN: 6,7 (F.3d)**

135 BANKRUPTCY AND LICENSING, 672 PLI/Pat 201, 207+ (2001) **HN: 6,7 (F.3d)**

136 FREQUENTLY LITIGATED COMPUTER SOFTWARE CONTRACT CLAUSES: CONTRACT DRAFTING ADVICE FOR THE COMPUTER LAWYER, 657 PLI/Pat 53, 113+ (2001) **HN: 6 (F.3d)**

137 BANKRUPTCY AND LICENSING, 652 PLI/Pat 279, 293+ (2001) **HN: 6,7 (F.3d)**

138 WHY ARTICLE 2 CANNOT APPLY TO SOFTWARE TRANSACTIONS, 637 PLI/Pat 1127, 1209+ (2001) **HN: 6,7 (F.3d)**

139 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 620 PLI/Pat 185, 190+ (2000) **HN: 6,7 (F.3d)**

140 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 576 PLI/Pat 199, 204+ (1999) **HN: 6,7 (F.3d)**

141 ISSUES IN SOFTWARE LICENSING, 576 PLI/Pat 399, 413 (1999)

142 UNIFORM COMMERCIAL CODE ARTICLE 2B: SOFTWARE CONTRACTS AND LICENSES OF INFORMATION, 560 PLI/Pat 143, 267 (1999) **HN: 6 (F.3d)**

143 ISSUES IN SOFTWARE LICENSING, 534 PLI/Pat 361, 372 (1998)

144 BANKRUPTCY'S IMPACT ON COPYRIGHT: SELECTED PROBLEMS, 529 PLI/Pat 163, 187 (1998)

145 COMPUTER LITIGATION AT THE MILLENIUM, 507 PLI/Pat 1045, 1049+ (1998) **HN: 6,7 (F.3d)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Briefs

146 In re: PRIMARY HEALTH SYSTEMS, INC., PHS Cleveland, Inc., PHS Physician Management of Ohio, Inc., PHS Mt. Sinai, Inc., Primary Health Systems of Ohio, L.P., PHS St. Alexis, Inc., PHS Laurelwood Inc., PHS Roxborough, Inc., and Lower Bucks, Inc., Debtors. Primary Health Systems, Inc., PHS Cleveland, Inc., PHS Physician Management of Ohio, Inc., PHS Mt. Sinai, Inc., Primary Health Systems of Ohio, L.P., PHS St. Alexis, Inc., PHS Laurelwood Inc., PHS Roxborough, Inc., and Lower, 2000 WL 34026658, *34026658+ (Appellate Brief) (3rd Cir. Oct 03, 2000) **Reply Brief of Appellants** (NO. 00-2251) ** **HN: 6 (F.3d)**

147 In re: PRIMARY HEALTH SYSTEMS, INC, et al., Debtors. Primary Health Systems, Inc, et al., Appellants, v. Interactive Health Computing, Inc., Appellee., 2000 WL 34026657, *34026657+ (Appellate Brief) (3rd Cir. Sep 28, 2000) **Brief of Appellee Interactive Health Computing, ...** (NO. 00-2251) ** **HN: 6 (F.3d)**

148 Matter of: Texas Health Enterprises, Inc., Debtor CITY OF BRENHAM, Appellant, v. Dennis S. FAULKNER, Appellee., 2003 WL 23716385, *23716385+ (Appellate Brief) (5th Cir. Feb 20, 2003) **Appellant's Brief** (NO. 02-41742) ** **HN: 1 (F.3d)**

149 IN THE MATTER OF: JACK/WADE DRILLING, INC., Debtor; TOTAL MINATOME CORPORATION, Appellant, v. JACK/WADE DRILLING, INC.; Paul N. Deballion; Us Trustee; Baker Hughes, Inc., Appellees., 2001 WL 34106711, *34106711+ (Appellate Brief) (5th Cir. Jan 19, 2001) **Reply Brief of Appellant Total Minatome ...** (NO. 00-30899) ***

150 In the Matter of: JACK/WADE DRILLING INC., Debtor. Total Minatome Corp., Appellant, v. JACK WADE DRILLING INC.; Paul N. DeBaillon; US Trustee; Baker Hughes Inc., Appellee., 2000 WL 33988441, *33988441+ (Appellate Brief) (5th Cir. Dec 22, 2000) **Original Brief of Appellee Paul N. Debaillon, ...** (NO. 00-30899) ***

151 TOTAL MINATOME CORPORATION, Appellant, v. Paul N. DEBALLION, Trustee of the Bankruptcy Estate of Jack/Wade Drilling, Inc., Appellee., 2000 WL 33990024, *33990024+

(Appellate Brief) (5th Cir. Oct 25, 2000) **Original Brief of Appellant Total Minatome ...** (NO. 00-30899) ★★

152 FUTURESOURCE LLC, Plaintiff--Appellee, v. REUTERS LIMITED, Reuters S.A., and Reuters America Inc., Defendants-Appellants., 2002 WL 32115101, *32115101+ (Appellate Brief) (7th Cir. 2002) **Reply Brief of Reuters Limited, Reuters S.A., and ...** (NO. 02-2060) ★★

153 WALL DATA INCORPORATED, Plaintiff-Appellee, v. LOS ANGELES COUNTY SHERIFF'S DEPARTMENT, a division of the County of Los Angeles; County of Los Angeles Defendants-Appellants., 2004 WL 2085188, *2085188+ (Appellate Brief) (9th Cir. Aug 17, 2004) **Appellants' Brief** (NO. 03-56559) "" ★★ **HN: 7 (F.3d)**

154 In re SUN WORLD INTERNATIONAL, INC., Debtor. Oz Master Fund Ltd. and OZF Credit Opportunities Master Funds, Appellants/Creditors, v. Sun World International, Inc., Appellee/Debtor., 2004 WL 1763006, *1763006+ (Appellate Brief) (9th Cir. Jul 07, 2004) **Appellee's Opening Brief** (NO. 04-55723) "" ★★ **HN: 5 (F.3d)**

155 IN RE OAN SERVICES, INC., a Texas corporation; nTelecom Holdings, Inc., a Delaware corporation; and Oan Services of Florida, Inc., a Texas corporation. Debtors, Americatel Corporation Appellant, v. OAN SERVICES, INC., Appellee., 2004 WL 541633, *541633+ (Appellate Brief) (9th Cir. Jan 28, 2004) **Opening Brief of Appellant Americatel Corporation** (NO. 03-56069) ★★★ **HN: 3,6,7 (F.3d)**

156 In re AUDRE, INC., Debtor, AUDRE RECOGNITION SYSTEMS INC., et al., Plaintiff and Appellants, v. Donald LUNDELL, Defendant and Respondent., 2002 WL 32118254, *32118254+ (Appellate Brief) (9th Cir. Nov 21, 2002) **Appellant's Reply Brief** (NO. 02-55535) ★★★

157 In re AUDRE, INC., Debtor, AUDRE RECOGNITION SYSTEMS INC., et al., Plaintiff and Appellants, v. Donald LUNDELL, Defendant and Respondent., 2002 WL 32118255, *32118255+ (Appellate Brief) (9th Cir. Sep 05, 2002) **Appellant's Opening Brief** (NO. 02-55535) ★★★

158 In re: Stanley Michael HABR, Debtor and Appellee WORLD SAVINGS AND LOAN ASSOCIATION, Petitioner and Appellant., 2002 WL 32302304, *32302304+ (Appellate Brief) (9th Cir. Aug 14, 2002) **Appellee's Brief** (NO. 01-17401) ★★ **HN: 7 (F.3d)**

159 In re BCE WEST, L.P., et al., Debtors. ENBC CORP., Appellant, v. Gerald K. SMITH, Plan Trustee, Appellee., 2002 WL 32099868, *32099868+ (Appellate Brief) (9th Cir. Aug 02, 2002) **Reply Brief of Appellant** (NO. 01-16724) ★★★ **HN: 3 (F.3d)**

160 In re BCE WEST, L.P. et al., Debtors. EINSTEIN NOAH/BAGEL CORP., Appellant, v. Gerald K. SMITH, Plan Trustee, Appellee., 2002 WL 32100065, *32100065+ (Appellate Brief) (9th Cir. Jul 2002) **Appellee's Answering Brief** (NO. 01-16724) ★★★ **HN: 7 (F.3d)**

161 In re: BANKRUPTCY ESTATE OF MARKAIR, INC., Debtor, William Barstow, III, Trustee, Appellant, v. Internal Revenue Service, Appellee., 2002 WL 32144889, *32144889+ (Appellate Brief) (9th Cir. Jan 17, 2002) **Brief for the Appellee** (NO. 01-35819) ★★ **HN: 1 (F.3d)**

162 In re: James F. GEORGE, III and Margie R. George, Debtors. James F. GEORGE, III, and Margie R. George, Appellants, v. THE CITY OF MORRO BAY et al, Appellees., 2001 WL 34091250, *34091250+ (Appellate Brief) (9th Cir. Nov 29, 2001) **Brief of the Appellees** (NO. 01-56445) ★★ **HN: 1 (F.3d)**

163 In re Lorraine Althea WELLS, Debtor. Lorraine Althea WELLS, Appellant, v. Linda J. CHU, Former Chapter 7 Trustee, Appellee., 2001 WL 34119500, *34119500 (Appellate Brief) (9th Cir. Jun 20, 2001) **Appellee's Brief on Appeal from the United States ...** (NO. 98-58108-TD) "" ★★ **HN: 1 (F.3d)**

164 In Re Laurance WOLFBERG and Carolyn Wolfberg, Debtors. Laurance WOLFBERG and Carolyn Wolfberg, Appellants, v. Nancy KNUPFER, Post-Confirmation Chapter 11 Trustee, Appellee., 2001 WL 34104608, *34104608+ (Appellate Brief) (9th Cir. Mar 09, 2001) **Appellant's Opening Brief** (NO. 00-57220) ★★

165 In re: Zdenek KIESLICH and Susan A. Kieslich, Debtors. Zdenek KIESLICH, Plaintiff - Appellant, Susan A. KIESLICH, Plaintiff, v. UNITED STATES OF AMERICA, Defendant - Appellee., 2000 WL 33977028, *33977028+ (Appellate Brief) (9th Cir. Feb 23, 2000) **Brief for the Appellee** (NO. 99-17202) ★★ **HN: 1 (F.3d)**

166 In re: Steve P. MYRVANG and Joanne L. Myrvang, Debtors, June Cotner Graves, Plaintiff, v.

Steve P. Myrvang and Joanne L. Myrvang, Defendants., 1999 WL 33622351, *33622351+ (Appellate Brief) (9th Cir. Sep 01, 1999) **Brief of Appellee June Cotner Graves** (NO. 99-35328) ★★★ **HN: 5 (F.3d)**

167 In re: Steve P. MYRVANG and Joanne L. Myrvang, Debtors, June Cotner Graves, Plaintiff, v. Steve P. Myrvang and Joanne L. Myrvang, Defendants., 1999 WL 33622352, *33622352+ (Appellate Brief) (9th Cir. Jul 21, 1999) **Brief of Appellants Steve P. Myrvang and Joanne ...** (NO. 99-35328) ★★

168 In re William J. PRATER, dba Prater Free Farm, Debtor. William J. Prater, dba Prater Tree Farm, Appellant, v. Elizabeth B. Prater, Appellee., 1999 WL 33623265, *33623265+ (Appellate Brief) (9th Cir. Jun 10, 1999) **Appellee's Replacement Brief** (NO. 99-15260) "" ★★ **HN: 1 (F.3d)**

169 In Re Irwin DANIELS, Debtor. Irwin DANIELS, an individual, Daniels Livingtrust of 1980, a trust, and Official Committee of Unsecured Creditors, Appellants, v. CENTURY PARK, a California limited partnership, Appellee., 1998 WL 34178706, *34178706+ (Appellate Brief) (9th Cir. Oct 09, 1998) **Appellants' Opening Brief** (NO. 98-55367) ★★ **HN: 6,7 (F.3d)**

170 In re George LEAGE, dba Tiger's Folly II, Debtor. FAR WEST CONCEPTS, INC., a California Corporation, Appellee, v. George LEAGE, dba Harbor House Inn, dba Tiger's Folly, Appellant., 1998 WL 34178703, *34178703+ (Appellate Brief) (9th Cir. Jul 20, 1998) **Appellant's Reply Brief** (NO. 98-55291) ★★★ **HN: 3 (F.3d)**

171 In Re: George LEAGE, dba Harbor House Inn dba Tiger's Folly, Debtor. FAR WEST CONCEPTS, INC., a California corporation, Appellee, v. George LEAGE, dba Harbor House Inn dba Tiger's Folly, Appellant., 1998 WL 34178705, *34178705+ (Appellate Brief) (9th Cir. Jun 15, 1998) **Opening Brief of Appellee, Far West Concepts, ...** (NO. 98-55291) ★★★ **HN: 1,3 (F.3d)**

172 In re George LEAGE, dba Tiger's Folly II, Debtor. FAR WEST CONCEPTS, INC., a California Corporation, Appellee, v. George LEAGE, dba Harbor House Inn, dba Tiger's Folly, Appellant., 1998 WL 34178704, *34178704+ (Appellate Brief) (9th Cir. Jun 10, 1998) **Appellant's Opening Brief** (NO. 98-55291) ★★★ **HN: 6,7 (F.3d)**

173 In re Gary LAZAR and Divine Grace Lazar, Debtors. In re California Target Enterprises, Inc. et al., Debtors. George E. Schulman, Chapter 7 Trustee, Appellant/Cross-Appellee, v. State of California and California State Water Resources Control Board and California Underground Storage Tank Cleanup Fund, Appellees/Cross-Appellants., 1998 WL 34110198, *34110198+ (Appellate Brief) (9th Cir. May 11, 1998) **Combined Cross Appeal Opening and Appeal ...** (NO. 97-56635, 97-56636, 97-56638) ★★ **HN: 2 (F.3d)**

174 In re: Perry ARDEN, Debtor. Related Bankruptcy Case No. 95-01648-H11 Perry Arden, Appellant, v. Motel Partners, L.P., Appellee., 1997 WL 33547137, *33547137+ (Appellate Brief) (9th Cir. Oct 14, 1997) **Appellant's Opening Brief** (NO. 97-55968, 97-55997) ★★ **HN: 1 (F.3d)**

175 In re: Mahmood H. JAFARI and Homayoon H. Jafari, Debtors, Mahmood H. JAFARI and Homayoon H. Jafari, Appellants, v. J. E. ROBERT COMPANY, INC., as Special Servicer on behalf of Chemical Bank, Trustee, and Chemical Bank, Trustee, Appellees., 1997 WL 33617329, *33617329 (Appellate Brief) (9th Cir. Sep 08, 1997) **Appellee J. E. Robert Company's Brief** (NO. 97-15706) ★★

176 In Re Case Blanca Project Lenders, L.p., Debtor. CITY COMMERCE BANK and Community Bank, Appellants, v. CASE BLANCE PROJECT LENDERS, L.P., Appellee., 1996 WL 33476454, *33476454+ (Appellate Brief) (9th Cir. Dec 11, 1996) **Appellants' Opening Brief** (NO. 96-55792) ★★

177 In re: Dwight C. and Dinah F. Lundell, Debtors. Dwight C. and Dinah F. Lundell, Appellants, v. Citibank (Arizona), Appellee., 1996 WL 33487097, *33487097+ (Appellate Brief) (9th Cir. Mar 12, 1996) **Appellee's Answering Brief on Appeal** (NO. 95-15056) ★★ **HN: 1 (F.3d)**

178 In re: Dwight C. and Dinah F. Lundell, Debtors. Dwight C. and Dinah F. Lundell, Appellants, v. Citibank (Arizona), Appellee., 1996 WL 33487099, *33487099+ (Appellate Brief) (9th Cir. Jan 16, 1996) **Appellants' Brief** (NO. 95-15056) ★★ **HN: 1 (F.3d)**

179 TWO AGENCIES OF THE COMMONWEALTH OF MASSACHUSETTS, Appellants, v. HILLARD DEVELOPMENT CORPORATION, Appellee., 2002 WL 32172167, *32172167+ (Appellate Brief) (11th Cir. Nov 20, 2002) **Brief of Appellants Two Agencies of the ...** (NO. 02-

14363-EE02-14843-) ★★ **HN: 5 (F.3d)**

180 In Re: THE CELOTEX CORPORATION, et al., Debtors. Home Insurance Company, et al., Appellants/Cross-Appellees, v. Celotex Corporation, et al., Appellees/Cross-Appellants., 2000 WL 34018909, *34018909+ (Appellate Brief) (11th Cir. Jan 24, 2000) **Brief of Appellees/Cross-Appellants Celotex ...** (NO. 99-14069-FF99-14146-) "" ★★★ **HN: 6,7 (F.3d)**

Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

181 In Re AUDRE, INC. Debtor., 2002 WL 32691539, *32691539 (Trial Motion, Memorandum and Affidavit) (S.D.Cal. Feb 04, 2002) **Appellant's Reply Brief** (NO. 01-CV-1656H, NLS) ★★

182 In Re AUDRE, INC., Debetor., 2001 WL 34670390, *34670390+ (Trial Motion, Memorandum and Affidavit) (S.D.Cal. Dec 17, 2001) **Appellant's Opening Brief** (NO. 0L-CV-1656H, NLS) ★★

H

United States Bankruptcy Court,
D. Delaware.

In re GOLDEN BOOKS FAMILY ENTERTAINMENT, INC., Golden Books Publishing Company, Inc., Golden Books Home Video, Inc., LRM Acquisition Corp., Shari Lewis Enterprises, Inc., and SLE Productions, Inc., Debtors.

Nos. 01-1920 through 01-1925 (RRM).

Nov. 8, 2001.

Objections were filed to Chapter 11 trustee's assumption and assignment of debtor's rights under licensing agreements for production and marketing of products that related to certain children's cartoon characters. The District Court, McKelvie, J., held that: (1) notice of debtor-publisher's assumption and assignment of its right, under executory license agreements, to produce and market products relating to certain children's cartoon characters were deficient, and required bankruptcy court to consider copyright holder's late-filed objections thereto; (2) license agreements qualified as "executory contracts"; and (3) license agreements were nonexclusive, and could not be assigned without copyright holder's consent.

Objections upheld.

West Headnotes

[1] **Bankruptcy** 2131
51k2131 Most Cited Cases
[1] **Bankruptcy** 3117
51k3117 Most Cited Cases
Notice of debtor-publisher's assumption and assignment of its right, under executory license agreements, to produce and market products relating to certain children's cartoon characters were deficient, and required bankruptcy court to consider copyright holder's late-filed objections thereto, where notice was not mailed to specific officer of copyright holder responsible for licensing matters despite fact that his identity, as party that signed licensing agreements, was readily ascertainable to debtor; debtor's use of general address was improper, especially given abbreviated seven-day period for parties to respond to debtor's motion to assume and assign contracts. Bankr.Code, 11 U.S.C.A. § 365; Fed.Rules Bankr.Proc.Rule 7004(b)(3), 11 U.S.C.A.

[2] **Bankruptcy** 3071
51k3071 Most Cited Cases
Notice which copyright holder received, several weeks prior to its receipt of notice of debtor-licensee's intent to assume and assign executory license agreements to one of copyright holder's competitors, that agreements would be subject to assumption and assignment to whatever party prevailed at auction, could not be said to have put copyright holder on notice of sale to competitor, for purpose of evaluating adequacy of notice provided.

[3] **Bankruptcy** 2125
51k2125 Most Cited Cases
[3] **Bankruptcy** 3117
51k3117 Most Cited Cases
Bankruptcy court did not have to ignore, as matter of equity, copyright holder's objections to debtor-licensee's proposed assumption and assignment of executory license agreements, on ground that copyright holder had failed to seek stay and sale had since been completed, where copyright holder, in failing to seek stay, had relied upon paragraph of sales order that allegedly preserved its rights, and where debtor and successful bidder both knew of copyright holder's objections prior to closing.

[4] **Bankruptcy** 3106
51k3106 Most Cited Cases
Debtor's contract is "executory," when obligations of both debtor and other party to contract are so far unperformed that failure of either to complete performance would constitute material breach excusing performance of the other. Bankr.Code, 11 U.S.C.A. § 365.

[5] **Bankruptcy** 3106
51k3106 Most Cited Cases
Executory license agreements pursuant to which Chapter 11 debtor-publisher was authorized to produce and market products relating to children's cartoon characters qualified as "executory contracts," within meaning of bankruptcy statute governing debtor's executory contracts and unexpired leases. Bankr.Code, 11 U.S.C.A. § 365.

[6] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases
Under federal copyright law, nonexclusive licensee has only a personal, and not a property, interest in

intellectual property, which cannot be assigned unless owner of intellectual property authorizes the assignment; in contrast, exclusive licensee does acquire property rights, which it may freely transfer, and licensor cannot transfer the same rights to anyone else.

[7] Bankruptcy 3105.1
51k3105.1 Most Cited Cases

[7] Copyrights and Intellectual Property 48
99k48 Most Cited Cases
Rights granted to debtor-publisher under executory license agreements, to produce and market products relating to certain copyrighted cartoon characters, were in nature of nonexclusive license, which trustee could not assign without copyright holder's consent, where license agreements contained reservation of rights clause, in which copyright holder reserved for itself "the right to use, or license others to use, and/or manufacture products similar or identical to those licensed herein," and further specified that agreements were personal to debtor and could not be assigned without copyright holder's prior written consent. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

[8] Copyrights and Intellectual Property 48
99k48 Most Cited Cases
Unsigned license agreements for production and marketing of products that related to certain children's cartoon characters were not in nature of mere drafts but, to extent parties had performed according to agreements, were enforceable as binding oral agreements.

[9] Copyrights and Intellectual Property 48
99k48 Most Cited Cases
Under federal copyright law, while nonexclusive license may be oral, exclusive license is not valid, unless instrument of conveyance, or note or memorandum of transfer, is in writing, and is signed by owner of rights conveyed.

[10] Bankruptcy 3105.1
51k3105.1 Most Cited Cases
Because oral licensing agreements for production and marketing of products that related to certain children's cartoon characters had to be regarded as nonexclusive as matter of law, trustee of debtor-licensee's Chapter 11 estate could not assume and assign such agreements without licensor's consent. Bankr.Code, 11 U.S.C.A. § 365(c)(1).

***302** Edmon L. Morton, Young Conaway Stargatt & Taylor, LLP, Wilmington, Delaware, Jennifer Harding, Wilkie Farr & Gallagher, New York City, for debtors.

Kevin Mangan, Walsh Monzack, Monaco, Wilmington, Delaware, Bruce Nathan, Ralph Berman, Davidoff & Malito, New York City, for Random House.

Jeffrey C. Wisler, Michelle McMahon, Connolly Bove Lodge & Hutz, LLP, Wilmington, Delaware, Jon L.R. Dalberg, Andrews & Kurth, Los Angeles, California, for Warner Bros. Consumer Products.

MEMORANDUM OPINION

McKELVIE, District Judge.

This is a bankruptcy case. Golden Books Family Entertainment, Inc. is a debtor before this court. Golden Books publishes, produces, licenses, and markets a host of children's and family-related media and entertainment products. It owns an array of film copyrights, distribution rights, trademarks, and licenses relating to characters, television programs, and motion pictures. Moreover, through a number of license agreements, Golden Books publishes children's books featuring characters owned by other companies.

Golden Books, as part of the sale of its assets to Random House and Classic Media, Inc. ("the Buyers"), is proposing to assume and assign various executory contracts. Among the contracts that Golden Books is seeking to assume and assign are various publishing license agreements in which Warner Bros. Consumer Products ("WBCP"), a division of Time Warner Entertainment, L.P., licenses to Golden Books a sub-set of WBCP's copyright and trademark rights with respect to certain animated children's characters.

There are seven agreements at issue. Three of the agreements pertain respectively to the animated character "Frosty the Snowman," a set of animated characters designated as "Cartoon Network ***303** Originals," and another set of animated characters designated as "Cartoon Network Classics--Hanna Barbera." Two agreements relate to the cartoon character "Scooby Doo." The remaining two agreements relate to a set of cartoon characters from the animated television show, the "Power Puff Girls."

I. *FACTUAL AND PROCEDURAL BACKGROUND*

Pursuant to an order from this court, dated June 28, 2001 entitled "Bid Procedures Order," Golden Books held an auction to sell its assets to the highest and best bidder. The auction was held on July 27, 2001 at the offices of Wilkie Farr & Gallagher in New York. After determining that the Buyers submitted the highest and best bid for the assets, Golden Books entered into an asset purchase agreement with the Buyers. On August 15, 2001, the date that was designated as the sale hearing date by the court's August 1, 2001 order, this court conducted a sale hearing and signed a sale order approving the asset purchase agreement between Golden Books and the Buyers. Those parties formally consummated the sale transaction at a closing on August 28, 2001.

On August 6, 2001, after the auction but before the court approved the asset purchase agreement, Golden Books sent a Notice of Hearing to Consider Objections to Debtors' Motion to Sell All or Substantially All of the Debtors Assets Free and Clear of All Liens, Claims, Encumbrances, and Other Interests to a number of interested parties, such as licensors of Golden Books, who might have objections to portions of the sale. WBCP was among the parties to which notices were sent.

In response to the notice, several parties filed objections prior to the August 15, 2001 sale hearing contesting the assumption and assignment of certain executory contracts pursuant to the terms of the asset purchase agreement. Paragraph 12 of the sale order for the sale to the Buyers provides that:

> all parties [who have failed to object are] deemed to have given the consent contemplated by the Bankruptcy Code Sections 365(c)(1) and (f)(1) to the assumption of such Executory Contract by the relevant Debtors and the assignment of such Executory Contract to the [Buyers].

The deadline for filing such objections was August 13, 2001.

WBCP did not file an objection prior to the August 15, 2001 hearing. On August 17, 2001, WBCP filed its Objection To Debtor's Notice of Intent To Assume and Assign Executory Contracts, arguing that certain of the notices were defective because they were either addressed to a general studio lot address at Warner Bros. Inc., instead of being addressed to the specified address that each of its license agreements require notice to be sent to: Warner Bros. Consumer Products, a Division of Time Warner Entertainment Company, L.P., 4000 Warner Blvd., Burbank, CA 91522. Despite the fact that each of the license agreements was executed by Gary Simon, a Senior Vice President of Warner Bros. Consumer Products, none of the notices were addressed to a particular individual within Warner Bros. Consumer Products. Certain of the notices that were addressed to the proper address, were addressed to the attention of the "Asst. Controller." These notices, however, incorrectly included references to license numbers that did not correspond to any WBCP licenses. Consequently, WBCP asserts that its general counsel, Wayne M. Smith, did not receive actual notice of the debtors' intent to assume and assign to the Buyers the specific license agreements at issue until August 14, 2001.

WBCP argues that the notices were additionally deficient because the schedule of ***304** license agreements to be assumed and assigned failed to designate each of the specific license agreements referred to by its specific license number, which is assigned by WBCP and printed in the upper right hand corner of the face of each of the agreements. WBCP supplemented this objection on August 18, 2001, explaining that it had learned that fourteen of the notices were incorrectly sent to another address specified in the license agreements, the check-processing center in Chicago, Illinois to which the payments and royalty statements must be sent according to each of the agreements. In the ordinary course, these notices were forwarded by the processing center to WBCP in Burbank, California, but did not arrive at the legal department until August 14, 2001.

In its August 17 objection motion, WBCP also objected to the assumption and assignment of the seven WBCP licenses and requested that, in light of the defective notice, the court consider its objection to be timely filed.

Also on August 17, 2001, WBCP filed a conditional objection, which again it asked the court to consider as timely filed. The conditional objection states that if the court overrules its objection with respect to the assumption and assignment of the license agreements, then the court must order the cure payment of $89,000 that it alleges is due and owing under four of the license agreements.

On August 20, 2001, WBCP amended its objection to the assumption and assignment of the seven licenses. In its amended objection, WBCP argued that three of the seven licenses were non-executed draft agreements and that the other four agreements were not assignable because they contained non-assignment clauses. On September 4, 2001, WBCP filed its Supplemental Memorandum of Points and Authorities in Support of its Filed Objections to Debtors' Notice of Intent to Assume and Assign Executory Contracts. In its memorandum, WBCP supplements its earlier arguments regarding the defectiveness of the notice and goes on to substantively argue that the agreements at issue are either non-assignable drafts or nonexclusive personal licenses, and that, under § 365(c) of the Bankruptcy Code, copyright law prohibits the transfer of nonexclusive personal licenses without the permission of the licensor. The September 4 memorandum is the first objection that properly characterizes WBCP's objection as one under § 365(c) of the Bankruptcy Code.

On September 12, 2001, WBCP withdrew its earlier filed objection to the assumption and assignment of one of the seven agreements, the Frosty License Agreement, a Merchandise and Promotional License Letter Agreement, dated April 1, 2001, by and between WBCP as licensor and Golden Books as licensee, pertaining to the character "Frosty the Snowman." WBCP maintains its objection regarding the assumption and assignment of the six remaining agreements.

On October 5, 2001, Random House filed its response to WBCP's objections to the debtor's assumption of the WBCP contracts and the subsequent assignment to Random House, Inc. In its brief, Random House argues that the WBCP objections are untimely and without substantive merit.

The court heard oral argument on WBCP's objections at an omnibus hearing for Golden Books bankruptcy matters on October 10, 2001. This is the court's decision on WBCP's objections.

II. *DISCUSSION*

A. *Should the Court Entertain WBCP's Late-filed Objections?*

As stated above, WBCP contends that the court should consider the merits of its ***305** untimely filed objection to the assumption and assignment of certain license agreements, because the notice that was meant to inform them of the deadline for filing objections was defective.

Golden Books and one of the Buyers, Random House, argue in response that there is no equitable reason for the court to allow WBCP to withdraw its implied consent to the assignment and assumption of the license agreements at issue, which, they argue, occurred by virtue of its own failure to register any timely objection with the court.

Rule 6006 of the Federal Rules of Bankruptcy Procedure governs the assumption, rejection, or assignment of executory contracts. Rule 6006(c) requires notice of a proceeding to assume, reject, or assign an executory contract to be given to the other party to that executory contract. Rule 6006(a) provides that a proceeding to assume, reject, or assign an executory contract, other than as part of a plan, is a contested matter, governed by Rule 9014. Rule 9014, in turn, states that motions in contested matters must be served in the same manner provided for service of a summons and complaint in Rule 7004. Rule 7004(b)(3) provides for service by mail:

> Upon a domestic or foreign corporation or upon a partnership or other unincorporated association, by mailing a copy of the [notice] to the attention of an officer, a managing or general agent, or to any other agent authorized by appointment or by law to receive service of process....

Although bankruptcy courts have differed when addressing the issue of how strictly to interpret this provision, certain courts have found that these notice requirements are to be strictly adhered to. *See, e.g., In re Schoon,* 153 B.R. 48 (Bankr.N.D.Cal.1993) (holding that by addressing an envelope Attn: President, the debtors did not serve an officer, they served an office, and finding that such service was invalid and "makes a joke of the requirement that an officer be served"); *but see In re C.V.H. Transp., Inc.,* 254 B.R. 331, 333 (Bankr.M.D.Pa.2000) (rejecting the strict interpretation of Rule 7004(b)(3) set forth in *Schoon*). Indeed, the Supreme Court has stated that strict fulfillment of notice requirements are central to our system of jurisprudence: "due process of law in any proceeding which is to be accorded finality [requires] notice reasonably calculated, under all circumstances, to apprise interested parties of the pendency of the action and to afford them an opportunity to present their objections." *Mullane v. Central Hanover Bank & Trust Co.,* 339 U.S. 306, 314, 70 S.Ct. 652, 94 L.Ed. 865 (1950).

[1] The court agrees with WBCP that the August 6, 2001 notice documents were deficient because, among other things, they failed to address any of the copies of the notice to a person of authority or to a person authorized to accept service. The person at Warner who is responsible for these contracts, Gary Simon, was well-known, or at least easily identifiable, to Golden Books, because he was the WBCP signatory on each of the signed contracts. In this case, it does not seem too onerous to require the notice to comply with the literal requirement that it be addressed to an officer or to the known person responsible for such licensing matters, in order for

the notice to be considered "reasonably calculated" to afford WBCP an opportunity to object in this particular circumstance, especially given the extremely short period in which those receiving notice were given to file objections. Parties receiving the notice, which was dated August 6, 2001, were required to respond with objections by August 13, 2001; that is six business ***306** days. This short time period causes the impact of the asserted deficiencies in the notice to be more severe. Given that WBCP's general counsel did not receive actual notice until August 14, 2001, the court will consider the late-filed objections as timely filed.

At the oral argument, counsel for Random House argued that even if such notice were found to be insufficient, the court should nonetheless refuse to entertain WBCP's objections either because (1) Random House should have already been on notice prior to August 6, 2001 due to its being on notice about the bid procedures, or (2) Random House's filings after the closing date of the sale were in bad faith and unduly prejudice the Buyers. The court will consider these equitable arguments in turn.

[2] Random House first argues that prior to August 6, when notice of the assumption and assignment and of the August 15, 2001 sale hearing was sent out, WBCP had received on July 2, 2001 an earlier notice dated June 29, 2001 that its contracts were subject to assumption and assignment to the winning bidder of Golden Books's assets. At that point in time, the then-contemplated purchaser was another company, DIC GB Acquisition Corp. Golden Books ultimately sold the assets to the Buyers, Random House and Classic Media, Inc., who entered the bidding process after DIC and submitted the highest and best offer for the Golden Books assets at the July 27, 2001 auction. Random House argues that this earlier notice was sufficient to put WBCP on notice that its contracts would be assumed and assigned to Random House and Classic Media, and that to the extent WBCP had any objection to the assumption and assignment of its contracts, WBCP was required to file its objection at that time.

The court finds the argument that WBCP had adequate notice of these events by virtue of its notice of the prior sale procedures to be unpersuasive. WBCP has stated that while it did not object to its licenses being assigned to the original purchaser, DIC, it does object for valid business reasons to the assignment of these licenses to Random House. Random House and WBCP are competitors in the publishing industry, and Random House has a relationship with one of WBCP's largest competitors, Disney. Therefore, notice of an earlier sale to which it would not object cannot be said to put WBCP on notice of the sale to Random House and Classic Media, Inc. This was the purpose of the August 6, 2001 notice.

[3] Random House next notes that the WBCP's memorandum filed on September 4, 2001 to supplement its earlier objection was filed one week after the August 28, 2001 closing date of the sale of the Golden Books assets in which Random House and Classic Media, Inc. purchased assets from Golden Books that included these very contracts. Random House argues that although letters from WBCP's counsel demonstrate that WBCP knew the closing was happening, WBCP took no action to seek relief from the court to stop the sale. It concludes that WBCP's failure to act should preclude it from filing a post-sale objection. Random House contends that WBCP's September 4, 2001 request for relief is too late because it would unduly prejudice the Buyers now that the sale has gone through and the Buyers have paid a purchase price that includes the benefit of these contracts. Random House also contends that the earlier objections, standing alone, do not state any valid objection.

After reviewing the August 23, 2001, letter from WBCP's counsel to Golden Book's counsel, the court finds that WBCP's memorandum supplementing its ***307** objection, which was filed post-closing, was not filed in bad faith and was not filed after it waived its right to object. The letter states:

> In the course of our discussion, you indicated to me that the Debtor intends to close the Sale tomorrow, Friday, August 24, 2001, but that it is the Debtor's position that, pursuant to Paragraph 16 of the Order of the Bankruptcy Court approving the Sale, because the WBCP Objections have been filed and not withdrawn, the WBCP Agreements will not be affected by that closing. This letter will confirm that, based on this representation, WBCP will not file its motion with the Bankruptcy Court seeking a stay of the Order and tomorrow's proposed closing as to the WBCP Agreements. WBCP does, however, reserve its rights in all other respects, including (without limitation) its right to file such additional or supplemental pleadings in connection with the WBCP Objections as WBCP may deem appropriate.

Letter from Jon L.R. Dalberg, Esq., Andrews & Kurth L.L.P., to Jennifer Harding, Esq., Wilkie Farr & Gallagher (Aug. 23, 2001).

Random House argues that it was unaware of this letter and that the agreement reflected within was inconsistent with Golden Books' communicated position to Random House that the WBCP contracts were assigned to Random House at the closing. Random House also argues that WBCP should have taken action with the court instead of by private letter. The court finds that, based on the substance of the letter, action of the court would have been unnecessary at that time because WBCP believed that its objections would be preserved. Because WBCP believed that its objections were preserved under paragraph 16 of the Sale Order, in which the court reserved for decision all filed objections to the assumption and assignment of executory contracts, it, in good faith, did not seek to interfere with the consummation of the larger sale transaction. Although at this point the sale has already been consummated, Golden Books and the Buyers both knew of WBCP's objections to these six contracts before closing the deal. While the debtor and the Buyers argue that considering WBCP's objections at this point would prejudice them, the court finds that they have not proven the severe degree of prejudice necessary to convince this court that it must ignore WBCP's objections as a matter of equity.

It appears to the court that WBCP has acted in good faith throughout this process. Upon receiving the notice, WBCP acted quickly to file its objection with the court and later more fully fleshed out the substance of that objection through supplemental briefing. Although the sale has now been completed, the debtor and Buyers had sufficient notice of WBCP's objection before the closing date such that they cannot now claim that there is undue prejudice against them. Moreover, it should be noted that if the court were to consider and grant WBCP's objections, this would not undo the entire sale transaction. It would mean that, to the extent Golden Books sold assets that it did not own as a matter of law, the portions of the sale transaction relating to those assets would need to be adjusted.

The court therefore elects to treat WBCP's objections as timely filed and will address the merits of those objections. *See* Bankruptcy Rule 9006(b)(1) (court may for cause enlarge the time within which an act is required to be done, before or after the expiration of the time, based on "excusable neglect"); *Chemetron Corp. v. Jones,* 72 F.3d 341, 349 (3d Cir.1995) (discussing factors for equitable doctrine of ***308** "excusable neglect," which include the danger of prejudice to the debtor, the length of the delay, the reason for the delay, and whether the moving party acted in good faith); *Pioneer Inv. Servs. Co. v. Brunswick Assocs. Ltd. P'ship,* 507 U.S. 380, 113 S.Ct. 1489, 123 L.Ed.2d 74 (1993). The objections, taken together, state that WBCP believes that Golden Books cannot transfer the agreements at issue without its consent.

B. *Should the Court Sustain WBCP's Objections?*

1. *Does § 365(c) prevent Golden Books from assuming and assigning the Scooby Doo and Power Puff Girl licenses with the consent of WBCP?*

Under § 365(c) of the Bankruptcy Code, when an executory contract can not be assigned under applicable non-bankruptcy law, it may not be assumed or assigned by the bankruptcy trustee without permission of the other contracting party. Lawrence P. King *et al.,* 3 Collier on Bankruptcy ¶ 365.06[1] (15th ed.1997). The relevant portion of § 365(c) states:

> Trustees may not assume or assign any executory contract ... of the debtor, whether or not such contract ... prohibits or restricts assignment of rights if, ...
> 1)
> A) applicable law excuses a party, other than the debtor, to such contract from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession .... whether or not such contract ... prohibits or restricts assignment of rights or delegation of duties; and
> B) such party does not consent to such assumption or assignment.

11 U.S.C. § 365(c). In this case, Golden Books is operating as the trustee because it is a debtor in possession pursuant to 11 U.S.C. § 1107(a).

The issue before the court is whether Golden Books, as debtor in possession, can freely assign the license agreements at issue to the Buyers without the permission of WBCP. To resolve this issue, the court must first determine whether the copyright licenses are "executory contracts" within the meaning of 11 U.S.C. § 365(c). If they are, the court must then determine whether under the "applicable law" of copyright, the licenses are not freely transferable. 11 U.S.C. § 365(c)(1)(A).

[4][5] Golden Books and the Buyers first argue that the six license agreements at issue are not "executory contracts" within the meaning of section 365(c). The Third Circuit test to be applied to determine whether a contract is executory is the "Countryman" test,

which provides that a contract is executory when the obligations of "both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other." Countryman, Executory Contracts in Bankruptcy; Part I, 57 Minn.L.Rev. 439, 460 (1973); *In re Columbia Gas Sys.,* 50 F.3d 233, 239 (3d Cir.1995) (citing *Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp.,* 872 F.2d 36, 38-39 (3d Cir.1989)). Applying the Countryman definition of executory contracts, courts generally have found intellectual property licenses to be "executory" within the meaning of section 365(c) because each party to the license had the material duty of "refraining from suing the other for infringement of any of the [intellectual property] covered by the license." *In re Access Beyond Tech., Inc.,* 237 B.R. 32 (Bankr.D.Del.1999); *see generally,* ***309** Bradley N. Raderman and John Walshe Murray, Assumption and Assignment of Patent Licenses under Chapter 11 of the Bankruptcy Code, 6 J.Bankr.L. & Prac. 513, 514-15 (1997). The court thus finds that the WBCP's licenses are executory contracts within the meaning of § 365(c).

The issue under § 365(c) thus becomes a question of copyright law: Does copyright law preclude the free assignment of the licenses at issue? Courts have generally found that the answer to this question turns on whether each particular license is exclusive or nonexclusive. *See generally In re Patient Educ. Media, Inc.,* 210 B.R. 237 (Bankr.S.D.N.Y.1997); *See Perlman v. Catapult Entm't Inc. (In re Catapult Entm't, Inc.),* 165 F.3d 747 (9th Cir.1999); *see also* Aleta A. Mills, Note: The Impact of Bankruptcy on Patent and Copyright Licenses, 17 Bankr.Dev.J. 575, 585-86 (2001) (collecting and summarizing cases).

[6] Under copyright law, "a nonexclusive licensee ... has only a personal and not a property interest in the [intellectual property]," which "cannot be assigned unless the [intellectual property] owner authorizes the assignment...." *In re Patient Educ. Media,* 210 B.R. at 242-43 (citing references omitted); *see also* 3 Melvin B. Nimmer & David Nimmer, Nimmer on Copyright § 10.02[A] at 10-23 (1996) (hereinafter "Nimmer"). By contrast, however, an exclusive licensee does acquire property rights and "may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else." *In re Patient Educ. Media,* 210 B.R. at 240; *see also* 3 Nimmer § 10.02[A] at 10-23; *but see Gardner v. Nike, Inc.,* 110 F.Supp.2d. 1282, 1287 (C.D.Cal.2000) (analyzing the Copyright Act and holding that licensees cannot freely transfer rights even under exclusive license).

[7] To determine whether the agreements are exclusive or nonexclusive licenses, the court must examine the terms of the agreements. Two of the agreements at issue, the March 6, 2000 publishing license relating to Scooby-Doo and the March 6, 2000 publishing license relating to the Power Puff Girls contain the following language in Section 3(b), which is labeled "Reservation of Rights; Premiums:"

> Notwithstanding anything to the contrary stated herein, Licensor, for itself and its affiliates, specifically reserves the right, without limitation throughout the world, to use, or license any third party(s) of its or their choice to use the Licensed Property.... Further, Licensor reserves the right to use, or license others to use, and/or manufacture products similar or identical to those licensed herein for use as premiums.

Moreover, both agreements include the following language in Section 19 of the Agreements' Standard Terms and Conditions:

> This Agreement is personal to the Licensee. Licensee shall not sublicense, franchise, or delegate to third parties its rights hereunder (except as set forth in Paragraph 10(b) hereof).

Last, Section 20 of both agreements expressly states, that the parties

> acknowledge and agree that in a bankruptcy context this Agreement is a license of the type described by Section 365(c)(1) of the Bankruptcy Code and may not be assigned without prior written consent of the Licensor.

In light of all of this language, it is clear that these two licenses do not confer exclusive rights to Golden Books. Both licenses are therefore nonexclusive.

The other two publishing license agreements have an effective date of July 12, 2001 and also respectively relate to Scooby-***310** Doo and the Power Puff Girls. These two license agreements contain even clearer language than March 6, 2000 agreements, which indicates that they are nonexclusive license agreements. The two licenses, contain identical "Grant of Rights" sections which state that "[s]ubject to these Standard Terms and Conditions, Licensor [WBCP] grants Publisher [Golden Books] the non-exclusive right during the Term and in the Territory to utilize the Property and the Licensed Materials...." No other language within these two licenses indicates that they are exclusive licenses or that, as Random House argues, the quoted language above means that the licenses are limited in duration and geographic scope, but are nonetheless exclusive with respect to those limited rights.

Accordingly, the court finds that the four license agreements relating to Scooby-Doo and the Power Puff Girls are nonexclusive licenses and are therefore non-assignable under the copyright law. It is evident from the language of these four licenses that WBCP meant to exercise a considerable degree control over these licenses as a matter of business policy. As stated above, prevailing case law holds that nonexclusive intellectual property licenses do not give rise to ownership rights and cannot, as a matter of law, be assigned without the consent of the licensor. *See In re Catapult Entertainment,* 165 F.3d at 750 (holding nonexclusive licenses do not give rise to ownership rights and are not assignable over the objection of the licensor); *In re Patient Educ. Media,* 210 B.R. at 240 (same); *In re Access Beyond Tech.,* 237 B.R. at 44 (finding that patent license agreement at issue was nonexclusive because it did not convey the exclusive right or some part of the exclusive right to practice the invention and did not grant any right to exclude others from practicing the patents and holding that nonexclusive license is not assignable).

2. *Can Golden Books assume and assign the two Cartoon Network licenses?*

[8] WBCP next contends that the two agreements pertaining to the "Cartoon Network Originals" and "Cartoon Network Classics--Hanna Barbera" are unexecuted drafts that do not constitute contracts at all and that, therefore, Golden Books has no rights to assume and assign them. Golden Books' own listing of these two contracts on page S-21 of the contract assignment schedule that was appended as an exhibit to the Notice and entitled "Section 2.1(e) Licenses" describes the two Cartoon Networks licenses as "drafts."

WBCP argues that, as a matter of law, only executory contracts that are in existence as of the time of the commencement of the bankruptcy may be assumed or assigned, because if no contract exists, there is nothing to assume or assign. *See* Lawrence P. King *et al.,* 3 Collier on Bankruptcy ¶ 365.02[2] (15th ed.1997) (contract terminated pre-petition cannot be assumed or assigned because "there is nothing left ... to assume or assign"). In response, Golden Books and the Buyers claim that both parties were operating under these two agreements and that, at minimum, they were oral contracts that were being honored by Warner and not merely drafts.

It is clear that even according to WBCP, the parties were operating under both of these contracts. WBCP, in its conditional objection seeking cure amounts, claims that "according to WBCP's internal accounting records, the following Guaranteed Payments are past due and owing:" (1) for the "96724 TOON license" covering "Various Cartoon Network," Golden Books owes WBCP $10,000; (2) for the "12546 ***311** CNHBD license" covering "Various Cartoon Network-- Hanna Barbera," Golden Books owes WBCP is $50,000. Thus, these agreements were not drafts, but binding oral agreements that are demonstrated by the parties' course of conduct.

[9][10] The only question that remains for the court to resolve is whether such oral agreements can confer exclusive rights to a licensee that are freely transferable under copyright law. This question has already been answered by other courts and by the Copyright Act itself. According to the Copyright Act, 17 U.S.C. § 204(a), while a nonexclusive license may be oral, an exclusive license "is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed...." *Eden Toys, Inc. v. Florelee Undergarment Co., Inc.,* 697 F.2d 27, 36 (2d Cir.1982); 17 U.S.C. § 204(a) ("A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent"). The purpose of the provision is to protect copyright holders from persons mistakenly or fraudulently claiming oral licenses. *See Eden Toys, Inc.,* 697 F.2d at 36. Because the court concludes that such oral licenses must, as a matter of law, be nonexclusive, the court finds that Golden Books may not assume and assign these two licenses without the permission of WBCP. *See supra,* § II.B.1.

III. *CONCLUSION*

The court finds that the four licenses relating to Scooby-Doo and the Power Puff Girls are nonexclusive licenses. The court also finds that the two licenses relating to Cartoon Network are nonexclusive licenses. Because under applicable copyright law, nonexclusive licenses are personal and do not convey an ownership interest to the licensee that allows that licensee to freely transfer its rights, the court finds that copyright law prevents the free assumption and assignment of these agreements.

Accordingly, WBCP' objection will be upheld. The court will enter an order in accordance with this memorandum opinion.

269 B.R. 300

END OF DOCUMENT

Date of Printing: OCT 28,2004

KEYCITE

H In re Golden Books Family Entertainment, Inc., 269 B.R. 300 (Bankr.D.Del., Nov 08, 2001) (NO. 01-1920 - 01-1925 (R)

History
Direct History

=> 1 **In re Golden Books Family Entertainment, Inc.,** 269 B.R. 300 (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920 - 01-1925 (R)

Related References (U.S.A.)

H 2 In re Golden Books Family Entertainment, Inc., 269 B.R. 311 (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920-01-1925 (RRM)

Citing References
Positive Cases (U.S.A.)
*** Discussed

H 3 In re Valley Media, Inc., 279 B.R. 105, 135+, 47 UCC Rep.Serv.2d 1178, 1178+ (Bankr.D.Del. Apr 25, 2002) (NO. 01-11353(PJW)) **HN: 7 (B.R.)**

** Cited

4 In re Sun Healthcare Group, Inc., 2004 WL 941190, *2, 42 Bankr.Ct.Dec. 279, 279 (Bankr.D.Del. Apr 30, 2004) (NO. 99-03657(MFW), ADV.PROC. 01-7671, ADV. PROC. 01-7480(M)

H 5 In re Travelot Co., 286 B.R. 447, 454+ (Bankr.S.D.Ga. Jun 14, 2002) (NO. 02-40020) **HN: 7 (B.R.)**

H 6 In re Adelphia Communications Corp., 307 B.R. 404, 428, 2004 Copr.L.Dec. P 28,773, 28773, 42 Bankr.Ct.Dec. 236, 236 (Bankr.S.D.N.Y. Mar 30, 2004) (NO. 02-41729-REG, 03-6967 (REG)) **HN: 7 (B.R.)**

* Mentioned

H 7 In re Sunterra Corp., 361 F.3d 257, 262, 51 Collier Bankr.Cas.2d 1276, 42 Bankr.Ct.Dec. 222, 222, Bankr. L. Rep. P 80,068, 80068 (4th Cir.(Md.) Mar 18, 2004) (NO. 03-1193)

8 RCC Technology Corp. v. Sunterra Corp., 287 B.R. 864, 865, 49 Collier Bankr.Cas.2d 1945, 1945 (D.Md. Jan 10, 2003) (NO. CIV. JFM-02-2539) **HN: 7 (B.R.)**

H 9 In re Buildnet, Inc., 2002 WL 31103235, *5 (Bankr.M.D.N.C. Sep 20, 2002) (NO. 01-82293, 01-82296, 01-82299, 01-82294, 01-82297, 01-82295, 01-82298) **HN: 6 (B.R.)**

Secondary Sources (U.S.A.)

10 Bankruptcy Law Manual s 8:43, -LIMITATIONS ON THE TRUSTEE'S RIGHT TO ASSUME AN EXECUTORY CONTRACT OR UNEXPIRED LEASE (2003) **HN: 7 (B.R.)**

11 Bankruptcy Service Lawyers Edition s 21:137, s 21:137. Licenses -- Entertainment-related licenses (2004) **HN: 7 (B.R.)**

12 Bankruptcy Service Lawyers Edition s 21:228, s 21:228. Licenses (2004) **HN: 7 (B.R.)**

13 Bankruptcy Service Lawyers Edition s 21:259, s 21:259. Other determinations (2004)

14 Bankruptcy Service Lawyers Edition s 21:596, s 21:596. Other matters (2004)

15 Bankruptcy Service Lawyers Edition s 21:60, s 21:60. Similar statements of definition (2004)

16 Chapter 11: Reorganizations, Second Edition s 9:13, s 9:13. Executory contracts and unexpired leases (2004)

17 The Law of Merchandise and Character Licensing s 5:28, -ASSIGNABILITY AND

SUBLICENSING (2004)

18 IMPLIED LICENSES BY LEGAL ESTOPPEL, 14 Alb. L.J. Sci. & Tech. 53, 80 (2003)

C 19 EXCLUSIVE AND NON-EXCLUSIVE IP LICENSES AND EXECUTORY CONTRACT ASSUMPTION AND ASSIGNMENT: DOES EXCLUSIVITY MATTER?, 22-FEB Am. Bankr. Inst. J. 28, 28+ (2003) **HN: 7,9 (B.R.)**

20 BENCHNOTES, 21-APR Am. Bankr. Inst. J. 3, 4 (2002)

21 Assumption of Nonassignable Executory Contracts: Herein of Ambiguous "Applicable Law," Meaningless Statutory Amendments, and an Absurd View of the Absurd (2004) **HN: 7 (B.R.)**

C 22 THE EFFECT OF CORPORATE ACQUISITIONS ON THE TARGET COMPANY'S LICENSE RIGHTS, 57 Bus. Law. 767, 792+ (2002)

23 ASSIGNABILITY OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY NAVIGATING THE MURKY WATERS OF SECTION 365, 21 NO. 1 Intell. Prop. L. Newsl. 11, 16+ (2002)

24 INTELLECTUAL PROPERTY IN BANKRUPTCY: SEC.365 TACKLES COMPETING INTERESTS, 11/3/2003 N.Y. L.J. S2, col. 4, S2, col. 4+ (2003)

25 ASSIGNING EXCLUSIVE COPYRIGHT LICENSES Conflicting Rulings Over Transfer of Rights Highlight Uncertainty in Corporate Acquisitions, 5/12/2003 N.Y. L.J. S5, col. 1, S5, col. 1+ (2003)

26 STOP MUCKING UP COPYRIGHT LAW: A PROPOSAL FOR A FEDERAL COMMON LAW OF CONTRACT, 35 Rutgers L.J. 959, 1033 (2004)

C 27 TRADEMARK ISSUES IN BANKRUPTCY, 93 Trademark Rep. 867, 903+ (2003)

28 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ061 ALI-ABA 233, 254+ (2004)

29 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SJ076 ALI-ABA 573, 579+ (2004) **HN: 7 (B.R.)**

30 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ025 ALI-ABA 319, 354+ (2003)

31 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SH066 ALI-ABA 231, 257 (2003)

32 BUYING A DISTRESSED OR BANKRUPT COMPANY, SG033 ALI-ABA 281, 300 (2002) **HN: 3 (B.R.)**

33 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *16+ (2002)

34 DISTRESSED ASSET SALES: SELLING AND ACQUIRING FROM THE DEBTOR ESTATE, 861 PLI/Comm 935, 989 (2004)

35 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 310+ (2004) **HN: 7,10 (B.R.)**

36 INTELLECTUAL PROPERTY AND BANKRUPTCY-SALIENT ISSUES, 862 PLI/Comm 313, 324+ (2004) **HN: 9 (B.R.)**

37 THE DELAWARE ALTERNATIVE, 853 PLI/Comm 189, 218 (2003) **HN: 7 (B.R.)**

38 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1377+ (2003) **HN: 7,10 (B.R.)**

39 THE TANGLED WEB: SOFTWARE FINANCIAL ISSUES -- RIGHTS, 846 PLI/Comm 91, 107+ (2003) **HN: 6,7 (B.R.)**

40 THE DELAWARE ALTERNATIVE, 840 PLI/Comm 141, 172 (2002) **HN: 7 (B.R.)**

41 , 838 PLI/Comm 245, 320 (2002)

42 INTELLECTUAL PROPERTY ISSUES IN BANKRUPTCY, 1316 PLI/Corp 73, 90 (2002) **HN: 10 (B.R.)**

43 INTELLECTUAL PROPERTY ISSUES IN AN INSOLVENCY CONTEXT, 1307 PLI/Corp 173, 182+ (2002) **HN: 7,9 (B.R.)**

44 PATENT AND HIGH TECHNOLOGY LICENSING, 786 PLI/Pat 687, 755 (2004) **HN: 2,7 (B.R.)**

45 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 794 PLI/Pat 123, 169+ (2004)

46 STRUCTURING DEALS INVOLIVNG SIGNIFICANT INTELLECTUAL PROPERTY ASSETS, 779 PLI/Pat 905, 963 (2004) **HN: 10 (B.R.)**

47 BANKRUPTCY AND INTELLECTUAL PROPERTY, 751 PLI/Pat 159, 185 (2003)
48 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 751 PLI/Pat 223, 259+ (2003)
49 THE TREATMENT OF TRADEMARKS AND TRADEMARK LICENSES IN BANKRUPTCY, 744 PLI/Pat 225, 271 (2003)
50 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225 (2002) **HN: 10 (B.R.)**
51 BANKRUPTCY AND INTELLECTUAL PROPERTY, 706 PLI/Pat 343, 354 (2002)

Court Documents
Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

52 EVOLUTION, INC., Plaintiff, v. PRIME RATE PREMIUM FINANCE CORPORATION, INC. and Southeast Fidelity Corporation and BB&T/SEFCO, LLC, Defendants., 2004 WL 2157648, *2157648 (Trial Motion, Memorandum and Affidavit) (D.Kan. Aug 30, 2004) **Plaintiff's Memorandum in Opposition to ...** (NO. 03-CV-2315-KHV) ★★
53 EVOLUTION, INC., Plaintiff, v. PRIME RATE PREMIUM FINANCE CORPORATION, INC. and Southeast Fidelity Corporation and BB&T/Sefco, LLC, Defendants., 2004 WL 2157651, *2157651 (Trial Motion, Memorandum and Affidavit) (D.Kan. Aug 30, 2004) **Plaintiff's Memorandum in Support of its Motion ...** (NO. 03-CV-2315-KHV) ★★

H

United States Bankruptcy Court,
D. Delaware.

In re GOLDEN BOOKS FAMILY ENTERTAINMENT, INC., Golden Books Publishing Company, Inc., Golden Books Home Video, Inc., LRM Acquisition Corp., Shari Lewis Enterprises, Inc., and SLE Productions, Inc., Debtors.

Nos. 01-1920 through 01-1925 (RRM.)

Nov. 8, 2001.

Objection was filed to Chapter 11 trustee's assumption and assignment of debtor's rights under licensing agreements for production and marketing of products relating to children's cartoon character. The District Court, McKelvie, J., held that: (1) rights granted to debtor under executory license agreement were in nature of exclusive rather than of nonexclusive license; and (2) license agreement was freely assignable by trustee of debtor-licensee's Chapter 11 estate, without need for obtaining licensor's consent.

Objection denied.

West Headnotes

[1] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases
Under federal copyright law, nonexclusive licensee has only a personal, and not a property, interest in intellectual property, which cannot be assigned unless owner of intellectual property authorizes the assignment; in contrast, exclusive licensee does acquire property rights, which it may freely transfer, and licensor cannot transfer the same rights to anyone else.

[2] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases
Rights granted to debtor-publisher under executory license agreement, consisting of sole and exclusive right to produce and market "videograms" relating to copyrighted cartoon character in particular geographic area over specific period of time, were in nature of exclusive rather than of nonexclusive license, notwithstanding that agreement was limited only to specific products, and granted debtor such rights only in specific geographic area over roughly six-year term.

[3] **Bankruptcy** 3105.1
51k3105.1 Most Cited Cases
(Formerly 51k3109)

[3] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases
Anti-assignment clause in license agreement for production and marketing of "videograms" relating to copyrighted cartoon character was insufficient, without more, to alter nature of contract as exclusive agreement, freely assignable by trustee of debtor-licensee's Chapter 11 estate. Bankr.Code, 11 U.S.C.A. § 365(c)(1), (f).

[4] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases
Under federal copyright law, exclusive licensees have right to freely assign their rights, without need for first obtaining licensor's consent. 17 U.S.C.A. § 201(d).

***312** Edmon L. Morton, Young Conaway Stargatt & Taylor, LLP, Wilmington, Delaware, Matthew Feldman, Wilkie Farr & Gallagher, New York City, for debtors.

David B. Stratton, Pepper Hamilton, LLP, Wilmington, Delaware, D. Ross Martin, Ropes & Gray, Boston, MA, for DIC Entertainment, L.P.

Rachel B. Mersky, Walsh Monzack, Monaco, Wilmington, Delaware, Leslie A. Cohen, Liner, Yankelevitz, Sunshine & Regenstreif, Santa Monica, California, for Classic Media, Random House.

MEMORANDUM OPINION

McKELVIE, District Judge.

This is a bankruptcy case. Golden Books Family Entertainment, Inc. is a debtor before this court. Golden Books publishes, produces, licenses, and markets a host of children's and family-related media and entertainment products. It owns an array of film copyrights, distribution rights, trademarks, and licenses relating to characters, television programs, and motion pictures. Moreover, through a number of license agreements, Golden Books publishes children's books featuring characters owned by other companies.

Golden Books, as part of its sale of its assets to

Random House and Classic Media, Inc. ("the Buyers"), is proposing to assume and assign various executory contracts. Among the contracts that Golden Books is seeking to assume and assign is an Agreement, dated April 20, 1998, with DIC Entertainment, L.P., in which Golden Books licenses certain of DIC's copyright and trademark rights with respect to the children's character, Madeline (the "Madeline Agreement").

This court approved Golden Books' proposed asset sale to the Buyers in a sale ***313** order dated August 15, 2001. Golden Books and the Buyers formally consummated the sale transaction at a closing on August 28, 2001. On or before the August 15, 2001, sale hearing, several parties filed objections contesting the assumption and assignment of certain executory contracts pursuant to the terms of the Buyers purchase agreement. The court was not asked to rule on the merits of those objections at the sale hearing and the these rights were preserved for later argument and ruling. Paragraph 12 of the sale order for the sale to the Buyers provides that:

> all parties [who have failed to object are] deemed to have given the consent contemplated by the Bankruptcy Code Sections 365(c)(1) and (f)(1) to the assumption of such Executory Contract by the relevant Debtors and the assignment of such Executory Contract to the [Buyers].

After being notified of the sale, DIC filed a motion with the court on August 13, 2001, objecting to the transfer of the rights to Madeline from Golden Books to the Buyers under § 365(c) of the bankruptcy code, which prohibits a bankruptcy trustee from assuming and assigning executory contracts where applicable non-bankruptcy law operates to prohibit such transfers. In its objection brief, DIC argues that the Madeline Agreement is an executory contract within the meaning of § 365(c) of the Bankruptcy Code, that the Madeline Agreement is a nonexclusive personal license, and that copyright law prohibits the transfer of nonexclusive personal licenses without the permission of the licensor. At an oral argument before the court on September 28, 2001, DIC set forth an alternative argument that even if the court disagrees with DIC's characterization of the Madeline Agreement as a nonexclusive license and finds that the Madeline Agreement is an exclusive license, copyright law also prohibits the free transfer of exclusive licenses. DIC found support for this proposition of law in the recent Central District of California case, *Gardner v. Nike, Inc.*, 110 F.Supp.2d. 1282 (C.D.Cal.2000).

The objection motion has been fully briefed and argued by both parties. This is the court's decision on DIC's motion.

I. *DISCUSSION*

Under § 365(c) of the Bankruptcy Code, when an executory contract can not be assigned under applicable non-bankruptcy law, it may not be assumed or assigned by the bankruptcy trustee without permission of the other contracting party. Lawrence P. King *et al.,* 3 Collier on Bankruptcy ¶ 365.06[1] (15th ed.1997). The relevant portion of section 365(c) states:

> Trustees may not assume or assign any executory contract ... of the debtor, whether or not such contract ... prohibits or restricts assignment of rights if, ...
> 1)
> A) applicable law excuses a party, other than the debtor, to such contract from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession .... whether or not such contract ... prohibits or restricts assignment of rights or delegation of duties; and
> B) such party does not consent to such assumption or assignment.

11 U.S.C. § 365(c). In this case, Golden Books is operating as the trustee because it is a debtor in possession pursuant to 11 U.S.C. § 1107(a).

The issue before the court is whether Golden Books, as debtor in possession, can freely assign the Madeline Agreement to the Buyers without the permission of DIC. ***314** To resolve this issue, the court must first determine whether a copyright license is an "executory contract" within the meaning of 11 U.S.C. § 365(c). If it is, the court must then determine whether under the "applicable law" of copyright, the license is one that is not freely transferable. 11 U.S.C. § 365(c)(1)(A).

The parties do not dispute that the Madeline Agreement is an "executory contract" within the meaning of section 365(c). Courts, including the Third Circuit, have widely held that the test to be applied to determine whether a contract is executory is the "Countryman" definition, which provides that a contract is executory when the obligations of "both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other." Countryman, Executory Contracts in Bankruptcy;

Part I, 57 Minn.L.Rev. 439, 460 (1973); *see also Everex Systems. Inc. v. Cadtrak Corp (In re CFLC, Inc.),* 89 F.3d 673, 677 (9th Cir.1996) (an executory contract is "a contract ... on which performance is due to some extent on both sides"); *Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp.,* 872 F.2d 36, 39 (3d Cir.1989). Applying the Countryman definition of executory contracts, courts generally have found intellectual property licenses to be "executory" within the meaning of section 365(c) because each party to the license had the material duty of "refraining from suing the other for infringement of any of the [intellectual property] covered by the license." *In re Access Beyond Tech., Inc.,* 237 B.R. 32 (Bankr.D.Del.1999); *see generally,* Bradley N. Raderman and John Walshe Murray, Assumption and Assignment of Patent Licenses under Chapter 11 of the Bankruptcy Code, 6 J.Bankr.L. & Prac. 513, 514-15 (1997).

[1] The issue thus becomes a question of copyright law: Does copyright law preclude the free assignment of the Madeline Agreement? Courts have generally found that the answer to this question turns on whether the license is exclusive or nonexclusive. *See generally In re Patient Educ. Media, Inc.,* 210 B.R. 237 (Bankr.S.D.N.Y.1997); *Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't, Inc.),* 165 F.3d 747 (9th Cir.1999); *see also* Aleta A. Mills, Note: The Impact of Bankruptcy on Patent and Copyright Licenses, 17 Bankr.Dev.J. 575, 585-86 (2001) (collecting and summarizing cases). Under copyright law, "a nonexclusive licensee ... has only a personal and not a property interest in the [intellectual property]," which "cannot be assigned unless the [intellectual property] owner authorizes the assignment...." *In re Patient Educ. Media,* 210 B.R. at 242-43 (citing references omitted); *see also* 3 Melvin B. Nimmer & David Nimmer, Nimmer on Copyright § 10.02[A] at 10-23 (1996) (hereinafter "Nimmer"). By contrast, however, an exclusive licensee does acquire property rights and "may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else." *In re Patient Educ. Media,* 210 B.R. at 240; *see also* 3 Nimmer § 10.02[A] at 10-23; *but see Gardner,* 110 F.Supp.2d at 1287 (analyzing the Copyright Act and holding that licensees cannot freely transfer rights even under exclusive license).

[2] To determine whether the Madeline Agreement is an exclusive or nonexclusive license, the court must examine the terms of the agreement itself.

A. *The Madeline Agreement*

In the Madeline Agreement, DIC granted to Golden Books certain rights in Madeline cartoons that were owned by DIC. Section 2(a) of the Agreement, which sets ***315** forth the parties "Basic Rights," states that, with respect to 25 specified currently existing half-hour animated programs based on the [Madeline Property],

> DIC hereby grants to Golden, throughout the Territory, the sole, exclusive, and irrevocable right, license, and privilege to (i) manufacture, sell, rent, and otherwise distribute "Videograms" of the Programs in any and all formats and configurations; (ii) publicize, advertise, exploit, promote, market and turn to account copies of such Videograms ("Copies") in connection with any or all of the foregoing rights, and (iii) license, lease, and authorize others to do any or all of foregoing during the Term.

As set forth in section 3, the "Term" of the license agreement runs from April 20, 1998 until June 1, 2004. The "Territory" is defined, in section 4 of the Agreement, as including the United States and its territories and Canada. "Videograms" is defined in section 2(a) as "a cassette, disc, or other device now known or hereafter devised and designed to be used in conjunction with a reproduction apparatus which causes a visual image ... to be seen on the screen of a television receiver or any comparable device...."

At oral argument, Golden Books and the Buyers pointed to a number of relevant provisions of the Agreement that they believe demonstrate that the Madeline Agreement is an exclusive and not a nonexclusive license. Specifically, Buyers counsel directed the court to:

section 2(a), set forth above;

section 2(c), which states that "Golden Books shall have the sole, full, and complete discretion concerning the manufacture, distribution, marketing, and other exploitation of all Videograms and Copies" and that the judgment of Golden Books as to all matters affecting exploitation shall be binding on DIC;

section 2(d), which states that Golden Books shall have the sole and exclusive right to negotiate and enter into contracts with respect to the property, "including the right to sublicense its rights hereunder";

section 2(e), which states that "Golden Books shall have the right to use and authorize others to use the name, physical likeness ... biographies, and voice of any person rendering services in connection with the Programs";

section 9, which obligates DIC to provide further

assurances in the event that there is a question as to the grant that has been given to Golden Books in the agreement; and,
section 12(d), which states that none of the rights granted to Golden Books in the Agreement has been or will be transferred by DIC to any third party.

Each of these rights seems to indicate that Golden Books did hold exclusive rights with respect to the licensed property.

In apparent contradiction to section 2(a), which gives Golden Books the exclusive right to sub-license the Madeline Properties to others, the Agreement also includes among its miscellaneous provisions a section labeled Assignments/Sublicense (section 18(e)), which states that subject to certain exceptions: "Neither party shall have the right to assign its rights and obligations hereunder without the other party's prior consent, which consent shall not be unreasonably withheld."

B. *Is the Madeline Agreement Exclusive or Nonexclusive?*

It is clear from the above listed terms that the Madeline Agreement grants to Golden Books certain exclusive rights with respect to a sub-set of the copyright relating to the Madeline video properties that DIC owns. Golden Books and the Buyers ***316** argue that the Madeline Agreement is an exclusive license simply because it grants to Golden Books certain exclusive rights. They also argue that limitations in the license as to territory and term do not undercut the exclusivity of the license, because rights conferred under exclusive licenses can and often do encompass less than the whole right to the property. DIC argues, however, that because the exclusive rights only cover a sub-set of the rights that DIC owns (e.g., they are in a limited territory and for a limited time), the license must be a nonexclusive license.

DIC's position that the license is necessarily nonexclusive because it only grants exclusive rights to a set of rights that are limited in temporal and geographical scope is incorrect as a matter of law. Intellectual property rights are recognized as bundles of rights, portions of which may be exclusively or nonexclusively licensed. The fact that only certain rights are exclusively licensed does not convert the license to a nonexclusive license. Under copyright law, even if one licenses a right that is limited in geographic or temporal scope, if that right is nonetheless exclusive within those parameters, it is an exclusive grant of a copyright. Therefore, based on the licenses terms, the court finds that the Madeline Agreement is an exclusive license.

[3] DIC's only plausible textual argument in support of nonexclusivity is that section 18(e) detracts from the exclusivity of the license in the sense that Golden Books cannot have a freely transferable property interest if they need DIC's permission to sub-license it. Given the many provisions in the Agreement that indicate that this license was indeed meant to be exclusive, the court declines to accept this argument.

Copyright law clearly distinguishes between the legal effect of a nonexclusive license and an exclusive license. Contract clauses restricting assignment do not change this calculus under the copyright law. The court therefore finds that the non-assignment clause of section 18(e) is exactly the type of boilerplate restriction of assignment that section 365(f) states should have no bearing on this matter. *See* 11 U.S.C. § 365(f)(1) ("Except as provided in subsection (c) of this section, *notwithstanding a provision in an executory contract ... that prohibits, restricts, or conditions the assignment of such a contract* ... the trustee may assign such contract ...") (emphasis added); *see also* 11 U.S.C. § 365(c) ("Trustees may not assume or assign any executory contract ... of the debtor, whether or not such contract ... prohibits or restricts assignment of rights if ..." excused by applicable law).

Accordingly, the court finds that the Madeline Agreement is an exclusive license.

C. *Under Copyright Law, Does Golden Books Need DIC's Consent to Transfer the Madeline Agreement?*

DIC's objection as filed asserts that the Madeline Agreement is a nonexclusive license and is therefore non-assignable under the copyright law. Prevailing case law holds that nonexclusive intellectual property licenses do not give rise to ownership rights and are not assignable over the objection of the licensor. *See In re Catapult Entertainment,* 165 F.3d at 750 (holding nonexclusive licenses do not give rise to ownership rights and are not assignable over the objection of the licensor); *In re Patient Educ. Media,* 210 B.R. at 240 (same); *In re Access Beyond Tech.,* 237 B.R. at 44 (finding that patent license agreement at issue was nonexclusive because it did not convey the exclusive right or some part of the exclusive right to practice the invention and did not grant any right to exclude others from practicing the patents and holding that nonexclusive *317 license is not assignable). Having now found that the Madeline Agreement is an exclusive license, the court must now determine whether copyright law allows an exclusive licensee to freely transfer such a license.

At oral argument, DIC alternatively contended that if the court determined that the Madeline Agreement was an exclusive license that, as a matter of copyright law, even an exclusive license cannot be assigned without the licensor's consent. To support this argument, DIC relies on *Gardner v. Nike,* 110 F.Supp.2d. 1282 (C.D.Cal.2000).

In *Gardner,* Nike and Sony entered into an exclusive licensing agreement for the use of a cartoon character created by Nike. Sony subsequently transferred its rights under the license to Gardner, who started using the character on various products. In response to threatened legal action from Nike, Gardner brought an action for declaratory relief against Nike seeking a declaration of his right to use the character. Gardner argued that under the Copyright Act, Sony, the original licensee, was allowed to transfer its rights to him without the consent of the original licensor, because the exclusive license made the original licensee an "owner" under the Copyright Act. As an "owner," Gardner asserted, the original licensee was able to transfer whatever rights it had (including the right to assign, as set forth in § 106 of the Copyright Act [FN1]) under § 201(d) of the Copyright Act. [FN2] *Gardner,* 110 F.Supp.2d. at 1284. In opposition, Nike argued that, according to the text of § 201(d), the original licensee was not an "owner" who has all the rights of ownership (including the right to assign); rather, § 201(d) only conferred upon the original licensee the "protections and remedies" of a copyright owner, which the court held includes only the right to sue and defend suits in its own name, but not the right to assign. *Id.* The *Gardner* court agreed with Nike and held that exclusive licensees do not have the right to assign under § 201(d) of the Copyright Act. *Id.* at 1286.

FN1. Section 106 of the Copyright Act provides in relevant part that "the owner of [the] copyright ... has the exclusive rights to do and to authorize" the designated uses of the copyrighted work. 17 U.S.C. § 106.

FN2. Section 201(d) of the Copyright Act provides as follows:
(d) Transfer of Ownership.
The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law ...
Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by the clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies afforded to the copyright owner by this title. 17 U.S.C. § 201(d).

Commentators have noted that the holding in Gardner flatly contradicts the leading treatise on copyright law, Nimmer on Copyright, and leading bankruptcy cases such as *In re Patient Educ. Media* that state that under the Copyright Act exclusive licenses are freely assignable. *See, e.g.,* Ronald Leibow, Ashleigh Danker & Keith Murphy, Transfer of Intellectual Property Rights in Bankruptcy, 820 PLI/Comm 1141, 1154-1163 (2001).

In re Patient Education Media is a bankruptcy case. The issue presented in *Patient Education Media* was whether the debtor could transfer its nonexclusive license to use the copyrighted work over the objection of the copyright owner. Although the court did not need to address exclusive licenses in its holding, in dicta the court referred to the distinction in the *318 copyright law between nonexclusive and exclusive licenses, and concluded that, in contrast to nonexclusive licenses, exclusive licenses are freely assignable. The court reasoned that:

> Ownership is the sine qua non of the right to transfer, and the copyright law distinguishes between exclusive and nonexclusive licenses. A "transfer of copyright ownership" includes the grant of an exclusive license, but not a nonexclusive license. 17 U.S.C. § 101. The holder of the exclusive license is entitled to all of the rights and protections of the copyright owner to the extent of the license. 17 U.S.C. § 201(d). *See generally* 3 [Nimmer] § 10.02[A] at 10-23 (1996)[ ]. Accordingly, the licensee under an exclusive license may freely transfer his rights, and moreover, the licensor cannot transfer the same rights to anyone else.

In re Patient Educ. Media, 210 B.R. at 240. The proposition that exclusive licenses are freely assignable by the licensee is echoed in the Nimmer on Copyright treatise (which is cited in the above quote from *Patient Education Media*) and in other bankruptcy treatises that address this issue. *See, e.g.,* Primoff and Weinberger, E-Commerce and Dot-Com Bankruptcies: Assumption, Assignment, and Rejection of Executory Contracts, Including

Intellectual Property Agreements, and Related Issues Under Sections 365(c), 365(e), and 365(n) of the Bankruptcy Code, 8 American Bankruptcy Institute Law Review 307, 326 (2000) ("Pursuant to section 201(d)(2) of the Copyright Act, the holder of an exclusive copyright is entitled, to the extend of such right, to all of the rights and remedies accorded to a copyright owner. Such rights include the exclusive right to transfer. A licensee under an exclusive copyright license would, therefore, have the right to transfer its exclusive right to do and to authorize the designated uses of the copyright. Based on the foregoing, an e-commerce debtor-licensee's exclusive license is not implicated by section 365(c) of the Bankruptcy Code").

This court finds the reasoning of *Gardner* to be unpersuasive. The Copyright Act clearly states that there is a key distinction between exclusive and nonexclusive licenses. Section 101 of the Copyright Act defines a "Transfer of Copyright Ownership" as the:

> assignment, mortgage, *exclusive license,* or any other conveyance, alienation, or hypothecation of a copyright or any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

17 U.S.C. § 101 (emphasis added). The court in *Gardner* held that conferring "protections and remedies" on an exclusive licensee is distinct from conferring ownership rights. In so doing, the *Gardner* court effectively interpreted § 201(d) to limit the meaning of "ownership" as set forth in § 101. According to the *Gardner* court's construction of the phrase "protections and remedies" in § 201(d), granting exclusive licensees "protections" does not necessarily grant them the right to assign. Rather, it only confers on the licensee the right to sue for infringement and to defend suits in its own name. This right is set forth for copyright owners in § 501(b). It is difficult to understand why the *Gardner* court held that the phrase "protections and remedies" confers on exclusive licensees the particular rights of copyright owners that are set forth in § 501(b), but does not confer to exclusive licensees the rights of copyright owners, such as the right to freely assign, that are set forth in § 106.

[4] The more natural reading of § 201(d) is that Congress intended exclusive licensees to have all of the rights of an owner to the extent the license is intended to cover each of these rights. The court therefore declines to adopt the holding of ***319** the *Gardner* court and instead finds, in accordance with *Patient Educ. Media* and Nimmer, that exclusive licensees have the right to freely assign their rights.

II. *CONCLUSION*

The court finds that Madeline Agreement is an exclusive license. The court also finds that, under applicable copyright law, exclusive licenses convey an ownership interest to the licensee that allows that licensee to freely transfer its rights. Therefore, in this case, copyright law does not prevent the assumption and assignment of the Madeline Agreement. The court thus has authority to permit the Golden Books to assume and assign the Madeline Agreement as part of their sale to Random House and Classic Media, Inc. Accordingly, DIC's objection will be denied.

The court will enter an order in accordance with this memorandum opinion.

269 B.R. 311

END OF DOCUMENT

KEYCITE

H In re Golden Books Family Entertainment, Inc., 269 B.R. 311 (Bankr.D.Del., Nov 08, 2001) (NO. 01-1920-01-1925 (RRM)

History
Direct History

=> 1 **In re Golden Books Family Entertainment, Inc.,** 269 B.R. 311 (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920-01-1925 (RRM)

Related References (U.S.A.)

H 2 In re Golden Books Family Entertainment, Inc., 269 B.R. 300 (Bankr.D.Del. Nov 08, 2001) (NO. 01-1920 - 01-1925 (R)

Citing References
Positive Cases (U.S.A.)
★★ Cited

H 3 ITOFCA, Inc. v. MegaTrans Logistics, Inc., 322 F.3d 928, 941, 2003 Copr.L.Dec. P 28,568, 28568, 40 Bankr.Ct.Dec. 266, 266, 66 U.S.P.Q.2d 1014, 1014 (7th Cir.(Ill.) Mar 07, 2003) (NO. 02-1069) **HN: 1,2,3 (B.R.)** (BNA Version)

H 4 In re Adelphia Communications Corp., 307 B.R. 404, 428, 2004 Copr.L.Dec. P 28,773, 28773, 42 Bankr.Ct.Dec. 236, 236 (Bankr.S.D.N.Y. Mar 30, 2004) (NO. 02-41729-REG, 03-6967 (REG)) **HN: 2,3 (B.R.)**

▸ 5 Dead Kennedys v. Biafra, 2003 WL 21399983, *7 (Cal.App. 1 Dist. Jun 18, 2003) (NO. A094272) **HN: 4 (B.R.)**

Secondary Sources (U.S.A.)

6 Bankruptcy Law Manual s 8:43, -LIMITATIONS ON THE TRUSTEE'S RIGHT TO ASSUME AN EXECUTORY CONTRACT OR UNEXPIRED LEASE (2003)

7 Bankruptcy Service Lawyers Edition s 21:228, s 21:228. Licenses (2004) **HN: 2,3 (B.R.)**

8 Chapter 11: Reorganizations, Second Edition s 9:13, s 9:13. Executory contracts and unexpired leases (2004) **HN: 1 (B.R.)**

9 Copyright Law s 3:3, The Concept of Divisibility (2003)

10 Law of Computer Technology s 7:191, -LICENSEE BANKRUPTCY (2003) **HN: 2 (B.R.)**

11 Law of Computer Technology s 7:80, -USE RESTRICTIONS AND COPYRIGHT (1998) **HN: 3 (B.R.)**

12 2002 Norton Annual Survey of Bankruptcy Law 525, Section 365 - Assumption and Rejection of Executory Contracts and Unexpired Leases (2002)

13 Norton Bankruptcy Law and Practice 2d s 151:30, s 151:30. Rights in Intellectual Property as Executory Contracts; Generally -- Patent and Copyright Licenses; Special Considerations (2004) **HN: 1,3,4 (B.R.)**

14 Am. Jur. 2d Bankruptcy s 2170, --FACTORS AFFECTING DETERMINATION (2004)

C 15 EXCLUSIVE AND NON-EXCLUSIVE IP LICENSES AND EXECUTORY CONTRACT ASSUMPTION AND ASSIGNMENT: DOES EXCLUSIVITY MATTER?, 22-FEB Am. Bankr. Inst. J. 28, 28+ (2003) **HN: 2,3,4 (B.R.)**

16 BENCHNOTES, 21-APR Am. Bankr. Inst. J. 3, 4 (2002) **HN: 1,3,4 (B.R.)**

C 17 THE EFFECT OF CORPORATE ACQUISITIONS ON THE TARGET COMPANY'S LICENSE RIGHTS, 57 Bus. Law. 767, 777+ (2002) **HN: 1,3,4 (B.R.)**

C 18 INTELLECTUAL PROPERTY COLLABORATION STRESSES IN BANKRUPTCY: PROTECTING THE RIGHTS OF THE NONBANKRUPT PARTIES, 54 Hastings L.J. 471, 491+

(2003) **HN: 1,2,3 (B.R.)**

19 ASSIGNABILITY OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY NAVIGATING THE MURKY WATERS OF SECTION 365, 21 NO. 1 Intell. Prop. L. Newsl. 11, 14+ (2002)

20 ASSIGNING EXCLUSIVE COPYRIGHT LICENSES Conflicting Rulings Over Transfer of Rights Highlight Uncertainty in Corporate Acquisitions, 5/12/2003 N.Y. L.J. S5, col. 1, S5, col. 1+ (2003)

21 THE NINTH CIRCUIT'S DECISIONS IN FOAD v. MUSIL GOVAN AZZALINO AND GARDNER v. NIKE, INC.: THE CREATION, INTERPRETATION AND ASSIGNMENT OF COPYRIGHT LICENSES UNDER STATE AND FEDERAL LAW, 33 Sw. U. L. Rev. 347, 378+ (2004) **HN: 1,4 (B.R.)**

22 120702 American Bankruptcy Institute 139, Concurrent Session: Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licensing & Sales Intellectual Property and Intangible Assets: Primer on Identification, Lien Perfection, Licens (2002) **HN: 3 (B.R.)**

23 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SJ082 ALI-ABA 201, 220 (2004) **HN: 1,3 (B.R.)**

24 EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY, SJ076 ALI-ABA 573, 609 (2004) **HN: 3 (B.R.)**

25 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SH054 ALI-ABA 243, 261 (2003) **HN: 1,3 (B.R.)**

26 RECENT DEVELOPMENTS CONCERNING INTELLECTUAL PROPERTY AND BANKRUPTCY, SG108 ALI-ABA 345, 363 (2002) **HN: 1,3 (B.R.)**

27 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *16+ (2002) **HN: 1,2,3 (B.R.)**

28 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 232+ (2004) **HN: 1,2,3 (B.R.)**

29 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1319+ (2003) **HN: 1,2,3 (B.R.)**

30 , 838 PLI/Comm 245, 267+ (2002) **HN: 1,2,3 (B.R.)**

31 INTELLECTUAL PROPERTY ISSUES IN AN INSOLVENCY CONTEXT, 1307 PLI/Corp 173, 193+ (2002)

32 BANKRUPTCY AND LICENSING, 786 PLI/Pat 757, 788 (2004) **HN: 1,3 (B.R.)**

33 COPYRIGHT LICENSING, 787 PLI/Pat 145, 162+ (2004) **HN: 1,3,4 (B.R.)**

34 BUYING AND LICENSING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 779 PLI/Pat 303, 362 (2004) **HN: 1,3,4 (B.R.)**

35 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 587 (2003) **HN: 1,3,4 (B.R.)**

36 FAILING BIOTECHNOLOGY COMPANIES: FIRE SALES AND BANKRUPTCY: RISKS AND OPPORTUNITIES IN ACQUIRING, 760 PLI/Pat 833, 855+ (2003) **HN: 1,3,4 (B.R.)**

37 BANKRUPTCY ISSUES IN NEGOTIATING ECOMMERCE TRANSACTIONS, 755 PLI/Pat 763, 782+ (2003) **HN: 3 (B.R.)**

38 PATENT AND HIGHT TECHNOLOGY LICENSING, 747 PLI/Pat 541, 560+ (2003) **HN: 3 (B.R.)**

39 THE TREATMENT OF TRADEMARKS AND TRADEMARK LICENSES IN BANKRUPTCY, 744 PLI/Pat 225, 271 (2003)

40 COPYRIGHT LICENSING, 745 PLI/Pat 205, 222+ (2003) **HN: 1,3,4 (B.R.)**

41 BUYING INTELLECTUAL PROPERTY FROM TROUBLED COMPANIES, 740 PLI/Pat 407, 451 (2003) **HN: 1 (B.R.)**

42 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225 (2002) **HN: 3 (B.R.)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Briefs

43 Bob GRADY/b/a Bob Grady Music, and Wilson Meadows d/b/a Meadows Sing Publishing,

William Pazos, an individual, Florida Yacht Brokers Association, Inc., a Florida corporation, and Bradford Yacht Sales, Inc., Defendants., 2004 WL 2275313, *2275313 (Trial Motion, Memorandum and Affidavit) (S.D.Fla. Feb 09, 2004) **Plaintiff's Memorandum of Law in Opposition to ...** (NO. 02-60772-CIV-DIMITRO) ★

45 EVOLUTION, INC., Plaintiff, v. PRIME RATE PREMIUM FINANCE CORPORATION, INC. and Southeast Fidelity Corporation and BB&T/SEFCO, LLC, Defendants., 2004 WL 2157633, *2157633 (Trial Motion, Memorandum and Affidavit) (D.Kan. Feb 27, 2004) **Memorandum in Support of Plaintiff's First Motion ...** (NO. 03-2315-KHV) ★★

46 In Re: ALLEGIANCE TELECOM, INC., et al., Debtors., 2004 WL 1778299, *1778299 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Apr 12, 2004) **Objection of Lucent Technologies Inc. to Approval ...** (NO. 03-13057, RDD) ★

47 In re: ENRON CORP., et al., Debtors and Debtors-in-Possession., 2002 WL 32153835, *32153835 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Feb 05, 2002) **Notice of Presentment and Hearing on Motion by ...** (NO. 01-16034, AJG) ★★ **HN: 1,4 (B.R.)**

48 In re: ENRON CORP., et al., Debtors and Debtors-in-Possession., 2002 WL 32155889, *32155889 (Trial Motion, Memorandum and Affidavit) (Bankr.S.D.N.Y. Feb 05, 2002) **Notice of Presentment and Hearing on Motion by ...** (NO. 01-16034, AJG) ★★ **HN: 1,4 (B.R.)**

U.S. Bankruptcy Court Opinions

IN RE HERNANDEZ, (Ariz. 2002)

Motion to compel ass/rej permissive not mandatory, cannot be used to preclude ride-through

In re: ANDRES HERNANDEZ and DOROTHY HERNANDEZ, Chapter 11, Debtors.

Case No. 99-01192-YUM-EWH

United States Bankruptcy Court, D. Arizona

December 12, 2002

John A. Weil, Esq., Law Office of John A. Weil, Yuma, AZ, Attorney for Debtors

United States Trustee, District of Arizona, Phoenix, AZ.

Riley C. Walter, Esq., Gregory S. Powell, Esq., Walter Law Group Fresno, CA.

Jeffery R. Gilles, Esq., Moncrief, Esq., Lombardo & Gilles, PLC Salinas, GA, Attorneys for Great Northern Equipment Company.

Robert E. Arnold, Esq., Horan Lloyd Karachale Dyer, Monterey, CA.

Anne Leach, Esq., Abramson, Church & Stave, Salinas CA.

Robert M. Cook, Esq., Law Offices of Robert M. Cook, Yuma, AZ.

Henry Niles, Santa Cruz CA.

MEMORANDUM DECISION

EILEEN W. HOLLOWELL, United States Bankruptcy Judge

In this case, the court must determine whether it must issue an order directing the Debtors to reject an unassumable executory contract pursuant to **11 U.S.C. § 365** (d)(2) upon the request of the non-debtor party to the contract. For the reasons set forth below, the court holds that: (1) the Debtors are not required to reject the contract, but may instead elect not to address the contract in their Chapter 11 plan; (2) the contract may ride-through the bankruptcy; and (3) the automatic stay is lifted with respect to the contract.

PROCEDURAL HISTORY

On September 9, 2002, the court issued a Memorandum Decision holding that the Debtors, Andres and Dorothy Hernandez could not assume a License Agreement dated January 17, 1997 (the Agreement). The Agreement granted Andres Hernandez, Steve Wolfe and Andrew Smith "exclusive" licenses to use a patented technology which extends the shelf life of lettuce.**[fn1]** The September 9, 2002, decision sets forth, the factual history surrounding the execution of the Agreement and the court will not repeat that history in this decision. However, a brief review of the proceedings in this case is warranted:

In November of 1999, involuntary petitions under Chapter 11 were filed against the Debtors, Andres and Dorothy Hernandez. Orders for relief in both cases were entered in January of 2000, and the cases were consolidated shortly thereafter. In February of 2001, the Debtors filed a Plan of Reorganization which provided for the assumption of the Agreement. Both the Monterey Leaf Creditors as well as the licensor under the Agreement, Great Northern Equipment Company (Great Northern), opposed confirmation of the Debtors' Plan.[fn2]

In their Objections to the Debtors' Plan, the Objectors contended that the Ninth Circuit's holding in In re Catapult Entertainment, Inc., 165 F.3d 747 (9th Cir. 1999) bars the Debtors from assuming the Agreement. In Catapult, a case involving a non-exclusive software license, the Ninth Circuit held that a debtor cannot assume a contract which falls under the provisions of 11 U.S.C. § 365 (c)(1) unless it can be demonstrated that the contract could be assigned to a hypothetical third party, even if the debtor has no intention of assigning the contract.[fn3] The Objectors further asserted that, if the Agreement could not be assumed, it must be deemed rejected.

At the June 14, 2002 hearing on Plan Confirmation, the court requested additional briefing from the parties on the applicability of Catapult to the Agreement, which by its terms purported to grant Hernandez an exclusive license. In their brief, the Debtors presented several arguments in support of their effort to assume the Agreement. The Debtors also raised an alternative argument in support of confirmation of their Plan. According to the Debtors, even if assumption of the Agreement was not a viable option, they should not automatically be forced to reject the Agreement. The Debtors argued that in addition to the affirmative acts of assumption and rejection, § 365 permits a debtor to allow an executory contract to "ride through" a Chapter 11 bankruptcy case.

In its September 9, 2002 Memorandum Decision, the court held that the Debtors could not assume the Agreement. The court found that: (1) even though the license granted to Hernandez was purportedly exclusive rather than non-exclusive, the Agreement nevertheless fell within the provisions of § 365(c)(1) and the requirements for assumption set forth in Catapult; and (2) the terms of the Agreement did not permit assignment to a hypothetical third party absent the consent of the licensor. Consequently, the court ruled that the Agreement fails the "hypothetical test," and as such, could not be assumed by the Debtors.[fn4] However, the court deferred ruling on the "ride-through" issue raised by the Debtors until after the parties had an opportunity to submit supplemental briefs on that issue.

On October 16, 2002, Great Northern filed a Motion to Compel Rejection of the Agreement pursuant to § 365(d)(2), and a Motion to Lift the Stay pursuant to 11 U.S.C. § 362 to permit it to terminate the Agreement. The Monterey Leaf Creditors joined Great Northern in both of these Motions. The issues raised in the motions to compel rejection and to lift stay are directly affected by the court's determination of the "ride-through" issue, and as such, those motions are addressed by the court in this Memorandum Decision. Both sides have filed their briefs and the matter is now ready for decision.

JURISDICTION

The court has jurisdiction in this matter pursuant to 28 U.S.C. § 1334 (a) and 11 U.S.C. § 157 (a)and(b).

DISCUSSION

I. Introduction

The facts of this case create an unusual problem: If the court determines that the Agreement must be rejected, then the Debtors will have forfeited their rights under the Agreement regardless of whether the Debtors actually committed a breach. See § 365(g) (providing that rejection of an executory contract constitutes a breach of that contract as of the date immediately preceding the filing). In essence, the Debtors will have forfeited their rights under the Agreement simply by having consented to the entry of an order for relief after an involuntary bankruptcy case was initiated against them.[fn5] On the other hand, had the Debtors not been forced into bankruptcy, their rights under the Agreement could only be terminated upon a demonstration of a material breach. This case, therefore, presents the unusual situation where a debtor has fewer rights *in bankruptcy* than outside of bankruptcy. The court finds such a result to be inconsistent with the reorganization principles of Chapter 11. At the same time, the rights afforded under Chapter 11 to non-debtor parties to executory contracts are entitled to protection. With these concerns in mind, the court now addresses the "ride-through" theory raised by the Debtors.

PLANS TYPICALLY HAVE A CATCH ALL

I. The Ride-Through Doctrine

The treatment of executory contracts by a Chapter 11 debtor is governed by **11 U.S.C. § 1123** and 365. § 1123(b)(2) provides that a Chapter 11 plan may "subject to 365 of this title, provide for the assumption, rejection, or assignment of any executory contract or unexpired lease of the debtor not previously rejected under this section." In turn, § 365(a) provides that the debtor "subject to court approval, may assume or reject any executory contract."

The "ride-through"doctrine advocated by the Debtors is purely a creature of case law; the doctrine is not provided for in §§ 1123 or 365, or anywhere else in the Bankruptcy Code. Simply stated, the ride through doctrine provides that executory contracts that are neither affirmatively assumed or rejected by the debtor under § 365, pass through the bankruptcy unaffected. See e.g., In re Polystat, Inc., **152 B.R. 886**, 890 (Bankr. E.D.Pa. 1993) ("In a chapter 11 case, where a debtor has failed to expressly assume or reject a[n] . . . executory contract, that . . . contract will be unaffected by the bankruptcy filing"); In re Day, **208 B.R. 358**, 368 (Bankr. E.D.Pa 1997) (holding that "[i]t has long been the rule in bankruptcy that an executory contract that is neither assumed or rejected continues in place between the parties, passing through the bankruptcy to the reorganized debtor").

Ride-through finds its origin in the pre-Bankruptcy Code case of Consolidated Gas. Elec. Light and Power Co. of Baltimore v. United Railways and Elec. Co. of Baltimore, **85 F.2d 799** (4th Cir. 1936). In that case, the Fourth Circuit held that an "executory contract . . . remains in force . . . until it is rejected, and unless rejected, it passes through with the other property of the debtor to the reorganized corporation." Id. at 805.[fn6] Since Consolidated Gas, the ride-through doctrine, which has also been described as the "pass through" or "continuing contract" theory, has been applied by several Circuits Courts of Appeal. See e.g., In re O'Conner, **258 F.3d 392** (5th Cir. 2001); Boston Post L.P. v. FDIC, **21 F.3d 477**, 484 (2d. Cir. 1994) cert. den.

506 U.S. 1109 (1995); In re Greystone III Joint Venture, **948 F.2d 134**, 141 (5th Cir. 1989); In re Public Service Co. of New Hampshire, **884 F.2d 11** (1st Cir. 1989). The doctrine has also been recognized by commentators in law journals,**[fn7]** and treatises including Collier: "If the debtor fails to either assume or reject the contract by separate order or in its plan, it appears that the contract would continue in existence. . . . if the debtor continues operating, arguably the contract passes through the bankruptcy and remains a liability of the reorganized entity." 3 Collier on Bankruptcy, § 365.02[2] [d] (15th Ed. Rev. 1999); see also 7 Collier on Bankruptcy, § 1123.02[2] (15th Ed. Rev. 1999).

Ride-through has also been recognized by the United States Supreme Court in dicta, and has been alluded to by the Ninth Circuit as well. In his concurring and dissenting opinion in National Labor Relations Board v. Bildisco, **465 U.S. 513**, 546 n. 12 (1984), Justice Brennan wrote:

> In the unlikely event that the contract is neither accepted nor rejected, it will "ride through "the bankruptcy proceeding and be binding on the debtor even after a discharge is granted. The nondebtor party's claim will therefore survive the bankruptcy proceeding.

(Citations omitted). In Smith v. Hill, **317 F.2d 539**, 543 n. 6 (9th Cir. 1963), the Ninth Circuit discussed the implications of a debtor's failure to affirmatively assume an executory contract under § 365(c):

> In Chapter XI proceedings failure to assume affirmatively an executory contract does not result at any time in rejection of the contract. Whether the debtor is in possession, or whether there is a receiver or trustee, the contract can be rejected only by affirmative action. Unless so rejected, the contract continues in effect.

(Citations omitted). While the Smith court does not specifically mention ride-through, the holding has been cited by other courts as support for the doctrine. See e.g., In re Cajun Elec. Power Co-op., Inc., **230 B.R. 715**, 734 (Bankr. M.D.La. 1999) (citing Smith for the proposition that a lease or executory contract that is neither rejected nor assumed passes through the bankruptcy to the reorganized debtor).

Ride-through is thus a well-recognized and established legal doctrine. However, before the court determines if the doctrine should be applied in this case, it is useful to clarify exactly what the doctrine is and is not.

First and foremost, ride-through is not an option for the treatment of an executory contract under § 365. As previously stated, § 365 presents the debtor with two express options — assumption or rejection. Ride-through is not an affirmative choice available to the debtor under § 365. Therefore, if an executory contract is addressed in a Chapter 11 plan pursuant to § 1123(b)(2), it must be either assumed or rejected. The debtor may not treat an executory contract in a Chapter 11 plan and at the same time, effect a ride-through of that contract — these are inconsistent proposals.

In addition, ride-through is not a de facto assumption. In their brief, the Objectors argue that the ride-through doctrine affords the

Debtors all of the benefits of assumption, and in effect, allows the Debtors to assume an unassumable contract. This assertion is erroneous. A contract that is not assumed is not entitled to the benefits afforded by **11 U.S.C. § 365** such as insulation from *ipso facto* provisions or the right to cure arrearages within a reasonable period of time notwithstanding what the payment terms of the contract may be. Unless and until an executory contract is assumed, the debtor is not afforded any of the rights granted under § 365(e). The ride-through theory allows the debtor to retain the benefits as well as the burdens of the *contract*, not the benefits of *assumption*.**[fn8]** consequently, ride-through is not the equivalent of formal assumption under § 365. For example, in In re O'Conner, **258 F.3d 392**, 405 (5th Cir. 2001) the Fifth Circuit held that an *unassumable* partnership could ride through the bankruptcy proceedings unaffected:

IPSO FACTO VALID ON RIDE THRU

> The parties did *not* cite, nor did we find, any cases applying the pass-through theory when, under § 365(c)(1), the executory contract was *not* assumable. But, we see *no* reason why the theory should not apply. This is because there is *no* difference between a contract that, under § 365(c)(1), *cannot* be assumed, and one which is neither assumed nor rejected. Each is simply *unaffected* by the bankruptcy proceedings.

(Emphasis in original).

The ride-through doctrine is simply the traditional manner in which the courts deal with executory contracts, that for some reason were not assumed or rejected pursuant to § 365 prior to or at confirmation. As the Objectors point out, the traditional application of the doctrine by the courts has been "backward-looking." When an executory contract is not addressed by the debtor in a Chapter 11 plan or by separate motion, the doctrine applies and the contract becomes binding on the reorganized debtor. In this manner, the contract is unaffected by the bankruptcy and the interests of both parties to the contract are preserved.

In this case, the Debtors originally raised ride-through as an auxiliary, or "fallback" position, for their assumption argument. According to the Debtors, if the Agreement cannot be assumed, it need not be rejected because the court can allow it to ride-through the bankruptcy. Now that the court has ruled against the Debtors on their *assumption* argument, the ride-through doctrine represents the Debtors's only possibility for confirmation of their Plan. However, the Debtors' current Plan still provides for the assumption of the Agreement. As previously stated, an executory contract may not be addressed in a Chapter 11 Plan and simultaneously ride through the bankruptcy unaffected. In their supplemental brief on ride-through, the Debtors essentially argue that the court should allow them to amend their Plan to remove all references to the assumption of the Agreement. The Debtors assert that once the Plan no longer provides for the assumption of the Agreement, it can be confirmed, and the Agreement would then ride through the bankruptcy unaffected pursuant to cases such as O'Conner and Polystat.

The Objectors argue that the ride-through doctrine is inapplicable under the facts of the present case. According to the Objectors, the ride-through theory is available only as a post-confirmation tool for dealing with problems arising out of a debtor's failure to address an executory contract before or at plan confirmation. The Objectors assert that all of the ride-through cases cited by the Debtors share a common distinction from the facts of this case: in all such cases, the non-debtor party failed to object to the plan or move the court to compel assumption or rejection of the contract prior to confirmation. In this case, unlike the cases cited by the Debtors, the Objectors have opposed confirmation of the Debtors' plan by filing numerous objections to confirmation as well as motions to compel rejection of the Agreement pursuant to § 365. This is not a case in which the parties have overlooked the existence of an executory contract or simply continued to perform as if the bankruptcy had never occurred — to the contrary, the Agreement has been the focus of months of arduous litigation. Now, the Objectors have requested relief from the court in the form of an order deeming the Agreement rejected, and lifting the § 362 to permit Great Northern to terminate the Debtors' rights under the Agreement.**[fn9]**

Indeed, the court has not found a case in which an executory contract has been allowed to pass through the bankruptcy in the face of an objection by the non-debtor party. On the other hand, the court has not found a case in which a debtor has sought to effect a ride-through of an executory contract by intentionally failing to address it,**[fn10]** and has been prevented from doing so.**[fn11]** Given its historical acceptance and general application by the courts, the court believes that the doctrine applies any time a debtor fails to address an executory contract, whether that failure is inadvertent or intentional. Consequently, the court will apply the doctrine in this case if it is equitable to do so. Thus, the proper inquiry at this time is not whether the Debtors may choose to have the Agreement ride through the bankruptcy, or whether the court should "allow" the Agreement to ride through. Rather, the question that must be decided now is whether or not the Debtors are required to address the Agreement in their Chapter 11 Plan — i.e., are the Debtors required to reject the Agreement because the Objectors have filed a motion under § 365(d)(2) seeking that relief? H. Assumption I Rejection

In their Motion to Compel Rejection, the Objectors petition the court for a determination that the Agreement is deemed rejected under **11 U.S.C. § 365**. According to the Objectors, § 365(d)(2) *requires* a debtor to assume or reject an executory contract upon the request of a party-at-interest. The Objectors argue that these two alternatives are exclusive. Because the Debtors cannot assume the Agreement, the Debtors are bound to reject it sooner or later, and for this reason, the Objectors contend that the court should order the Agreement deemed rejected immediately.

The Debtors respond by asserting that the Bankruptcy Code does not require them to choose either to assume or reject the Agreement. According to the Debtors, both §§ 365 and 1123 are discretionary provisions permitting a debtor to assume or reject an executory contract. Therefore, the Debtors are not bound to reject the Agreement, but instead, they may elect not to address it in their Plan.

When interpreting the Bankruptcy Code, the court must begin with the statutory language. See Connecticut Nat'l Bank v. Germain, **503 U.S. 249**, 253-54 (1992); In re Catapult, **165 F.3d 747**, 750 (9th Cir. 1999). In the context of interpreting the Code, the plain meaning of legislation should be conclusive, except in the rare cases in which the literal application of a statute will produce a result demonstrably at odds with the intentions of its drafters. See United States v. Ron Pair Enters., Inc., **489 U.S. 235**, 242 (1989); In re Myrvang, **232 F.3d 1116**, 1124 (9th Cir. 2000). In addition, § 365(d)(2) must be interpreted in the context of the broad purposes of the entire Code. Theatre Holding Corp. v. Mauro, **681 F.2d 102**, 105 (2d Cir. 1982). § 365(d)(2) provides:

> In a case under chapter 9, 11, 12, or 13 of this title, the trustee may assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor at any time before the confirmation of a plan but the court, on the request of any party to such contract or lease, may order the trustee to determine within a specified period of time whether to assume or reject such contract or lease.

§ 365(d)(2) provides that a debtor *may* assume or reject an executory contract. The use of the term *may* (as opposed to the term *shall*) indicates the permissive nature of the section. Therefore, according to the plain meaning of § 365(d)(2), a debtor may *or may* not assume or reject an executory contract.

This interpretation of § 365(d)(2) is consistent with other operative Code provisions. § 365(d)(4) provides that "[n]otwithstanding paragraphs (1) and (2), in a case under any chapter of this title, if the trustee does not assume or reject an unexpired lease of nonresidential real property under which the debtor is the lessee within 60 days after the date of the order for relief . . . then such lease is deemed rejected." Because § 365(d)(4) provides for the automatic rejection of commercial leases that are not assumed, a debtor is in essence forced to either assume or reject the lease — electing not to address the lease is not an option. Presumably, if Congress wanted to make the choice between assumption and rejection of all executory contracts mandatory, it could have made a provision similar to § 365(d)(4) applicable to such contracts. See e.g., In re Griffith, **206 F.3d 1389**, 1394 (11th Cir. 2000) ("where Congress knows how to say something but chooses not to, its silence is controlling").

In addition, § 1123(b)(2) provides that a Chapter 11 plan "may subject to 365 of this title, provide for the assumption, rejection, or assignment of any executory contract." (Emphasis added). As with § 365(d)(2), the language of § 1123(b)(2) is permissive in nature, and the debtor may choose not to address an executory contract under a Chapter 11 plan Thus, the treatment of executory contracts inside of a Chapter 11 plan is optional. Texaco, 254 B.R. at 556 (holding that under § 1123(b)(2), "the right to assume or reject an executory contract is optional"). When read in conjunction with one another, § 1123 and § 365 establish a statutory framework in which the debtor is free to either assume or reject an executory contract through a plan, or elect not to address the contract within his plan and continue performance**[fn12]** outside the plan:

> Section 1123(b)(2) is permissive. The plan *may* provide for the assumption or assignment of an executory contract. On the other hand, the contract may "ride through" the plan as unaffected.

7 Collier on Bankruptcy, § 1123.02[2] (15th Ed. Rev. 1999) (emphasis in original); see also In re Cole, **189 B.R. 40**, 46 (Bankr. S.D.N.Y 1995); Aetna Casualty & Surety Co. v. Gamel, **45 B.R. 345**, 348 (N.D.N.Y 1984).

Thus, the Debtors may choose not to address the Agreement in their Plan. Nonetheless, the Objectors contend that even if the Debtors do not voluntarily address the Agreement, the court must, upon request of the Objectors, order them to do so. The Objectors argue that under § 365(d)(2), a creditor may petition the court to compel the debtor to either assume or reject an executory contract within a specified time. According to the Objectors, the court must act on such a request, and as such, the court must direct the Debtors to reject the Agreement immediately, as assumption is not an option.

The question of whether the court, upon the request of a non-debtor party, must direct the debtor to either assume or reject an executory contract was addressed by the Second Circuit in Mauro. In that case, the Second Circuit held that a bankruptcy court need not direct the debtor to make a decision immediately simply because the other party to the agreement has filed a motion under § 365(d)(2). Rather, the bankruptcy court, in its discretion, sets a reasonable time in which the debtor must decide whether to assume or reject. See 681 F.2d at 105 ("[U]nder the new Code, as under the old Act, the trustee or debtor in reorganization is allowed a reasonable time to decide whether to assume or reject. . . . What constitutes a reasonable time is left to the bankruptcy court's discretion in the light of the circumstances of each case"); see also In re Enron Corp., **279 B.R. 695**, 702-03 (Bankr. S.D.N.Y. 2002); In re Physician Health Corp., **262 B.R. 290**, 292 (Bankr. D. Del. 2001). Other courts have since determined that, in exercising its discretion, a court has the power to deny a § 365(d)(2) request. See also Whitcomb & Keller Mortgage Co., 715 F.2d § 379 (7th Cir. 1983); In re St. Mary Hospital, **89 B.R. 503**, 513 (Bankr. E.D. Pa. 1988).

Mauro and its progeny did not address the question of whether the filing of a motion under § 365(d)(2) precludes an executory contract from riding through a Chapter 11 bankruptcy.**[fn13]** As previously stated, the court has not found a reported decision that addresses this issue. Therefore, in deciding this question, the court must turn to the statutory language. § 365(d)(2) establishes that the court, upon the request of a non-debtor party to the contract, *may* order the trustee to determine within a specified period of time whether to assume or reject the contract. (Emphasis added). Once again, the operative language of the statute is permissive. According to the statutory language, the court has discretion to determine whether or not to grant the request of the non-debtor party and direct the debtor to act.

This interpretation is consistent with the legislative history of § 365(d)(2). The legislative history indicates that the first draft of § 365(d)(2) stated:

> In a case under chapter [9 or 11] an executory contract or unexpired lease may be assumed at any time prior to the confirmation of a plan or in the plan, but [the court] upon request of any party to the lease or contract shall order the assumption or rejection by the trustee within a specified period of time, not exceeding thirty days, if further delay would result in ice to such a party.

Report of the Commission on the Bankruptcy Laws of the United States, HR. Doc. 93-137, 93d Cong., 1st Sess., Part II § 4-602(a)(2) (1973) (emphasis added). In its original form, § 365 would have required the court to order the trustee to assume or reject an executory contract within 30 days upon the request of a non-debtor party to the contract. However, in reforming the statute, Congress substituted the word "may" for "shall," and dropped all references to a time limit. Thus, although Congress considered making the court's issuance of such an order mandatory, it instead opted to allow the court latitude to exercise discretion in this area.**[fn14]**

Accordingly, under the plain meaning doctrine cited earlier in this decision, the court may, but is not required to issue an order directing the Debtors to reject the Agreement. If the court does not order rejection of the Agreement, the Debtors will presumably amend their plan and the Agreement will ride through the bankruptcy. The court must therefore turn to the question of what standards should be applied in determining whether the circumstances of this case justify permitting the Agreement to ride through. The four part test set out in Mauro for determining whether a debtor should be permitted to delay the assumption or rejection decision serves as a useful guide for analyzing when ride through of an executory contract should be permitted. The four factors are: (1) the damage that other party to contracts would suffer, beyond compensation available under the Bankruptcy Code; (2) the importance of the contracts to the debtor's business and reorganization; (3) whether the debtor has had sufficient time to appraise its financial situation and potential value of its assets in formulating a plan; and (4) whether the exclusivity period has terminated

In applying the Mauro factors, the court confronts a difficult balancing task. If the Debtors are permitted to amend their plan to eliminate any treatment of the Agreement, the Objectors will not receive any compensation under the Bankruptcy Code for their damages because, as set forth earlier, the Objectors will not have a claim which can be treated or discharged under an amended plan. The Objectors allege that they have sustained substantial damages as a result of the Debtors' attempts to assume the Agreement. During that time, the automatic stay of § 362 has prevented the Objectors from concluding litigation in state court which they assert would terminate the Debtors' rights under the Agreement. The Objectors did not, however, specifically seek stay relief until October 16, 2002 — thus, some of the time delay is arguably the result of their own inaction. At the same time, once the Objectors appeared in the case in 2001 they actively opposed confirmation of the Debtors' plan and assumption of the Agreement.**[fn15]**

The court must balance the Objectors' alleged damages against the second prong of the Mauro test, which is the importance of the Agreement to the Debtors' potential reorganization. If the court requires the Agreement to be rejected there will be no reorganization because the exclusive funding source for the Debtors' attempted reorganization is the income they will receive by exercising their purported rights under the Agreement. of course, the Objectors assert that the Debtors forfeited their rights under the Agreement as a result of their alleged breach. However, if the Agreement is deemed rejected all of the Debtors' rights under the Agreement will be automatically cancelled regardless of whether they have breached the Agreement. The court finds therefore, that requiring the Debtors to reject the Agreement will result in significant harm to the Debtors and their creditors which outweighs the harm caused to the Objectors by the delay of the state court litigation and the cost of litigating confirmation and § 365 issues in this court.**[fn16]** Accordingly the court will exercise its discretion and will not issue an order requiring the Debtors to reject the Agreement. Instead the Debtors shall have thirty days to amend their Plan to eliminate the section that provides for the assumption of the Agreement. The Debtors will, of course, face the burden of demonstrating that such an amended plan is confirmable under 11 U.S.C. § 1129.

III. Motion to Lift Stay

In their Motion for Relief form the Automatic Stay, the Objectors contend that cause exists as a matter of law to lift the automatic stay in regards to the Agreement under § 362(d)(1). The court agrees. In this case, the court has already determined that the Debtors cannot assume the Agreement, or otherwise treat it in their Plan. Therefore, cause exists to lift the automatic stay and allow the Objectors to enforce whatever rights they may have under applicable non-bankruptcy law.

IV. Plan Confirmation

The Objectors have asserted that allowing the Agreement to ride through the case will accomplish nothing because the Debtors will not be able to confirm their Chapter 11 Plan even if the Agreement is permitted to ride through. In support of this contention, the Objectors present two arguments: First, the Objectors maintain that because the Agreement is unassumable, it is not property of the Bankruptcy Estate, and cannot be used to create value for the creditors. However, even if the Objectors are correct in their assertion that an unassumable contract is not estate property,[fn17] that does not mean it cannot create value for the creditors. For example, individual Chapter 11 debtors routinely propose plans which are funded from non-estate assets, such as the income derived from services the debtor performs post-petition. See 11 U.S.C. § 541 (a)(6). In light of the fact that such Plans are often confirmed, the court does not consider the fact that the Agreement will be treated outside the Plan as an obstacle to confirmation.

Second, the Objectors allege that the Debtors cannot rely on any prospective income from their continued use of the patent license granted to the Debtors under the Agreement to fund an amended plan. In this regard, the Objectors point out that the Agreement is the subject of ongoing state court litigation. According to the Objectors, the Debtors breached the Agreement by entering into a subcontracting arrangement with a third party. The Objectors assert that once the § 362 automatic stay is lifted in this case, the pending state court litigation will be able to proceed and Great Northern will eventually terminate the Debtors' rights under the Agreement. The Debtors contend that their subcontracting arrangement complies with the terms of the Agreement and that Great Northern is, itself, in breach of the Agreement.

The litigation that is pending in state court between the Debtors and the Objectors regarding these issues will now be able to proceed to conclusion since this court has lifted the automatic stay with respect to the Agreement. The Debtors claim that they will prevail in that litigation and that there will, therefore, be income available to fund an amended plan. Chapter 11 plans which depend for funding on the outcome of litigation may be confirmable under the right circumstances. See e.g. In re Applied Safety, Inc., 200 B.R. 576, 587 (Bankr. E.D. Pa. 1996). Since the amended Plan is not yet before the court, the court cannot determine if this may be such a case. Until that determination is made, after both the Debtors and the Objectors have a full opportunity to present their arguments, the court cannot find that permitting the Agreement to ride through the Debtors' bankruptcy case will make it impossible for them to propose a confirmable plan.

CONCLUSION

The Debtors are not required to reject the Agreement, but instead may file an amended Plan within thirty days which permits the Agreement to ride through the case. However, the § 362 automatic stay is lifted in this case with respect to the Agreement. The foregoing constitutes the court's findings of fact and conclusions of law pursuant to Bankr. R. Proc. 9021. A separate order consistent with the terms of this Memorandum Decision will be issued this date.

[fn1] Steven Wolfe and his related entities are collectively referred to as the Monterey Leaf Creditors.

[fn2] Great Northern and the Monterey Leaf Creditors are hereinafter collectively referred to in this decision as the Objectors.

[fn3] **11 U.S.C. § 365** (c)(1) provides as follows:

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

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

(B) such party does not consent to such assumption or assignment;"

[fn4] For an analysis and critique of the problems presented by application of the hypothetical test See Daniel J. Bussel & Edward A. Friedler, The Limits on Assuming and Assigning Executory Contracts, 74 Am. Bankr. L. J. 321 (Summer 2000).

[fn5] On January 14, 2000, the Debtors entered an agreement with the petitioning creditors to allow entry of an order for relief with the understanding that the case would be dismissed 120 days after a settlement was reached. (See Debtors' Answer to Inv. Pet. at Dkt. #8). At that time, the Objectors were not actively involved in the case. The Monterey Leaf Creditors filed their first pleading in the case, an Objection to Debtors' Disclosure Statement, on March 12, 2001. (See Dkt. #47). Great Northern filed its first pleading in this case, an Objection to Debtors' Plan, on October 16, 2001. (See Dkt. #87).

[fn6] Although Consolidated Gas was a pre-Code case, the legal precepts developed therein remain applicable today because theories developed under the Bankruptcy Act apply to cases decided under the Code. See In re Bonner Mall Partnership, **2 F.3d 899**, 913 (9th Cir. 1993) ("Where the text of the Code does not unambiguously abrogate pre-Code practice, courts should presume that Congress intended it to continue unless the legislative history dictates a contrary result"); In re Polysat, Inc., **152 B.R. 886**, 890 (Bankr. E.D.Pa. 1993) ("Where Congress has not evidenced an intent to change established pre-Code law, courts should interpret the Code as continuing that legal principle").

[fn7] See e.g., Bussel, supra note 4, at 330 f.48 see also David G. Epstein & Steve H. Nickles, The National Bankruptcy Review Commission's § 365 Recommendations and the `Larger Conceptual Issues', 102 Dick. L. Rev. 679, 689 (Summer 1998); Mark R. Campbell & Robert C. Haste, Executory Contracts: Retention Without Assumption in Chapter 11 - "Ride-through" Revisited, 19 Am. Bankr. Inst. J. 33 (2000).

[fn8] The logical result of a ride-through contract is that claims which arise from the breach of such a contract cannot be discharged through a Chapter 11 plan. Accordingly the Debtors may not seek to discharge any of Hernandez' obligations under the Agreement through their amended plan:

> [I]n actual practice it often happens that parties to contracts and leases (including leases "deemed rejected" under subsections (4) and (5)) simply continue to perform thereunder as though the bankruptcy had not happened. This has been addressed by the courts, which have uniformly held that when a debtor continues to derive benefits under the contract or lease, *the debtor will also be burdened with the obligations,* and the lease or other contract will be deemed to "pass through" or "ride through" the bankruptcy unaffected by it.

In re Texaco Inc., **254 B.R. 536**, 557 (Bankr. S.D.N.Y. 2000) (emphasis added). In this regard, some commentators have expressed the concern that the case law on the ride-through doctrine is inconsistent with the broad definition of "claim established under **11 U.S.C. § 101** (5):

> We believe these cases are inconsistent with the Bankruptcy Code's expanded definition claim. A party to a lease or executory contract with a Chapter 11 debtor has a section 101(5) claim even before the lease or contract is assumed or rejected. Any such section 101(5) claim would be extinguished when the Chapter 11 debtor's plan was confirmed and so would not ride through the bankruptcy.

See Epstein, supra note 7, at 690, but see In re Cochise College Park. Inc., **703 F.2d 1339**, 1352 (9th Cir. 1983) ("Until rejection, however, the executory contract continues in effect and the non-bankrupt party to the executory contract is not a creditor with a provable claim against the bankrupt estate"); Even if § 101(5) is broad enough to include an executory contract that has not been breached, the Debtors may address this issue by placing a provision in the amended Plan that excludes from discharge Hernandez' obligations under the Agreement.

[fn9] The Objectors also argue that because there has been litigation in this case regarding the Agreement it cannot ride through the Debtors' case "unaffected." The court rejects such an interpretation. Almost every executory contract to which a debtor is a party is affected by the filing of a bankruptcy case because of the imposition of the § 362 automatic stay. Even if the debtor and the non-debtor party continue to perform as they did prior to the filing of the case, the non-debtor party may be impacted in some manner by the debtor's filing for bankruptcy. The use of the word "unaffected" in the cases which have addressed the ride-through doctrine relates to the parties' rights *under the contract,* not to

whether there has been some impact on the parties as a result of the filing of a bankruptcy case.

[fn10] In fact, there is some support for the application of ride-through where an executory contract is intentionally ignored by the debtor. See Epstein, supra note 7, at 690-91 (supporting the practice of ride-through in Chapter 11 and quoting Reforming the Bankruptcy Code: National Bankruptcy Conference Code Review Project 144-45 (rev. ed. 1997): "The debtor and the other party expect to perform these contracts without formality. In other words, the debtor's failure to schedule such contracts is not accidental or inadvertent"); see also Campbell, supra note 7 at 33-34.

[fn11] In this regard, the cases cited by the Objectors are likewise inapposite.

[fn12] Of course, in many instances, the terms of the executory contract may bar continued performance by the debtor of a ride-through contract. Absent the protections of § 365, the non-debtor party may move to enforce an ipso-facto clause, or other insolvency terms, which are routinely included as default provisions in many contracts. See Randolph J. Haines, Time to Eliminate ipso Facto Clauses, Norton Bankruptcy Law Adviser (May 2002).

[fn13] In fact, in many instances these cases presume that a debtor must either assume or reject an executory contract by the time of confirmation. See e.g., In re National Gypsum Co., **208 F.3d 498**, 505 n. 5 (5th Cir. 2000) ("The debtor may delay making a decision and simply provide for assumption or rejection in the plan itself'); St. Mary Hospital, 89 B.R. at 513 ("Of course, in deciding a § 365(d)(2) motion . . . a bankruptcy court is empowered to deny the motion and allow the debtor to "*wait until the normal deadline of confirmation to assume or reject the contract*") (emphasis added). However, the court has already determined, pursuant to the plain meaning of the statutory language of § 365(d)(2) that a debtor may elect not to address an executory contract in its plan and continue performance outside the plan. See supra at p. 13.

[fn14] This interpretation is also consistent with § 1123. As explained in Collier on Bankruptcy: "However a party to the contract may insist that it either be rejected or fully assumed under the plan if the contract has not already been dealt with separately from the plan." 7 Collier on Bankruptcy, § 1123.02[2] (15th Ed. Rev. 1999). While the treatise provides that a non-debtor party may "insist" that the debtor either assume or reject an executory contract, it is evident that here, the author is concerned with protecting the contractual rights of the non-debtor party: "This type of party has a right to be heard in respect to assumption or rejection of the contract at the time of the confirmation hearing under section 1128 or prior to such date, in order to assure adequate protection of its interests." Id. A contract that rides through the case unaffected remains binding on the debtor, and as such affords the non-debtor party all of the protections available under the original contract.

[fn15] The court also notes that the Objectors and the Debtors agreed to defer confirmation while they attempted to settle their disputes through mediation. (See Dkt. #93).

[fn16] The remaining factors under Mauro are not particularly relevant to

the court's decision regarding whether the Debtors should be required to reject the Agreement. The Debtors have had ample time to appraise their financial situation and exclusivity ran long before the Debtors proposed a plan in February of 2001.

[fn17] There is some divergence within the 9th circuit as to whether an unassumable contract is property of the estate. In In re Qintex Entertainment, Inc., **950 F.2d 1492**, 1495 (9th Cir. 1991), the Ninth Circuit determined that "[a]n executory contract does not become an asset of the estate until it is assumed pursuant to § 365 of the Code." By contrast, the court in In re Computer Communications, Inc., **824 F.2d 725**, 728-29 (9th Cir. 1987), held that an unassumed and unassumable contract is nevertheless property of the estate and entitled to the protections of the § 362 automatic stay.

H

United States Bankruptcy Court,
N.D. Illinois,
Eastern Division.

In re KMART CORPORATION, et al., Debtors.

No. 02 B 02474.

Jan. 23, 2003.

Motion was filed to compel Chapter 11 debtor to assume or reject computer software licensing agreement, as well as for allowance of administrative expense claim. The Bankruptcy Court, Susan Pierson Sonderby, J., held that: (1) nonexclusive computer software licensing agreement was "executory contract," such as debtor could assume or reject; (2) court would not compel debtor to make decision upon whether it would assume or reject computer software licensing agreement prior to confirmation of plan; and (3) availability of licensed computer software to debtor postpetition did not support allowance of administrative expense claim.

So ordered.

West Headnotes

[1] Bankruptcy 3106
51k3106 Most Cited Cases
"Executory contract," such as debtor may assume or reject, is one that presents estate with mixed blessing, i.e., potential contractual benefits that can be obtained only at cost of debtor's performance under contract. Bankr.Code, 11 U.S.C.A. § 365.

[2] Bankruptcy 3106
51k3106 Most Cited Cases
"Executory contract," such as debtor may assume or reject, is one under which significant unperformed obligations remain owing on both sides. Bankr.Code, 11 U.S.C.A. § 365.

[3] Bankruptcy 3106
51k3106 Most Cited Cases
Contract that has been fully performed on either side is not "executory," as that term is used in bankruptcy statute. Bankr.Code, 11 U.S.C.A. § 365.

[4] Bankruptcy 3106
51k3106 Most Cited Cases
Generally speaking, license agreements are executory contracts, such as debtor may assume or reject. Bankr.Code, 11 U.S.C.A. § 365.

[5] Bankruptcy 3106
51k3106 Most Cited Cases
Contingency or remoteness of obligations imposed by license agreement does not prevent agreement from being deemed "executory" in nature, and thus subject to assumption or rejection by debtor. Bankr.Code, 11 U.S.C.A. § 365.

[6] Bankruptcy 3106
51k3106 Most Cited Cases
Nonexclusive computer software licensing agreement, pursuant to which Chapter 11 debtor had right to use various software programs to assist in management of numerous tasks and duties pertinent to its business operations, but only upon condition that it continued to protect confidential nature of software's trade secrets and make periodic payments to licensor, was "executory contract," such as debtor could assume or reject, despite contention that software in question had already been delivered and that debtor's only remaining obligation was to make two installment payments. Bankr.Code, 11 U.S.C.A. § 365.

[7] Bankruptcy 3103(1)
51k3103(1) Most Cited Cases
In deciding whether to compel assumption or rejection of debtor's executory contracts prior to plan confirmation, bankruptcy court may consider interests of nondebtor party. Bankr.Code, 11 U.S.C.A. § 365(d)(2).

[8] Bankruptcy 3103(1)
51k3103(1) Most Cited Cases
Interests of creditors collectively and of bankruptcy estate as whole will not yield easily to convenience or advantage of one creditor out of many, and for that reason, it is rare that court will force debtor into assuming or rejecting executory contract prior to confirmation of plan. Bankr.Code, 11 U.S.C.A. § 365(d)(2).

[9] Bankruptcy 3103(1)
51k3103(1) Most Cited Cases
Bankruptcy court would not compel Chapter 11 debtor to make decision upon whether it would assume or reject computer software licensing

agreement prior to confirmation of Chapter 11 plan, especially given magnitude and complexity of case and fact that it had just recently reached its first anniversary. Bankr.Code, 11 U.S.C.A. § 365(d)(2).

[10] **Bankruptcy 2871**
51k2871 Most Cited Cases
Administrative priority claims are to be strictly construed, because of presumption that debtor has only limited resources to equally distribute among creditors. Bankr.Code, 11 U.S.C.A. § 503(b).

[11] **Bankruptcy 2872**
51k2872 Most Cited Cases
Policy underlying priority treatment for administrative expenses is to encourage creditors to deal with debtor-in-possession, and thereby support its reorganization effort. Bankr.Code, 11 U.S.C.A. § 503(b).

[12] **Bankruptcy 2872**
51k2872 Most Cited Cases
Debt will be afforded priority as administrative expense if it both: (1) arises out of transaction with debtor-in-possession (DIP); and (2) is beneficial to operation of the DIP's business. Bankr.Code, 11 U.S.C.A. § 503(b).

[13] **Bankruptcy 2926**
51k2926 Most Cited Cases
[13] **Bankruptcy 2927**
51k2927 Most Cited Cases
Claimant has burden of proving entitlement to administrative expense by preponderance of evidence. Bankr.Code, 11 U.S.C.A. § 503(b).

[14] **Bankruptcy 2871**
51k2871 Most Cited Cases
[14] **Bankruptcy 2926**
51k2926 Most Cited Cases
To be entitled to administrative expense claim, claimant must demonstrate that benefit to estate is more than a speculative or potential benefit. Bankr.Code, 11 U.S.C.A. § 503(b).

[15] **Bankruptcy 2871**
51k2871 Most Cited Cases
It is not enough, for purposes of allowing administrative expense claim, that debtor remains in possession of claimant's property; rather, there must be some actual, concrete benefit for estate before claim is allowable as administrative expense. Bankr.Code, 11 U.S.C.A. § 503(b).

[16] **Bankruptcy 2871**
51k2871 Most Cited Cases
To be entitled to administrative expense claim, claimant must demonstrate that estate was benefitted as whole. Bankr.Code, 11 U.S.C.A. § 503(b).

[17] **Bankruptcy 2871**
51k2871 Most Cited Cases
Once administrative expense claimant establishes that actual benefit was conferred on estate, court has discretion to determine the reasonable value of administrative claim. Bankr.Code, 11 U.S.C.A. § 503(b).

[18] **Bankruptcy 2871**
51k2871 Most Cited Cases
[18] **Bankruptcy 2872**
51k2872 Most Cited Cases
While contract rate is appropriate method for court to arrive at amount of administrative expense claim, other factors may be pertinent as well, such as actual amount of services provided to debtor-in-possession. Bankr.Code, 11 U.S.C.A. § 503(b).

[19] **Bankruptcy 2872**
51k2872 Most Cited Cases
Availability of licensed computer software to Chapter 11 debtor postpetition did not support allowance of administrative expense claim to licensor, given lack of evidence of any concrete, actual postpetition benefits conferred on estate as whole. Bankr.Code, 11 U.S.C.A. § 503(b).

[20] **Bankruptcy 2871**
51k2871 Most Cited Cases
Allowance of administrative expense claim should not be exercise in conjecture. Bankr.Code, 11 U.S.C.A. § 503(b).

***616** Gary E. Green, William Kent Carter, Coston & Lichtman, Chicago, IL, for CIT Financial USA, Inc.

John Wm. Butler, Jr., J. Eric Ivester, Mark A. McDermott, Skadden, Arps, Slate, Meagher & Flom, Chicago, IL, for debtors.

MEMORANDUM OPINION

SUSAN PIERSON SONDERBY, Bankruptcy Judge.

This matter comes before the Court on the Motion of CIT Financial USA, Inc. ("CIT") for a Court Order Compelling Debtor-in-Possession to Assume or Reject the Licensing Agreement and for Administrative Claim.

I. *BACKGROUND*

Kmart Corporation ("Kmart") and 37 of its affiliates filed voluntary petitions under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") on January 22, 2002 (the "Petition Date"). Kmart continues to operate its business and manage its properties as a debtor in possession pursuant to section 1107(a) of the Bankruptcy Code. Kmart uses various software programs to assist in the maintenance and management of the numerous tasks and duties pertinent to its business operations.

On or about September 12, 1992, Kmart as licensee, and Platinum Technology, Inc. ("PTI"), as licensor, entered into a License Agreement under which PTI was to install designated software for Kmart in accordance with a related Master Product License Agreement. The product, known as the Platinum Plan Analyzer, is a software tool that "aids in physical database design, performance tuning, and application development ..." (*See* Equipment Purchase Order No. C1727 Dated 09/04/1992). PTI was later acquired by Computer Associates ("CA"), who is the service provider under the License Agreement. In exchange for PTI's services, Kmart agreed to pay $375,000 plus applicable state taxes, in five equal annual payments, with the first payment due on April 30, 1999.

Kmart acknowledges that the License Agreement contemplated that the payments, together with all related rights of PTI would be assigned to Platinum Technology Financial Services ("PTFS"). PTFS subsequently assigned its rights to CIT. CA remains obligated to Kmart to provide the products, warranties, maintenance and support specified in the License Agreement. CIT is responsible for paying twenty percent (20%) of the license fee it receives from Kmart to CA for maintenance on the product.

CIT received its last payment from Kmart in May 2001. Kmart has not made the annual payment due April 30, 2002.

On July 10, 2002, CIT filed this motion to compel Kmart to assume or reject the ***617** License Agreement and for the allowance of an administrative claim. CIT's motion was initially presented at the omnibus hearing on July 25, 2002. At the July 25th hearing, Kmart's counsel advised the Court that the parties agreed to continue the motion for hearing at the August omnibus date and at that hearing they would either advise of a settlement or proceed with a short evidentiary hearing. On August 7, 2002, the Court entered an order scheduling a hearing on the motion for August 29, 2002.

In its objection, as discussed in detail later, Kmart argues that the License Agreement is not an executory contract subject to assumption or rejection. CIT argues otherwise and urges the Court to enter an order compelling Kmart to assume or reject the License Agreement. Whether there is cause for that relief depends upon whether the License Agreement is an executory contract. The Court will therefore address that issue first.

II.
DISCUSSION

A. *Is the License Agreement an Executory Contract?*

[1] The Bankruptcy Code does not define the term "executory contract." The legislative history in the Congressional reports states that "... the concept [of an executory contract] generally includes contracts on which performance remains due to some extent on both sides." *In re Resource Technology Corp.*, 254 B.R. 215, 222 n. 3 (Bankr.N.D.Ill.2000) (*quoting* H.R.Rep. No. 95-595 at 347 (1977); S.Rep. No. 95-989 at 58 (1978), U.S.Code Cong. & Admin.News 1978, pp. 5963, 6303, 6304, 5787, 5844). Also, the background and purpose of section 365 indicate that "executory contracts" are those that present the estate with a "mixed blessing"--potential contractual benefits that can only be obtained at the cost of the debtor's performance under the contract. *Id.* at 216.

[2][3] "Congress intended that § 365 apply to contracts where significant unperformed obligations remain on both sides." *In re Streets & Beard Farm Partnership*, 882 F.2d 233, 235 (7th Cir.1989) (*citing* V. Countryman, Executory Contracts in Bankruptcy; Part I, 57 Minn.L.Rev. 439, 460 (1974), which defines an executory contract as an agreement where "the obligation of both the bankrupt and the other party are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other."). Under Countryman, a contract that has been fully performed on either side is not executory.

Consistent with the understanding of "executory" outlined above, the dispute here has focused on the question of Kmart's remaining contractual obligations under the License Agreement. Kmart argues that its only remaining obligation is to pay the annual purchase price, which was incurred prepetition and is being paid on an installment basis. Kmart claims that it has substantially performed all of its obligations under the License Agreement--i.e., that no substantial performance by Kmart remains conditional on licensor's performance--and that an installment sale was effectuated. CIT argues that its performance, as well as Kmart's, under the License Agreement is ongoing and substantial.

Arguments of this nature have been addressed in a number of decisions, all of which present a variation on the same theme--the estate argues that some asset was transferred to the debtor prepetition, and that whatever consideration that remains owing from the debtor for the asset is simply an unsecured prepetition claim ***618** against the estate. The other party to the contract contends that it has not completed any transfer, but is involved in an ongoing contract, which the estate must assume if it wishes to retain the benefits being received. In the face of such a dispute, to determine whether the contract is executory, the court must examine the unperformed duties and obligations of each party.

[4][5] The type of contract involved here is a license agreement. "Generally speaking, a license agreement is an executory contract as such is contemplated in the Bankruptcy Code." *In re Novon Intern. Inc.*, 2000 WL 432848, *4 (W.D.N.Y. March 31, 2000). A license agreement can impose any number of on-going performance obligations on the parties, including responsibilities relating to reporting, labeling, policing, service, maintenance, and technological upgrades. Gleich Primoff, M. *e-Commerce and Dot.com Bankruptcies: Assumption, Assignment and Rejection of Executory Contracts, Including Intellectual Property Agreements and Related Issues under Sections 365(c), 365(e) and 365(n) of the Bankruptcy Code*, 8 Am. Bankr.Inst. L.Rev. 307 (Winter, 2000). The contingency or remoteness of the obligations imposed by a license agreement does not prevent an agreement from being deemed executory in nature. *Id.* at 317.

[6] In this matter, Article 8 of the License Agreement sets forth ongoing requirements on the part of Kmart. For example, Kmart has a continuing duty to notify CA in writing of any claims, allegations of infringement, or legal suits that may arise. Kmart also has a duty to protect the confidential nature of the software's trade secrets, a duty to seek consent if Kmart wishes to transfer the software to someone else, and if CIT consents to any such transfer, Kmart must execute a new Product Schedule for each licensed product. Further, and most importantly, Kmart *continues to use* the software under the License Agreement. This aspect of the agreement is crucial to the determination that the license agreement is an executory contract. *Id.* at 319. CIT's obligations are ongoing as well, as CIT continues to pay CA to continue to provide service, maintenance, and upgrades on the software that was licensed to Kmart under the License Agreement. *See* Section 6 of the License Agreement.

Kmart analogizes the licensing fees it owes to installment payments and recasts the License Agreement as a promissory note. Under the License Agreement, Kmart agreed to pay five equal annual payments of $75,000 beginning in 1999, in lieu of making a lump sum payment of $375,000. These installment payments are described as a "Finance Option" in section 9 of the License Agreement. Under the Finance Option, "Customer [Kmart] elects to finance its acquisition of the License ..." This arrangement, argues Kmart, effectuated an installment sale, similar to a promissory note that is due over time because the software covered by the License Agreement has already been delivered to Kmart, and the only outstanding obligations on the part of Kmart under the License Agreement are two installment payments. Thus, according to Kmart, the License Agreement is not an executory contract. This interpretation, however, ignores the continuing obligations on the part of Kmart and CIT and mischaracterizes the license fees, inaccurately reflecting the reality of the License Agreement because no transfer of ownership has occurred as between the parties.

Next, the license granted to Kmart under the License Agreement is non-exclusive. A non-exclusive license typically grants a licensee the mere right to use certain intellectual property; the licensor ***619** retains the rights and remedies associated with ownership of the intellectual property. An exclusive license to use intellectual property, by contrast, may transfer title or ownership to the subject intellectual property. Accordingly, an exclusive intellectual property license would be more likely to constitute a sale because an exclusive license confers upon the licensee (and divests the licensor of) all or some portion of the ownership rights and interests associated with the intellectual property pursuant to well-established principles of patent, copyright and trademark law. *Id.* at 317-18.

Kmart contends that it was granted a perpetual license which in turn effectuated an ownership right in the software. However, Article 8 of the License Agreement clearly spells out the non-exclusive nature of the grant and Kmart's mere right to use, not own the software. [FN1] This is not a transaction possessed of the simple characteristics inherent to an installment sale, as Kmart contends. Also, the mutual obligations as set forth in the License Agreement transcend those of a mere series of money payments. Section 9 simply allows Kmart to pay its licensing fees over time as a matter of convenience.

FN1. "Title and full ownership rights in PRODUCT remain with LICENSOR." Article 8 of License Agreement.

Finally, case law holds that license agreements are executory contracts within the meaning of section 365 of the Bankruptcy Code. *See In re Superior Toy & Mfg. Co. Inc.*, 78 F.3d 1169 (7th Cir.1996) (holding trademark license executory); *Novon Intern.*, 2000 WL 432848 (viewing patent license as executory); *In re Catapult Entertainment, Inc.*, 165 F.3d 747 (9th Cir.1999), *cert. dismissed* 528 U.S. 924, 120 S.Ct. 369, 145 L.Ed.2d 248 (1999) (recognizing patent license as executory).

Since substantial obligations and duties remain incumbent on both parties, the Court finds that the License Agreement is an executory contract for purposes of section 365 of the Bankruptcy Code. The question now is whether Kmart should be compelled to assume or reject the License Agreement before plan confirmation.

B. *Compelling Assumption or Rejection*

[7] The Bankruptcy Code allows a debtor until plan confirmation to decide whether to assume or reject an executory contract. 11 U.S.C. § 365(d)(2). A nondebtor party to an executory contract can file a motion with the court and request the entry of an order compelling the debtor to make its decision prior to plan confirmation. *Id.* Section 365(d)(2) does not establish express standards by which the determination to compel assumption or rejection prior to plan confirmation is to be made. In making this determination, the court does not abuse its discretion by considering the interests of the nondebtor party pending the debtor's decision to assume or reject. *In re Whitcomb & Keller Mortg. Co., Inc.*, 715 F.2d 375, 379 (7th Cir.1983).

Permitting the debtor to makes its decision as late as the plan confirmation date enables the debtor to carefully evaluate the possible benefits and burdens of an executory contract. *In re Wheeling-Pittsburgh Steel Corp.*, 54 B.R. 385, 388 (Bankr.W.D.Pa.1985). The Seventh Circuit notes,

> Since a debtor is in limbo until confirmation of a plan, it is understandably difficult to commit itself to assuming or rejecting a contract much before the time for confirmation of a plan ... This procedure insures that the debtor is not in the precarious position of having assumed ***620** a contract relying on confirmation of a particular plan, only to find the plan to have been rejected.

Moody v. Amoco Oil Co., 734 F.2d 1200, 1215 (7th Cir.1984), *cert. denied* 469 U.S. 982, 105 S.Ct. 386, 83 L.Ed.2d 321 (1984) (*quoting Data-Link Systems, Inc. v. Whitcomb & Keller Mortgage Co.*, 715 F.2d 375, 378 (7th Cir.1983)).

[8] Courts rarely force a debtor into assuming or rejecting a contract. *See Id.* at 1216 (to rush the debtor into what may be an improvident decision "to assume or reject an executory contract does not further the purposes of the reorganization provisions."). The reason for the reluctance is that the "interests of the creditors collectively and the bankruptcy estate as a whole will not yield easily to the convenience or advantage of one creditor out of many." *See In re Public Service Co. of New Hampshire*, 884 F.2d 11, 14-15 (1st Cir.1989), *Wheeling-Pittsburgh*, 54 B.R. at 388, *see also In re Physician Health Corporation*, 262 B.R. 290 (Bankr.D.Del.2001) (denying motion compelling assumption or rejection of executory contract when bankruptcy case was only five months old) and *In re St. Mary Hosp.*, 89 B.R. 503, 513-14 (Bankr.E.D.Pa.1988) ("the interests of the Debtor here in denying a precipitous assumption or rejection appear to us much greater than the interests of HHS in forcing a prompt resolution.").

[9] In this case, CIT continues to incur additional risk and economic liability without receiving the performance from Kmart agreed upon under the License Agreement. CIT is being harmed because of Kmart's failure to make the April 2002 payment and CIT's fronting of the maintenance fee.

On the other hand, there is nothing to indicate that Kmart's reorganization plans are dependent upon Kmart making a decision on the License Agreement prior to plan confirmation. *Compare Resource Tech.*, 254 B.R. at 227 (Court did not abuse its discretion in shortening deadline to assume or reject, where it was demonstrated that the contract at issue was "the cornerstone of the proposed reorganization" and interested parties were entitled to know whether the contract would be assumed, because if it was not, the parties would have to "pursue a different course of conduct in [the] case.")

The Court finds that Kmart will be harmed if it is forced to decide now whether to assume or reject the License Agreement. Forcing Kmart will prematurely box Kmart into focusing its attention and resources on one contract over a multitude of contracts. Moreover, as a general proposition it is unrealistic and imprudent to require Kmart to make decisions on executory contracts in a vacuum on a piecemeal basis. This is particularly true in a bankruptcy case of this magnitude and complexity that has only reached its first anniversary. In summary, CIT has not convinced the Court that cause exists to shorten the time for Kmart to determine whether the assumption or rejection of the License Agreement would be beneficial to an effective reorganization. *See Whitcomb,* 715 F.2d at 379. Accordingly, the Court denies the request of CIT to compel an assumption or rejection of the License Agreement.

C. *CIT's Request for an Administrative Claim*

CIT also requests that the Court allow an administrative claim in favor of CIT pursuant to section 503(b) of the Bankruptcy Code, which would result in the claim being entitled to first priority distribution under section 507 of the Bankruptcy Code.

***621** Section 503(b) of the Bankruptcy Code provides, in relevant part:

> (b) After notice and a hearing, there shall be allowed administrative expenses, ... including--
> (1)(A) the actual, necessary costs and expenses of preserving the estate, including wages, salaries, or commissions for services rendered after the commencement of the case.

11 U.S.C. § 503(b)(1)(A).

[10] Administrative priority claims are to be strictly construed because of the presumption that the debtor has limited resources to equally distribute among creditors. *See In re Amarex,* 853 F.2d 1526, 1530 (10th Cir.1988) and *In re Mammoth Mart, Inc.,* 536 F.2d 950, 953 (1st Cir.1976) ("To give priority to a claimant not clearly entitled thereto is inconsistent with the policy of equality of distribution; it dilutes the value of the priority for those creditors Congress intended to prefer.")

[11][12] The policy underlying priority treatment for administrative expenses is to encourage creditors to deal with the debtor in possession and thereby support the reorganization effort. *In the Matter of Jartran, Inc.,* 732 F.2d 584, 587 (7th Cir.1984). To that end, the subject debt will be afforded priority under section 503 of the Bankruptcy Code if it both (a) arises out of a transaction with the debtor in possession; and (b) is beneficial to the operation of the debtor in possession's business. *Id.*

[13][14][15][16] The claimant has the burden of proving entitlement to an administrative expense by preponderance of the evidence. *In re Party Masters, Inc.,* 1992 WL 106259 (Bankr.N.D.Ill. April 23, 1992). The claimant must demonstrate that the benefit is more than a speculative or potential benefit. *In re Paula Lickman,* 273 B.R. 691, 704 (Bankr.M.D.Fla.2002). It is not enough that the debtor remains in possession of the subject matter of the agreement. *Kinnan & Kinnan Partnership v. Agristor Leasing,* 116 B.R. 162, 166 (D.Neb.1990). Rather, the benefit must be "an actual, concrete benefit for the estate before a claim is allowable ... as an administrative expense." *Id.* (*quoting In re Subscription Television of Greater Atlanta,* 789 F.2d at 1532). Finally, the claimant must establish that the estate was benefitted as a whole. *In re Pettibone Corp.,* 90 B.R. 918, 933 (Bankr.N.D.Ill.1988).

[17][18] Once the claimant establishes that an actual benefit was conferred upon the estate, the court has discretion to determine the reasonable value of the administrative claim. *In re Englewood Community Hosp. Corp.,* 117 B.R. 352, 358 (Bankr.N.D.Ill.1990). The Supreme Court, in *dicta,* has stated that if the debtor in possession elects to continue to receive benefits from the other party to an executory contract pending a decision to reject or assume the contract, the debtor in possession is obligated to pay for the reasonable value of those services, which depending on the circumstances of a particular contract may be what is specified in the contract. *N.L.R.B. v. Bildisco & Bildisco,* 465 U.S. 513, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984)(*citing Philadelphia Co. v. Dipple,* 312 U.S. 168, 312 U.S. 656, 61 S.Ct. 538, 85 L.Ed. 651 (1941)). While the contract rate is an appropriate method for the court to arrive at the amount of the administrative claim, other factors may be pertinent as well, such as the actual amount of services provided to the debtor in possession. *See* William L. Norton, Jr., 4 Norton Bankruptcy Law and Practice 2d ed. § 42.20 (2002).

[19] In this matter, CIT has failed to meet its burden to establish a clear entitlement ***622** to an administrative claim. As stated earlier, the motion was scheduled for an evidentiary hearing on August 29, 2002. CIT only introduced the License Agreement into evidence in support of its request for allowance of an administrative expense. CIT did not introduce evidence which would demonstrate any concrete, actual postpetition benefits conferred upon the estate as a whole.

[20] CIT's counsel stated at the hearing in response the Court's question as to whether service,

maintenance and upgrades were being provided to Kmart, "Yes, Computer Associates is a vendor of ours who is providing that service. So there is. I mean, I can't tell you as I sit here today how many times Kmart has called Computer Associates on a technical question, how many times they have called and said: 'Let's do the upgrades,' *et cetera, et cetera.*" (Transcript of August 29, 2002 hearing, page 83). Additionally, CIT's counsel indicated that he would submit an affidavit from an individual at Computer Associates to the effect that services were given to Kmart. (*Id.* at page 97). To date, the Court is not in receipt of such an affidavit nor does a review of the voluminous docket in the case reveal any such affidavit being filed. Given the scarcity of the evidence, the only way the Court could conclude that the estate as a whole realized or is realizing a tangible benefit would be to engage in speculation. The allowance of an administrative claim should not be an exercise in conjecture. Therefore, the Court denies CIT's request for allowance of an administrative expense claim.

III.
CONCLUSION

For the reasons stated herein, the Court denies the motion of CIT Financial USA, Inc. for the entry of an order pursuant to section 365(d)(2) of the Bankruptcy Code compelling Kmart Corporation to assume or reject a certain license agreement and for an administrative claim pursuant to section 503(b) of the Bankruptcy Code.

290 B.R. 614

END OF DOCUMENT

Westlaw.

Date of Printing: OCT 28,2004

KEYCITE

H In re Kmart Corp., **290 B.R. 614 (Bankr.N.D.Ill., Jan 23, 2003) (NO. 02 B 02474)**

History

Direct History

=> 1 **In re Kmart Corp.,** 290 B.R. 614 (Bankr.N.D.Ill. Jan 23, 2003) (NO. 02 B 02474)

Related References (U.S.A.)

H 2 Coriano Hernandez v. KMart Corp., 2001 JTS 100, 2001TSPR97 (P.R. Jun 29, 2001) (NO. CC-2001-291)

H 3 Coriano Hernandez v. K-Mart Corporation, 2002 WL 376900 (TCA Feb 21, 2002) (NO. KLAN0100067, EDP1999-0062)

H 4 In re Kmart Corp., 286 B.R. 345, 40 Bankr.Ct.Dec. 152 (Bankr.N.D.Ill. Sep 25, 2002) (NO. 02 B 2474)

H 5 In re Kmart Corp., 290 B.R. 601 (Bankr.N.D.Ill. Oct 23, 2002) (NO. 02 B 02474)

H 6 In re Kmart Corp., 285 B.R. 679 (Bankr.N.D.Ill. Nov 15, 2002) (NO. 02 B 02474, ADV. 02 A 01584)

H 7 In re Kmart Corp., 293 B.R. 905, 41 Bankr.Ct.Dec. 123 (Bankr.N.D.Ill. May 28, 2003) (NO. 02 B 02474)

H 8 In re Kmart Corp., 297 B.R. 525, 52 UCC Rep.Serv.2d 222 (N.D.Ill. Aug 27, 2003) (NO. 02B02474, 02A00814, 03C0098)

H 9 Expeditors Intern. of Washington, Inc. v. Kmart Corp., 2004 WL 868390 (N.D.Ill. Apr 22, 2004) (NO. 03 C 4608)

Citing References

Positive Cases (U.S.A.)

★★ **Cited**

H 10 In re Adelphia Communications Corp., 307 B.R. 404, 428, 2004 Copr.L.Dec. P 28,773, 28773, 42 Bankr.Ct.Dec. 236, 236 (Bankr.S.D.N.Y. Mar 30, 2004) (NO. 02-41729-REG, 03-6967 (REG)) **HN: 4,5,6 (B.R.)**

Secondary Sources (U.S.A.)

C 11 What are "administrative expenses' under sec. 503(b) of Bankruptcy Code (11 U.S.C.A. sec. 503(b)) granted first priority for payment pursuant to sec. 507(a)(1) of Code (11 U.S.C.A. sec. 507(a)(1)), 140 A.L.R. Fed. 1, § 8 (1998) **HN: 15,19 (B.R.)**

H 12 Time limits on assumption or rejection of executory contract or lease under sec. 365 of Bankruptcy Code (11 U.S.C.A. sec. 365), 137 A.L.R. Fed. 137, § 16 (1997) **HN: 2 (B.R.)**

13 Williston on Contracts s 78:38, EXECUTORY CONTRACTS, GENERALLY (2004) **HN: 2,3 (B.R.)**

14 Williston on Contracts s 78:39, DETERMINATION OF WHETHER CONTRACT IS EXECUTORY (2004) **HN: 2,3 (B.R.)**

15 062404 American Bankruptcy Institute 207, UPDATE ON EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY PROCEEDINGS (2004) **HN: 5,6 (B.R.)**

16 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1116+ (2004) **HN: 6,8,9 (B.R.)**

17 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 581 (2003) **HN: 6 (B.R.)**

18 BANKRUPTCY ISSUES IN NEGOTIATING ECOMMERCE TRANSACTIONS, 755 PLI/Pat 763, 770+ (2003) **HN: 5,6 (B.R.)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Briefs

19 In re: Bart H. DYE, Bart Harrison DYE, Appellant, v. UNITED STATES OF AMERICA, Farm Services Agency (FSA), Appellee., 2003 WL 22721363, *22721363+ (Appellate Brief) (7th Cir. Jul 2003) **Reply Brief of the Debtor-Appellant, Bart Dye** (NO. 03-2043) ★★ **HN: 6 (B.R.)**

Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

20 BONNEVILLE POWER ADMINISTRATION, Appellant, v. MIRANT CORPORATION, Appellee, In Re: Mirant Corporation, et al., Debtors., 2004 WL 2233160, *2233160+ (Trial Motion, Memorandum and Affidavit) (N.D.Tex. Mar 03, 2004) **Brief of Appellant Bonneville Power Administration** (NO. 404-CV-34-Y) ★★

H

United States Bankruptcy Court,
S.D. Georgia,
Savannah Division.

In the matter of The TRAVELOT COMPANY,
Debtor.

No. 02-40020.

June 14, 2002.

Chapter 11 debtor sought determination that contract was assumable, and other party objected and moved to dismiss case as having been filed in bad faith. The Bankruptcy Court, Lamar W. Davis, Jr., J., held that: (1) executory contract that authorized debtor to provide travel services at news organization's website, while granting news organization a license to use debtor's trademark, and while requiring debtor's travel content to include news organization's navigation and branding, did not grant debtor a non-exclusive license to use news organization's mark, so as to preclude assumption of debtor's contract as one which could not be assigned without news organization's consent; and (2) Chapter 11 petition filed by recently created debtor with only one full-time employee, a total of $60.00 in its bank account, and only two creditors would not be dismissed as "bad faith" filing.

Contract held assumable; motion to dismiss denied.

West Headnotes

[1] **Bankruptcy 3102.1**
51k3102.1 Most Cited Cases

[1] **Bankruptcy 3104**
51k3104 Most Cited Cases

Generally, debtor in possession may, subject to court's approval, assume any executory contract from itself as debtor. Bankr.Code, 11 U.S.C.A. § 365(a).

[2] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases

Debtor-in-possession is barred from assuming executory contract if applicable law would preclude assignment of contract to hypothetical third party. Bankr.Code, 11 U.S.C.A. § 365(c).

[3] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases

Term "applicable law," as used in bankruptcy statute that prevents debtor from assuming executory contract if "applicable law" would preclude assignment of that contract to a hypothetical third party, is broad enough to include intellectual property law governing assignment of licenses. Bankr.Code, 11 U.S.C.A. § 365(c).

[4] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases

For federal trademark law to prevent assumption of Chapter 11 debtor's executory contract to provide travel services at news organization's website, contract had to be construed as containing non-exclusive trademark license. Bankr.Code, 11 U.S.C.A. § 365(c).

[5] **Trade Regulation 93**
382k93 Most Cited Cases

Under federal trade mark law, grant of non-exclusive license is "assignment in gross," i.e., one that is personal to assignee and not freely assignable to third party.

[6] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases

Executory contract authorizing Chapter 11 debtor to provide travel services at news organization's website, while granting news organization a license to use debtor's trademark, and while requiring debtor's travel content to include news organization's navigation and branding, did not grant debtor a non-exclusive license to use news organization's mark, so as to preclude assumption of debtor's contract as one which could not be assigned to hypothetical third party without news organization's consent. Bankr.Code, 11 U.S.C.A. § 365(c).

[7] **Bankruptcy 3502.1**
51k3502.1 Most Cited Cases

"Cause" for dismissing Chapter 11 case includes debtor's lack of good faith in filing. Bankr.Code, 11 U.S.C.A. § 1112(b).

[8] **Bankruptcy 3502.15**
51k3502.15 Most Cited Cases

[8] **Bankruptcy 3502.20**
51k3502.20 Most Cited Cases

[8] **Bankruptcy 3502.25**
51k3502.25 Most Cited Cases

Indicative of debtor's lack of good faith in filing for Chapter 11 relief, and thus providing possible basis for dismissing case, is debtor's intent to abuse judicial process and purposes of reorganization provisions, particularly when there is no realistic possibility of effective reorganization, or when it is evident that debtor seeks merely to delay or frustrate legitimate efforts of secured creditors to enforce their rights. Bankr.Code, 11 U.S.C.A. § 1112(b).

[9] **Bankruptcy 3502.1**
51k3502.1 Most Cited Cases
No factor is dispositive in deciding whether Chapter 11 case should be dismissed for debtor's lack of good faith in filing for bankruptcy relief; rather, factors are available to bankruptcy courts for whatever analytical value they offer within framework of particular case in assessing the totality of circumstances. Bankr.Code, 11 U.S.C.A. § 1112(b).

[10] **Bankruptcy 3502.10**
51k3502.10 Most Cited Cases
Chapter 11 petition filed by recently created debtor with only one full-time employee, a total of $60.00 in its bank account, and only two creditors would not be dismissed as "bad faith" filing, where debtor's business was "established," at least in sense that substantial money, effort, and time had been expended, and important agreement had been executed, in preparation to its entry into travel field, where filing was necessitated by imminent termination of contract that would have destroyed debtor's prospects as viable entity, and where petition, though filed at the last minute, was clearly not bad faith attempt to delay or frustrate creditor in enforcing its rights, but attempt by debtor to save its business. Bankr.Code, 11 U.S.C.A. § 1112(b).

[11] **Bankruptcy 3114**
51k3114 Most Cited Cases
Debtor-in-possession could assume executory contract to provide travel services at news organization's website only if it provided adequate assurance of prompt cure of its past defaults and of its future performance, issues that would be addressed when and if debtor filed motion to assume. Bankr.Code, 11 U.S.C.A. § 365(b)(1).

***449** C. James McCallar, Jr., Savannah, GA, for Debtor.

Kathleen Horne, Savannah, GA, for Defendant/Respondent.

MEMORANDUM AND ORDER ON ASSUMABILITY OF EXECUTORY CONTRACT AND MOTION TO DISMISS FOR FAILURE TO FILE IN GOOD FAITH

LAMAR W. DAVIS, Jr., Bankruptcy Judge.

The Travelot Company ("Travelot") filed its Chapter 11 case on January 2, 2002, approximately 30 minutes before Respondent Turner Broadcasting Sales, Inc., agent for Cable News Network ("CNN"), sent a termination notice advising Travelot that its contractual rights under a certain agreement between the parties was terminated effective that date. On February 8, 2002, Travelot, as the Debtor-in-Possession ("the DIP"), filed an Emergency Motion to Assume Executory Contract and Cure Default. CNN filed a response asserting that because of the subject matter of the parties' agreement, the Contract, while executory, is, as a matter of law, not subject to assumption. The DIP then modified its motion, seeking the Court's determination that the Contract was assumable in accordance with 11 U.S.C. § 365(c), while recognizing that if the Contract is assumable, the DIP must file a motion seeking authority to assume and must satisfy the other provisions of § 365 concerning cure and assurance of future performance. The matter was tried before the Court on February 27 and 28, 2002.

This Court has jurisdiction pursuant to 28 U.S.C. § 157(a) and (b)(1) over this core proceeding. Pursuant to Federal Rule of Bankruptcy Procedure 7052(a), I make the ***450** following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

Travelot is a closely held corporation which envisioned and developed a plan for providing enhanced web-based travel bookings which it believes would offer consumers a level of service substantially better than that currently offered by on-line booking agencies. Current internet-based available choices for booking of reservations for airlines, hotels, car rental agencies, and the like, provide instant information about availability and cost on the worldwideweb. In the event that a consumer does not have pre-existing knowledge of the area to which s/he intends to travel, Travelot realized that the consumer currently cannot find qualitative information about travel accommodations or destination-specific information about tours, local attractions, and the like. This information has traditionally been obtained through a travel agent located in the consumer's hometown, whose ability to assist has been hampered in many cases by the lack of detailed, up-to-date, first-hand knowledge of the caliber of the facilities for which the consumers are searching.

The Travelot Business Concept

The concept developed by Travelot involves coupling the benefits of on-line bookings with the customized services of a pre-screened, high quality travel agent in the destination locality so that a given traveler could obtain not only availability and cost information but also qualitative comments about various facilities and attractions. Through continuing e-mail contacts, that traveler would then be able to develop a customized travel itinerary. Travelot conceived of a business model whereby it would link to a pre-existing high traffic website for attracting customers, advertise the availability of its services through broadcast and internet advertising, and obtain its revenue through commissions paid to Travelot by travel agents in the destination localities who arrange the bookings. The agents would, in turn, derive their commissions from the providers of hotel, auto and other requested services. Travelot would pre-approve and register travel agents to participate and provide the linkage between the pre-existing high traffic website and Travelot's network of travel agents, through the services of a technology partner.

The Negotiations and Agreement with CNN

Travelot presented its concept to officials at CNN, who expressed interest in pursuing a business arrangement whereby CNN would provide Travelot's proposed travel service on the CNN.com travel webpage. Subsequently, Travelot and the appropriate CNN officials engaged in a lengthy period of contract negotiations.

Travelot and CNN agreed that key to the success of the proposed venture was Travelot's obtaining a cooperative agreement with a technology partner who could provide the technical expertise in order to connect the CNN.com visitor with the provider and ultimately with the local travel agent. Within the industry, such technology services can be provided by only a few organizations known as "global distribution systems" ("GDS"). One GDS which operates in the travel arena is World Span. CNN was familiar with World Span and its reputation and approved in concept the notion of Travelot becoming a contracting party with CNN with the understanding that World Span would be the technology partner. World Span in fact was a named party to the agreement in one of the preliminary drafts, but ultimately, for reasons expressed by World Span, its name was removed as the named technology provider. ***451** Even so, the parties expected World Span to be the GDS to be utilized by Travelot.

As the result of lengthy negotiations, a contract for launching phase one of a two-phased plan was dated September 25, 2001, and transmitted on that date to Travelot's representative, Robert Isaacson. Travelot executed the agreement and returned it to CNN for execution. On or after October 1, 2001, the contract was signed by Larry Goodman, President of Turner Broadcasting Sales, Inc.

The Contract is comprised of three parts: (1) a letter signed by the presidents of Travelot and CNN, Travelot's Ex. B, at 1-2; (2) a "Term Sheet," *id.* at 3-13; and (3) a "Terms and Conditions" statement, *id.* at 34-41. The Contract includes terms addressing ownership and use of Travelot's and CNN's intellectual property, providing for implementation of the two phases anticipated in the venture, setting up certain controls and conditions for giving CNN testing and approval rights over the content of Travelot's "Travel Content" to be placed on the CNN website, and establishing a payment schedule.

The Contract requires Travelot to purchase $6 million in advertising from CNN over a three-year period. Travelot would be provided with 3.8 billion "impressions," which are "popup" ads that appear on the CNN website when a user is online. Travelot values these impressions at $33 million in annual advertising value.

The Contract required Travelot to make a $750,000.00 payment to CNN in three installments prior to implementation of the first phase, *see* Term Sheet ¶ 8.1, followed by $5.25 million in cash over three years, *id.* ¶ 8.2, in return for which CNN assured Travelot that it would receive advertising worth $6 million. The first installment was a payment of $250,000.00 due within thirty days after the agreement was executed. Additional payments of $250,000.00 each were due on or before December 15, 2001, and on or before January 15, 2002. The three payments were described in the Contract as "partial consideration for CNN's integration of the travel content on the CNN sites and the attendant services offered on the CNN sites," Term Sheet ¶ 8.1. Apparently, for legal and other reasons known only to CNN, it could not or did not wish to book revenues attributable to pre-paid advertising, but it did wish to begin a revenue stream flowing. Accordingly, the $750,000 payment was designated as a "licensing fee." *See* CNN's Ex. 17 (Aaron Dalin's June 11, 2001, email to Isaacson).

CNN's ultimate obligation to afford Travelot access to its website was dependent upon CNN's approval of Travelot's demonstration that the on-line travel booking contemplated in phase one would function in a manner that met the quality standards which CNN expected. The targeted startup date was approximately 60 days after the execution of the Contract, subject to CNN's final approval of the content and functionality of the Travelot product.

The Potential Breach Issues

In the Contract, CNN reserved the right to pre-approve all of Travelot's "Travel Content" prior to it being inserted on the CNN site and was obligated to provide Travelot a media plan by November 1, 2001, together with approval of the Travelot's proposal as to the mock up, or sample, web pages that illustrated how the Travel Content would appear on the CNN site, *see* Term Sheet ¶ 8.2. Travelot agreed that its Travel Content would have certain CNN navigation and branding and an overall look and feel reasonably agreeable to both parties. Term Sheet ¶ 3.1. Travelot projected that its revenue from phase one would total approximately $2 million per year and would be achieved at ***452** insignificant or no cost because the GDS would bear most of the operating costs.

CNN failed to provide a detailed media plan to Travelot by November 1, 2001. CNN also failed to provide approval or feedback with respect to the mockups which Travelot sent to CNN for approval. TBS's Vice-President for Business Development testified that CNN did not provide a specific media plan on or before November 1 because Travelot did not appear to be pressuring CNN to meet that deadline and because there were at that time other more pressing matters facing the parties.

One of the more pressing matters involved final approval of a GDS. The Contract as executed did not limit Travelot's selection of a technology partner. Prior to its execution of the Contract, Travelot, in conformity with its obligation to ensure that the on-line booking system would operate satisfactorily to the consumer, determined, in its continuing due diligence work with World Span, that the "functionality" of the World Span product as technology partner was not "robust enough," in the words of Robert Isaacson, to serve the needs of Travelot and CNN. Isaacson communicated to CNN officials his concerns about whether CNN would ultimately approve what World Span had to offer and suggested that Travelot might look for an alternative provider of GDS services. CNN agreed that it was appropriate for Travelot to look for alternative out-sourcing of this portion of the Contract.

Subsequently, Travelot entered into discussions with Amadeus, another GDS provider. Amadeus, which was apparently interested in signing on as a technology provider under the Contract, was brought into discussions with CNN. Ultimately, Amadeus suggested that in order to make a commitment to the parties, it would require alterations of the Contract. Those proposed alterations were unacceptable to CNN. Isaacson and CNN continued a dialogue about the manner in which a technology partner could be found, and that discussion was ongoing at the time Travelot's first and second $250,000.00 payments became due. As a result, Travelot did not make the payments. CNN ultimately declared the Contract in default and sent notice of termination on December 18, 2001, Travelot's Ex. 7. After the notice had been mailed but before the "cure period" expired, the third $250,000.00 payment became due. Shortly before the cure period expired, Travelot filed for Chapter 11 protection.

Travelot acknowledges that its sole purpose in filing was to preserve its contract rights with CNN by invoking protection of the § 362 automatic stay. As a result of Travelot's failure to make the license fee payments, CNN had to restructure its travel editorial staff. Further, the loss of revenue has forced CNN to redirect funds internally in order to keep the essential website functions up and running.

CNN's witnesses presented unsurprising and uncontradicted testimony that "CNN" is a mark recognized worldwide, and that CNN zealously and aggressively works to ensure that its mark is not appropriated unlawfully by non-licensed users or damaged or denigrated in any way by licensed users of its product. Farah Carter, in-house counsel to Turner Broadcasting Sales, Inc., testified that the CNN brand or endorsement applies to all content contained on CNN's page which is not clearly an advertisement and that allowing Travelot to place content on the CNN pages amounts to an endorsement by CNN.

David Payne, a senior vice president, testified that prior to the execution of the Contract, he was skeptical of Travelot's ability to perform, but that he received assurances that World Span to provide the ***453** technical support contemplated by the proposal. When he later learned that World Span was not in the picture, he foresaw immediate and irreparable harm to CNN. Because the customer remains at all times within the "CNN template/brand-name" in doing the on-line booking, and since the link on the CNN webpage is not to a Travelot.com webpage, he believed that Travelot was, in effect, seeking what amounts to a CNN endorsement of the travel content which Travelot would place on the CNN webpage. As a result, he believed that CNN will suffer if the on-line booking functionality does not work in a manner satisfactory to the consumer. He admitted that many of his concerns are the same now as they were prior to the execution of the Contract; yet he gave final approval to his company's execution of the Contract.

Ms. Carter testified that CNN would not have entered into this contract without the participation of World Span; yet she admits that CNN agreed to remove World Span as a named party to the Contract. Carter concedes that CNN had the right to review all content and pre-approve it as being in conformity with CNN guidelines. CNN also had the right to control the content of any advertisements placed on its webpage, although the standards for advertising and non-advertising content differ and are managed by different departments within CNN.

The Debtor in Possession

Travelot filed its bankruptcy case on the fifteenth day after CNN placed Travelot on notice of default. At that time, Travelot had only $60.00 in its bank account and acknowledged a debt to CNN of $750,000.00. Mr. Isaacson, Travelot's principal, testified that he had access to $1 million in venture capital which could be raised within a reasonable time, but that he had no cash immediately available to invest in the company. Isaacson is Travelot's only full time employee, and he currently is not paid a salary.

Travelot has invested substantial cash and sweat equity into this project. Uncontradicted evidence shows that Travelot, through private venture capital, raised and expended more than one-half million dollars in bringing the project along to its current point. Travelot's concept of on-line travel booking plus contact with high quality destination travel agents is, Travelot believes, unique in the travel industry. The responsive capability and independent recommendations from a destination agent are, it believes, a far more attractive and higher quality product than is currently offered by any entity. Because of the high cost of infrastructure, Travelot cannot implement its system without the active participation of a GDS which can provide electronic access to reservation computers of airlines, hotels, and automobile and other providers worldwide.

CNN urges the Court to dismiss Travelot's case, and asserts three bases for dismissal: (1) § 365(c) prohibits the DIP from assuming the Contract because Travelot is a licensee of trademarks from CNN; (2) cause for dismissal exists under § 1112(b) because Travelot filed in bad faith; and (3) Travelot defaulted under the Contract and the DIP cannot cure all defaults as required by § 365(b).

CONCLUSIONS OF LAW

A. 11 U.S.C. § 365(c): Assumability of the Contract

Pursuant to the findings and conclusions that follow, I conclude that the Contract is assumable by Travelot as Debtor in Possession.

*1. The Contract is an executory contract within the ambit of § 365(c) which may be assumed unless applicable law *454 excuses its assumption.* [FN1]

FN1. Although at the outset the question was raised whether Travelot's rights were governed by § 108 or § 365, the parties ultimately recognized, and the Court agrees, that § 365 controls.

[1] Generally, pursuant to authority granted in the Bankruptcy Code, which provides that a trustee "may assume or reject any executory contract ... of the debtor," 11 U.S.C. § 365(a), a debtor in possession may, subject to the court's approval, "assume any executory contract from itself as debtor." *City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners, L.P.)*, 27 F.3d 534, 537 (11th Cir.1994) (noting that debtors in possession generally have rights, powers, and duties of trustees). This general rule, however, is subject to certain restrictions and exclusions:

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

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

(B) such party does not consent to such assumption or assignment ....

§ 365(c)(1). Here, the agreement between CNN and Travelot ("the Contract") is an executory contract, in that virtually all of each party's obligations under the Contract are as yet unperformed.

[2] The plain terms of § 365(c) bar a debtor in possession from assuming an executory contract if applicable law would bar assignment to a hypothetical third party. *See James Cable,* 27 F.3d at 537 (applying hypothetical-question test in affirming lower court, which reached same result applying actual test); *accord, Perlman v. Catapult Entm't, Inc.* (*In re Catapult Entm't, Inc.*), 165 F.3d 747, 749-50 (9th Cir.1999) (discussing "actual" and "hypothetical" tests in applying § 365(c) and concluding: "[W]e are bound by the plain terms of the statute and join the Third and Eleventh Circuits in adopting the 'hypothetical test.' "). Here, the question is whether applicable law excuses CNN, which has not consented to assumption of the Contract, from accepting performance from or rendering performance to an entity other than Travelot or the DIP, without regard to whether such an assignment is in fact contemplated.

2. Trademark law is "applicable law" under § 365(c).

[3] "Applicable law" sufficient under § 365(c) to excuse a party to a contract from "accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession" includes intellectual property law governing the assignment of licenses. *See, e.g., Catapult Entm't,* 165 F.3d at 750 (addressing patent license); *In re Golden Books Family Entm't, Inc.,* 269 B.R. 300, 308-10 (Bankr.D.Del.2001) (addressing copyright license). Federal trademark law governs CNN's rights in its "CNN" trade and service marks. *See* Travelot's Ex. F.; Lanham Trade-Mark Act, 15 U.S.C. § 1127 (including within scope of protected "marks": trademarks (defined as any registered "word, name, symbol, or device or any combination thereof" used in commerce "to identify and distinguish his or her goods ... from those ... sold by others and to indicate the source of the goods") and service marks (defined as any ***455** registered "word, name, symbol, or device, or any combination thereof" intended to be used in commerce "to identify and distinguish the services of one person ... from the services of others and to indicate the source of the services")). A trademark registrant may successfully sue an infringer upon a showing that the infringer, without authorization from the registrant, used the mark in commerce and that the unauthorized use caused or was likely to cause confusion or deception. *Davidoff & Cie, S.A. v. PLD Int'l Corp.,* 263 F.3d 1297, 1300-01 (11th Cir.2001) (construing Lanham Trade-Mark Act). With authorization, however, a would-be infringer may use another's registered trademark in commerce.

A trademark license provides such authorization, in that it is a grant of permission to use the grantor's mark. *Bunn-O-Matic Corp. v. Bunn Coffee Serv.,* 88 F.Supp.2d 914, 920-21 (C.D.Ill.2000); *Goldberg v. Cuzcatlan Beverages, Inc. (In re Impact Distribs., Inc.)* 260 B.R. 48, 54 (Bankr.S.D.Fla.2001); *cf. also De Forest Radio Tel. & Tel. Co. v. United States,* 273 U.S. 236, 242, 47 S.Ct. 366, 368, 71 L.Ed. 625 (1927) ("[A] license ... has been described as a mere waiver of the right to sue by the [owner of a patent].").

3. For trademark law to preclude assumability of the Travelot-CNN Contract, the Contract must be construed as containing a non-exclusive trademark license.

[4][5] The grant of a non-exclusive license is "an assignment in gross," that is, one personal to the assignee and thus not freely assignable to a third party. *E.g., Tap Publ'ns, Inc. v. Chinese Yellow Pages (New York), Inc.,* 925 F.Supp. 212, 218 (S.D.N.Y.1996); *In re Golden Books,* 269 B.R. at 310 (addressing patent license). Accordingly, a licensor need not accept performance from or render performance to an entity other than the licensee.

[6] CNN, as a federal trademark registrant, is entitled to nationwide trademark protection. *See* 15 U.S.C. § 1072. That protection includes application of law which precludes unauthorized assignment of CNN's trademark license. *See* discussion *supra.* If the Contract provided for Travelot to be the recipient of a trademark license, then applicable trademark law precludes assignment of that trademark. The issue is whether the Contract provided such a license to Travelot.

CNN has asserted, and it appears well settled, that for Travelot to be the recipient of a license to use CNN's trademark, there must have been (1) a grant of CNN's permission to use its mark and (2) retention of quality control by CNN over Travelot's use of the mark in the Contract. *See Bunn-O-Matic,* 88 F.Supp.2d at 920-21 (stating that grant of permission to use grantor's trademark, retention of ownership, and grantor's obligating itself to maintain quality standards are "the essential terms of a trademark license"). CNN clearly retained control over its marks. Therefore, the remaining issue is whether the Contract effectively granted the license.

4. The contract provisions neither expressly nor impliedly granted Travelot a trademark license in CNN's marks.

For a trademark license to exist in the first place, there must be evidence that the trademark owner intended to grant a license in its trademark. In this case, the question is whether such a grant is contained within a detailed written agreement executed by the parties after lengthy discussions and negotiations. I conclude that the provisions in the Contract to which CNN points, which are discussed below, fall woefully short of expressly granting a trademark license to Travelot.

***456** One provision cited by CNN, styled "Company Logo," [FN2] recites in its entirety:

FN2. "Company" refers to Travelot.

Company [Travelot] hereby grants CNN a limited non-exclusive license to use the Company logo and any other Company marks, logotypes, or brand identifiers as Company may provide to CNN from time to time (collectively, the "Company Logo") during the Term of this Agreement. Such license is granted solely in connection with CNN's rights and obligations under this Agreement and, in particular, for the purpose of permitting CNN to display the Company Logo in the travel sections of the CNN Sites and on any other pages of the CNN Sites or any affiliated websites from which the Travel Content may be accessed. CNN will also be allowed to use and reproduce the Company Logo for the promotion of the CNN Sites, the Travel Section and the Travel Content, although to the extent such promotions involve media placements outside of the CNN Sites, then CNN will only be allowed to make such uses and reproductions as Company may approve in writing in advance of such promotion or promotions. Company represents and warrants that it has all rights to its respective Logo and the CNN's use thereof (as expressly authorized hereunder and as provided by Company) will not infringe the rights of any third party. Company agrees that it will not in any way suggest or imply by the written authorized use of CNN Site's marks, logotypes or brand identifiers (collectively, the 'CNN Logo') that Company's website or any of its products or services are affiliated with, endorsed or sponsored by or created in association with CNN except to the extent of the limited relationship established under this Agreement. Each party acknowledges that the other party owns all right, title and interest in and to its marks, logos or brand identifiers (each, a "Logo") and retains all rights with respect hereto. Neither party will do anything inconsistent with such ownership and all uses of a Logo will inure to the benefit of an [sic] on behalf of the respective owner of the Logo. Each party further agrees that it will not attack or assist other in attacking the title of the Logo of the other party.

Term Sheet ¶ 3.3.

Although this paragraph grants CNN, in explicit detail, a non-exclusive license in Travelot's marks, it does not grant Travelot a license in CNN's marks. Rather, Travelot simply agrees not to suggest or imply that its "authorized use" of CNN's marks extends beyond the "the extent of the limited relationship established under this Agreement." The paragraph thus alludes to, but does not "establish," any "authorized use" of CNN's marks. At most, it gives rise to an implication that other terms in the Contract may authorize certain uses of CNN's marks and establish the terms of the "limited relationship" between the parties, thus not foreclosing the possibility that another Contract provision grants a trademark license to Travelot.

A second provision cited by CNN, entitled "Branding," provides in its entirety:

CNN agrees to provide "Powered by Travelot" graphical branding for hotel, flight, car and "Quick Search" booking engine functionality and for the "Destination Advisor" and "Activities Advisor" service offerings as set forth in the mock-ups attached as *Schedule 1.* The mock-ups of the size and placement of such branding are also set forth in *Schedule 1.*

Term Sheet ¶ 4.2. This paragraph clearly does not contain a grant of a trademark ***457** license to Travelot. CNN's agreement to provide "Powered by Travelot" branding on the CNN website was simply an agreement to use the Travelot name on the CNN website.

CNN also points to a provision entitled "Incorporation Within CNN Website," which provides in its entirety: "CNN retains the right to use thumbnails, summaries, descriptions, and other ways of promoting and integrating Company Travel Content within other areas of CNN," Term Sheet ¶

4.4. Here again, CNN receives contractual rights to Travelot's intellectual property, but Travelot receives no rights to CNN's property.

Lastly, CNN points to provisions entitled "Ownership" and "Trademarks," which state in their entirety:

> 1. *Ownership.* General [sic] all intellectual and rights of a party hereby *expressly are reserved to and shall remain vested in that party as otherwise expressly granted by this Agreement.* Company acknowledges and agrees that CNN owns the CNN Sites, the respective logos and all other trademarks and/or service marks related to the CNN Sites (the "Logos") and covenants and agrees that *it will not use the Logos without the prior written consent of CNN.* All rights in the Logos and the goodwill associated therewith will remain at all times the property of CNN. CNN may withdraw consent for Company's use of the Logos immediately if Company breaches any term of the Agreement or condition contained herein or if CNN, in its reasonable discretion, deems such termination necessary or advisable.
>
> 7. *Trademarks.* Each party hereby covenants and agrees that the trademarks, trade names, service marks, copyrights and other proprietary rights owned by the other party are and shall remain the sole and exclusive property of that party and neither party shall hold itself out as having any ownership rights with respect to or, *except as specifically granted hereunder,* in any and exclusively to the benefit of the owner thereof. Such property of the other party shall only be used *as and if expressly provided in this Agreement.*

Terms and Conditions ¶ ¶ 1, 7 (emphases added).

Neither of the above provisions grants Travelot a license to use CNN's logos. Travelot receives nothing more than the virtually meaningless privilege to request permission to use CNN's logos: "Company [Travelot] acknowledges and agrees that ... it will not use the [CNN] Logos without the prior written consent of CNN," *id.* ¶ 1. Moreover, the "Trademark" provision states that all rights exist only "as and if expressly provided" in the Contract, *id.* ¶ 7, and the "Ownership" paragraph states that all the intellectual property rights of each party to the Contract "expressly are reserved to and shall remain vested in that party," *id.* ¶ 1, which recitals imply that the Contract had granted all the rights the parties intended to grant. These recitals thus effectively douse the heretofore flickering flame of implication in paragraph 3.3 of the Term Sheet that some "authorized use" of CNN's marks was to be granted Travelot in the Contract. [FN3]

> FN3. The Contract provides that "in the event of conflict between defined terms contained in ... the Terms Sheet and [those in] the Terms and Conditions, the Term Sheet shall govern." Travelot's Ex. B (Acquisition Agreement letter). Paragraphs one and seven in the Terms and Conditions are clearly not contradicted, even impliedly, in the Term Sheet, which did not grant a trademark license.

Furthermore, the terms of the Contract effectively preclude any inference that a ***458** trademark license grant to Travelot was *implied.* In the first place, all indications are that where the drafters of the Contract intended to grant a license, they did so with specificity and clarity. They were apparently aware of the impact of the word "grant," as shown both by the express "grant" of rights in Travelot's intellectual property to CNN, *see* Term Sheet ¶ 1.1 ("Company hereby grants CNN a non-exclusive right to use, publish and display its ... graphical logos ...."); *id.* ¶ 3.3 ("Company hereby grants CNN a limited non-exclusive license to use the [Travelot] logo and any other [Travelot] marks, logotypes, or brand identifiers as [Travelot] may provide to CNN ...."), and by the details addressing the scope of said grant, *see id.* ¶ 3.3 ("Such license is granted solely in connection with CNN's rights and obligations under this Agreement and, in particular, for the purpose of permitting CNN to display the [Travelot] Logo in the travel sections of the CNN Sites and on any other pages of the CNN Sites or any affiliated websites from which the Travel Content may be accessed."). In notable contrast, there is no provision in the Contract describing the scope and limitations of any implied grant of CNN's marks to Travelot. Thus, the presence of specific granting language in the Contract with respect to CNN's receipt of Travelot's trademark license negates the notion that Travelot was to be the implied recipient of CNN's trademark license.

Secondly, CNN's contractual retention of control over the manner in which Travelot was to present its product on the CNN website is not sufficient to imply that CNN granted to Travelot a license in its trademark. For a trademark licensor to retain ownership of its marks, that licensor must retain control over the scope and manner of the mark's licensed use; thus, language of control coupled with language granting a trademark license is to be expected. CNN now contends that its contractual retention of control over its marks evidences that a license grant was intended. In light of this contention, it is necessary to reiterate that a trademark license is, essentially, a grant of permission to use the grantor's mark without fear of being sued for infringement. *See* Bunn-O-Matic, 88 F.Supp.2d at 920-21; *In re Impact Distribs.*, 260 B.R. at 54. If CNN had granted a license to Travelot, it would necessarily have had to retain control over any product held out under its mark. This does not mean, however, that every contract in which the owner of a mark seeks to retain control of its mark necessarily grants a trademark license. If CNN had intended to license its mark to Travelot, it could have simply said so.

Third, the association between Travelot and CNN's logos was a Contract requirement, not a license grant. The Contract states that "[Travelot] *agrees* that the Travel Content *will have* certain CNN navigation and branding," Term Sheet ¶ 3.1 (emphasis added). Also, the Contract terms require Travelot, at its own expense, to update the look-and-feel of its Travel Content so as to be visually compatible with any CNN site design changes as they occur. *Id.* ¶ 3.2.

Fourth, there was no implied grant of a license arising from the terms providing for placement of Travelot's Travel Content on CNN's website. It is true, of course, that Travelot planned to benefit from its association with CNN. It is also true that courts have held that good will and trademarks go hand in hand, at least to the extent that an attempted transfer of a trademark is void without a transfer of the good will associated with the trademark. *See* Lanham Act, 15 U.S.C. § 1060(a) ("A registered mark ... shall be assignable with the good will of the business in which the mark is used, or with that part of the ***459** good will of the business connected with the use of and symbolized by the mark."); *Patterson Labs., Inc. v. Roman Cleanser Co. (In re Roman Cleanser Co.)*, 802 F.2d 207, 208 (6th Cir.1986) (noting that "marks are assignable *only* 'with the good will of the business in which the mark is used' " (emphasis added)). It does not follow, however, that because a trademark licensee benefits from the good will associated with a trademark, every beneficiary of good will necessarily becomes a trademark licensee. [FN4]

FN4. As an example of the inherent lack of logic in such an implication, consider the rights obtained by an entity which contracts with a shopping mall to place a kiosk in the mall's main aisle. The contracting entity certainly plans to benefit from the established good will of the mall by drawing mall customers into the mall where it is hoped that they will then notice and visit the kiosk; yet, that entity does not receive a license in the mall's trademarks solely by virtue of receiving permission to place its kiosk on mall property. That Travelot similarly planned to benefit from the good will associated with the CNN name by placing its Travel Content on the CNN website in accordance with CNN's rules and restrictions does not translate into the receipt of a trademark license in CNN's marks.

Fifth, the contract terms are actually inconsistent with the granting of a trademark license. Any use of the CNN logos not *required* under the Contract is conditioned upon CNN's prior written consent, *see* Terms and Conditions ¶ 1, and CNN effectively reserved "*[a]ll* rights in [its] Logos and the goodwill associated therewith," *id.* ¶ 1 (emphasis added), even to the point of requiring Travelot to ask permission to use the marks, *id.*

Finally, and of primary importance, the Terms and Conditions recites that "property of the other party shall *only* be used as and if *expressly* provided in this agreement." Terms and Conditions ¶ 7 (emphases added). This language alone precludes any finding of an implied license.

5. Conclusion: The Contract does not contain a trademark license grant to Travelot.

Assuming as true, and self-evident, that ferocious protection of CNN's mark is an essential role of CNN's management and legal team, I conclude that the contract in question does not grant a trademark license to Travelot. If CNN intended to grant a trademark license to Travelot in the Contract, then employing the word "grant" would have sufficed rather elegantly. In its absence, any intent to grant a trademark license is woefully, and fatally, obscure. It appears that verbiage lacking the clarity of the word "grant" is now being manipulated and reinterpreted so as to present it as being something more than the scriveners ever intended. Such verbiage cannot now propel the Contract into the safe harbor afforded in § 365(c).

B. 11 U.S.C. § 1112(b): Dismissal for Cause--Lack of Good Faith in Filing

[7][8] Generally, "on request of a party in interest ... and after notice and a hearing, the court ... may dismiss a case under this chapter ... for cause...." 11

U.S.C. § 1112(b) (listing nine examples of "cause"); *see also Albany Partners, Ltd. v. Westbrook (In re Albany Partners, Ltd.)*, 749 F.2d 670, 674 (11th Cir.1984) (noting that, in addition to factors listed in § 1112(b), court may consider other factors peculiar to given case in using its equitable powers to reach appropriate result). "Cause" for dismissing a case under § 1112(b) includes a debtor's lack of good faith in filing. *Id.* Indicative of lack of good faith in filing is a debtor's intent to abuse the judicial process and the purposes of the reorganization provisions, "particularly when there is no realistic possibility of an effective reorganization" or ***460** where it is evident that "the debtor seeks merely to delay or frustrate the legitimate efforts of secured creditors to enforce their rights." *Id.*

The Eleventh Circuit, in *Phoenix Piccadilly, Ltd. v. Life Ins. Co. of Va. (In re Phoenix Piccadilly, Ltd.)*, 849 F.2d 1393 (11th Cir.1988), affirmed a bankruptcy court's finding of bad faith based on the presence of six non-exclusive factors. *See id.* at 1394-95. The factors were:

(I) The Debtor has only one asset, the Property, in which it does not hold legal title;

(ii) The Debtor has few unsecured creditors whose claims are small in relation to the claims of the Secured Creditors;

(iii) The Debtor has few employees;

(iv) The Property is the subject of a foreclosure action as a result of arrearages on the debt;

(v) The Debtor's financial problems involve essentially a dispute between the Debtor and the Secured Creditors which can be resolved in the pending State Court Action; and

(vi) The timing of the Debtor's filing evidences an intent to delay or frustrate the legitimate efforts of the Debtor's secured creditors to enforce their rights.

Id. (citing, *inter alia, Little Creek Dev. Co. v. Commonwealth Mortgage Corp. (In re Little Creek Dev. Co.)*, 779 F.2d 1068, 1073 (5th Cir.1986)).

In addition to the factors noted in *Phoenix Piccadilly,* bankruptcy courts in this circuit have identified additional factors as possible indicators of bad faith, including: (I) creation of a debtor for the purpose of acquiring property and protecting that property under the automatic stay, *Home Fed. Sav. v. Club Candlewood Assoc. (In re Club Candlewood)*, 106 B.R. 752, 755 (Bankr.N.D.Ga.1989); (ii) a debtor's use of the bankruptcy process to create and organize a new business, *id.;* (iii) the appearance that a debtor is merely a shell corporation, *In re Punta Gorda Assocs.*, 143 B.R. 281, 283 (Bankr.M.D.Fla.1992); (iv) the filing of a previous bankruptcy petition, *Northwest Place, Ltd. v. Cooper (In re Northwest Place, Ltd.)*, 73 B.R. 978, 981 (Bankr.N.D.Ga.1987); (v) the absence of pressure on the debtor from non-moving creditors, *id.;* (vi) the debtor's improper prepetition conduct, *id.;* (vii) the effect of the petition is to allow the debtor to evade court orders, *id.;* and (viii) no possibility of reorganization, *id.*

[9] CNN asserts that all six of the factors sufficient for the bad-faith finding in *Phoenix Piccadilly,* as well as three of the other factors identified by bankruptcy courts in this Circuit, are present in this case. These factors emerged on a case-by-case basis out of the particular facts presented to the courts which adopted them, and none is dispositive of lack of good faith in this or any other case. Instead, they are available to bankruptcy courts for whatever analytical value they offer within the framework of the particular case in assessing the totality of circumstances. Mindful of the ultimate test of bad faith--filing in order to frustrate the legitimate efforts of creditors, with no realistic expectation of reorganization, thereby abusing the judicial process--the Court alludes to the factors only insofar as they shed light on the issue of good faith under the totality of the circumstances.

[10] Travelot was an "established" business at the time it petitioned for Chapter 11 protection, in the sense that substantial money, effort, and time had been expended, and that an important agreement had been negotiated and executed, the implementation of which was imminent at the time of filing. Travelot had expended $500,000 in readying itself to implement its objective and had achieved mutual execution ***461** of the Contract as a result. At the time of filing, the business had prospective expectation of success, but that expectation rested in implementation of the Contract. Moreover, Travelot was no less viable for lack of employees; indeed, at the time of filing, employees were not required to satisfy Travelot's obligations to CNN, and Isaacson's expertise was available at all times. The meager funds in Travelot's bank account is similarly unremarkable. Mr. Isaacson testified that he offered to pay into an escrow account the amounts due CNN under the Contract while CNN and Travelot worked out their problems, and he also testified that he had additional funding available on a short timetable. The totality of these facts show that Travelot was not merely a shell corporation.

In addition, that Travelot's only creditors are CNN and a potential equity holder and that the case involves essentially a two-party dispute does not alter my finding. Had Travelot's rights under the Contract been terminated, its prospects as a viable entity would have been destroyed; therefore, that the threat of termination prompted Travelot's filing does not indicate a bad faith filing. [FN5]

FN5. Compare Travelot's motive in filing with that of the debtor in *Albany Partners,* whose sole officer and equity holder created the debtor in order to stay imminent foreclosure and to receive title to real property. 749 F.2d at 674 (finding lack of good faith).

Finally, even though Travelot's primary property-the Contract-was on the verge of cancellation, the fact that Travelot filed less than one hour before its rights were to be terminated does not indicate bad faith under the facts of this case. There is evidence that Travelot attempted to communicate regularly with CNN, that CNN may have delayed in providing mockups and a media plan to Travelot, and that CNN may have avoided meaningful discussion of the GDS issues while allowing the fifteen-day cure period to run; therefore, the timing of the filing, although accomplished at the last minute before Travelot's rights under the Contract expired, was clearly not a bad faith attempt to delay or frustrate creditors in enforcing their rights. Rather, Travelot's decision to file was an attempt to keep its business viable and to avail itself of the breathing spell contemplated in Chapter 11 in order to resolve the issues that could not be solved during the limited time between Travelot's realization that no meaningful communication was taking place and the cure deadline.

When Travelot filed its case, its survival was on the line. Its intention in filing was clearly to preserve itself, rather than to frustrate CNN, regardless of the effect of the filing on CNN's rights to terminate the Contract. [FN6] I conclude, therefore, that Travelot filed its case in good faith.

FN6. Compare Travelot's objective with that of the debtor in *In re Club Tower,* whose "only objective in filing ... was to delay and frustrate the efforts of [a creditor] to enforce its rights and remedies as a secured creditor," and who, after agreeing to convey title to its creditor if it could not raise needed capital, filed because it was unsuccessful in raising needed equity to honor that agreement. 138 B.R. at 310 (finding lack of good faith).

C. 11 U.S.C. § 365(b): Curing Defaults

[11] CNN asserts that Travelot defaulted under the Contract and that Travelot is unable to cure the defaults. Where a debtor has defaulted under the terms of an executory contract prior to filing its case, the Bankruptcy Code requires the debtor to cure such defaults:

> If there has been a default in an executory contract ... of the debtor, the trustee may not assume such contract ***462** ... unless, at the time of assumption of such contract ..., the trustee--
>
> (A) cures, or provides adequate assurance that the trustee will promptly cure, such default;
>
> (B) compensates, or provides adequate assurance that the trustee will promptly compensate, a party other than the debtor to such contract ..., for any actual pecuniary loss to such party resulting from such default; and
>
> (C) provides adequate assurance of future performance under such contract ....

§ 365(b)(1); *see also Worthington v. Gen. Motors Corp. (In re Claremont Acquisition Corp.),* 113 F.3d 1029, 1033 (9th Cir.1997) ("In general, a debtor must cure all defaults, both monetary and non-monetary, prior to the assumption and assignment of an executory contract."). Thus, the DIP in the present case, acting as trustee, may assume the Contract only if the DIP provides adequate assurance of a prompt cure and of future performance.

CNN asserts that Travelot defaulted when it failed to pay CNN $750,000.00 and disclosed confidential information to third parties without CNN's prior consent. CNN further asserts that curing the defaults is not possible because, first, the DIP has no funds to provide a monetary cure and cannot provide adequate assurance of future performance under the Contract and, second, the alleged confidentiality breach is incurable after the fact.

I find CNN's argument to be premature at this stage. The issues with respect to possible default and cure will be addressed after, and if, the Debtor-in-Possession moves to assume the Contract. At that point, the Court, if the motion is granted, will exercise its broad powers to require timely and substantial guarantees of cure and future performance in the context of any order on the assumption of the Contract so as to assure CNN of a reliable contracting partner.

ORDER

Pursuant to the above: (1) The Travelot Company as Debtor-in-Possession IS NOT PRECLUDED as a matter of law from attempting to assume the contract with CNN by application of 11 U.S.C. § 365(c); and (2) the request by Turner Broadcasting Sales, Inc. to dismiss The Travelot's Company's Chapter 11 case IS DENIED.

END OF DOCUMENT

Date of Printing: OCT 28,2004

KEYCITE

H In re Travelot Co., 286 B.R. 447 (Bankr.S.D.Ga., Jun 14, 2002) (NO. 02-40020)

History

Direct History

=> 1 **In re Travelot Co.,** 286 B.R. 447 (Bankr.S.D.Ga. Jun 14, 2002) (NO. 02-40020)

Related References (U.S.A.)

H 2 In re Travelot Co., 286 B.R. 462 (Bankr.S.D.Ga. Aug 08, 2002) (NO. 02-40020), as modified (Aug 20, 2002)

Citing References

Positive Cases (U.S.A.)

★ Mentioned

C 3 Miller v. Glenn Miller Productions, 318 F.Supp.2d 923, 933 (C.D.Cal. Apr 23, 2004) (NO. CV03529AHM(MCX))

Secondary Sources (U.S.A.)

4 Bankruptcy Service Lawyers Edition s 43:133, s 43:133. Delay or frustration of creditors, generally -- Illustrative particular applications -- Dismissal or conversion not warranted (2004) **HN: 10 (B.R.)**

5 Bankruptcy Service Lawyers Edition s 43:83, s 43:83. Discretion and power of court -- Factors considered, generally (2004) **HN: 9 (B.R.)**

6 Bankruptcy Service Lawyers Edition s 43:87, s 43:87. Lack of good faith or abuse of bankruptcy process as cause, generally (2004) **HN: 7,8,9 (B.R.)**

7 Callmann on Unfair Compet., TMs, & Monopolies s 20:54, -LICENSES (2004) **HN: 4,6 (B.R.)**

8 Williston on Contracts s 78:49, ASSIGNMENT PROHIBITED OR RESTRICTED BY APPLICABLE LAW (2004) **HN: 2,3 (B.R.)**

9 Am. Jur. 2d Bankruptcy s 1031, -LACK OF GOOD FAITH (2004)

10 EXECUTORY CONTRACTS: HOW PROMPT IS "PROMPT?", 23-FEB Am. Bankr. Inst. J. 1, 44 (2004) **HN: 11 (B.R.)**

11 CURING DEFAULTS PROMPT CURE MAY NOT BE AS PROMPT AS YOU THINK, 22-APR Am. Bankr. Inst. J. 16, 54 (2003) **HN: 11 (B.R.)**

12 The Meaning of "Prompt and Adequate",(2004)

13 062404 American Bankruptcy Institute 251, Curing the Incurable Default and Other Challenges: Current Issues in Executory Contracts and Leases Executory Contracts: How Prompt Is "Prompt?" (2004) **HN: 11 (B.R.)**

14 020504 American Bankruptcy Institute 199, The Word Game: Current Bankruptcy Developments in Leases, Licenses and IP Contracts Executory Contracts-How Prompt is "Prompt"? (2004) **HN: 11 (B.R.)**

15 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 255+ (2004) **HN: 3,4,6 (B.R.)**

16 INTELLECTUAL PROPERTY AND BANKRUPTCY-SALIENT ISSUES, 862 PLI/Comm 313, 326 (2004) **HN: 4,5,6 (B.R.)**

17 BANKRUPTCY AND LICENSING, 786 PLI/Pat 757, 788 (2004)

18 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1116+ (2004) **HN: 4 (B.R.)**

19 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 583+ (2003) **HN: 6 (B.R.)**

20 BANKRUPTCY ISSUES IN NEGOTIATING ECOMMERCE TRANSACTIONS, 755 PLI/Pat

763, 784 (2003) **HN: 6 (B.R.)**

21 PATENT AND HIGHT TECHNOLOGY LICENSING, 747 PLI/Pat 541, 562 (2003) **HN: 6 (B.R.)**

Court Documents
Appellate Court Documents (U.S.A.)

Appellate Briefs

22 In Re: David J. WILKINSON, Debtor. David J. Wilkinson, Appellant, v. Rug Doctor, Inc., et al., Appellees., 2003 WL 22724317, *22724317+ (Appellate Brief) (9th Cir. Sep 30, 2003) **Brief of Appellees Rug Doctor, L.P., Rug Doctor, ...** (NO. 03-35329) ★★

H

United States Bankruptcy Court,
D. Delaware.

In re VALLEY MEDIA, INC., Debtor.

No. 01-11353(PJW).

April 25, 2002.

Chapter 11 debtor in possession brought motion to sell estate's consignment inventory at auction. The Bankruptcy Court, Peter J. Walsh, Chief Judge, held that: (1) unincorporated division of Chapter 11 corporate debtor was not "entity," as "merchant" or "person conducting business" apart from debtor; (2) debtor in possession, as hypothetical lien creditor, could attach consigned goods in possession of debtor; (3) debtor had authority to sell consignment vendors' copyrighted material under executory, non-exclusive licenses in distribution agreement; (4) consignment vendors did not have administrative priority claim to debtor's post-petition sale of copyrighted material supplied pre-petition; and (5) risk associated with consignment vendors' obligation to pay for merchandise returns at price invoiced to Chapter 11 debtor would not impose inequitable burden on vendors.

Motion granted in part and denied in part.

West Headnotes

[1] **Factors** 65
167k65 Most Cited Cases
[1] **Secured Transactions** 131
349Ak131 Most Cited Cases
Unincorporated division of Chapter 11 corporate debtor was not "entity," as "merchant" or "person conducting business" apart from debtor, because division was not capable of having creditors of its own, for purpose of application of California's conclusive presumption that goods held by division were on sale or return basis with respect to claims made by creditors of consignee; consignment vendors asserted that presumption should not apply because division functioned as independent entity and was held out as independent entity, and as deliveree apart from debtor, it was generally known by its creditors to be substantially engaged in selling of goods of other persons. Bankr.Code, 11 U.S.C.A. § 544(a); West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[2] **Factors** 5
167k5 Most Cited Cases
[2] **Factors** 65
167k65 Most Cited Cases
While California courts may determine that an agreement constitutes a consignment based on the intent of the parties, such a consignment contract alone does not necessarily allow a consignor's ownership interests in the consigned goods to prevail over the claims of the consignee's creditors. West's Ann.Cal.Com.Code § 2326.

[3] **Factors** 65
167k65 Most Cited Cases
Under California law, a conclusive presumption arises that goods are held on a sale or return basis with respect to claims made by the creditors of the consignee, if (1) the goods are delivered to a person for sale; (2) the person maintains a place of business at which he or she deals in goods of the kind involved; and (3) that place of business is under a name other than the name of the person making the delivery. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[4] **Factors** 18
167k18 Most Cited Cases
[4] **Factors** 65
167k65 Most Cited Cases
Under California law, once a transaction is determined to fall within the definition of a consignment, where a creditor of the consignee seeks to recover against the consigned goods, the consignee is deemed to have acquired title, but only for the purposes of determining the rights of creditors of the consignee, not the rights of the consignee to the consigned goods. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[5] **Factors** 65
167k65 Most Cited Cases
[5] **Secured Transactions** 131
349Ak131 Most Cited Cases
Under California law, if a consignor either files a financing statement, or proves that the deliveree was generally known by his creditors to be substantially engaged in selling the goods of other persons, a consignor may prevent application of the conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee; if either of these notice

requirements are met, then the consignee's creditors may not reach the consigned goods in the consignee's possession. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[6] Factors 65
167k65 Most Cited Cases
Proving that a deliveree is generally known by its creditors to be substantially engaged in the selling of goods of other persons under California law, in order to prevent application of the conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee, is ultimately the burden of the consignor. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[7] Factors 65
167k65 Most Cited Cases
When attempting to establish that a deliveree is generally known by its creditors to be substantially engaged in the selling of goods of other persons under California law, in order to prevent application of the conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee, the consignor must prove by a preponderance of the evidence (1) that the consignee is substantially engaged in selling the goods of others, and (2) that it is generally known by the creditors of the consignee that this is the case. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[8] Factors 65
167k65 Most Cited Cases
To satisfy the "generally known" prong of the test used to determine whether a deliveree is generally known by its creditors to be substantially engaged in the selling of goods of other persons under California law, a consignment vendor must prove that a majority of the debtor-consignee's creditors were aware that the consignee was substantially engaged in selling the goods of others, i.e. consignment sales, where that majority is determined by the number of creditors, not by the amount of creditor claims; testimony as to general knowledge in the industry is insufficient to prove knowledge by a majority of creditors. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[9] Factors 65
167k65 Most Cited Cases
The purpose of the California statute, that provides for a conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee, is to protect general creditors of the consignee from claims of consignors that have undisclosed consignment arrangements with the consignee that create secret liens on the inventory; when determining whether this presumption applies, a court is not concerned with the rights between the consignor and consignee, but rather solely with the rights of the third party creditors of the consignee. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[10] Factors 65
167k65 Most Cited Cases

[10] Secured Transactions 131
349Ak131 Most Cited Cases
Under California law, creditors of a consignee need not demonstrate actual reliance on the goods or the lack of a financing statement in extending credit in order to benefit from the protection of the statutes that provide for a conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee. West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[11] Corporations 1.3
101k1.3 Most Cited Cases

[11] Municipal Corporations 1.1
268k1.1 Most Cited Cases
An "entity" is an organization, such as a business or a governmental unit, that has a legal identity apart from its members.

[12] Corporations 586
101k586 Most Cited Cases
Former corporation was no longer an "entity" after former corporation became wholly owned division of acquiring corporation; although former corporation had been in joint venture with acquiring corporation prior to acquisition and there had been essentially no change in former corporation's operations since acquiring corporation assumed full ownership, change in corporate structure was conclusive to issue of former corporation's ability to an entity.

[13] Bankruptcy 2159.1
51k2159.1 Most Cited Cases
Even if an unincorporated association lacks the capacity to be a party in an action at state law, it may still be a party in an adversary proceeding provided that it fits within the narrow federal definition of an unincorporated association. Fed.Rules Civ.Proc.Rule 17(b)(1), 28 U.S.C.A.

[14] Corporations 1.3
101k1.3 Most Cited Cases
Under California law, a corporation may use names other than the one in its charter and yet, it is still not more than one entity.

[15] Bankruptcy 2703

51k2703 Most Cited Cases

Debtor in possession, as hypothetical lien creditor of Chapter 11 corporate debtor, could attach consigned goods in possession of debtor, since consignment vendors could not prove that debtor was generally known by its creditors to be substantially engaged in selling goods of other persons. Bankr.Code, 11 U.S.C.A. § 544(a); West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[16] **Bankruptcy** 2704
51k2704 Most Cited Cases

[16] **Factors** 65
167k65 Most Cited Cases

[16] **Secured Transactions** 131
349Ak131 Most Cited Cases

While a consignor may prevent the application of the conclusive presumption that consignment goods are held on a sale or return basis with respect to claims made by the creditors of the consignee due to the actual knowledge of the consignment by a secured creditor of the consignee, a claim of actual knowledge will not provide a basis for a consignor to prevail over a trustee exercising its strong arm powers. Bankr.Code, 11 U.S.C.A. § 544(a); West's Ann.Cal.Com.Code § § 9102(a)(20), 9319(a).

[17] **Bankruptcy** 2704
51k2704 Most Cited Cases

A consignor holds an unsecured claim against a debtor as a result of a trustee's exercise its strong arm powers, regardless of whether the inventory has become property of the estate, whether the trustee's rights are superior to the consignor's rights in the inventory, or whether the trustee has set aside or avoided the consignor's unperfected security interest as a result of exercise of strong arm powers. Bankr.Code, 11 U.S.C.A. § 544(a)(1).

[18] **Bankruptcy** 3101
51k3101 Most Cited Cases

Debtor in possession had authority to sell consignment vendor's copyrighted material under executory, non-exclusive licenses in distribution agreement that was in possession of Chapter 11 corporate debtor; although vendors asserted that debtor's authority to sell was terminated due to nonpayment, agreement did not terminate automatically upon nonpayment, vendors did not terminate agreement prepetition, and they did not seek relief from automatic stay to terminate agreement postpetition. Bankr.Code, 11 U.S.C.A. § 362; 17 U.S.C.A. § 109(a).

[19] **Copyrights and Intellectual Property** 38.5
99k38.5 Most Cited Cases

The "first sale doctrine" prevents a copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred. 17 U.S.C.A. § 109(a).

[20] **Copyrights and Intellectual Property** 77
99k77 Most Cited Cases

Mere legal or authorized possession, such as in the case of a bailee or consignee, does not grant the requisite authority to make a first sale and will not protect the bailee or subsequent sellers from infringement actions. 17 U.S.C.A. § § 109(a), 202.

[21] **Bankruptcy** 3106
51k3106 Most Cited Cases

An "executory contract" exists when the obligations of both the bankrupt and the other party are so far underperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other.

[22] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases

Exclusive licenses grant the licensee a property right in the copyright that is freely transferrable, and the licensor is precluded from transferring those rights again to someone else. 17 U.S.C.A. § 201(d)(2).

[23] **Copyrights and Intellectual Property** 48
99k48 Most Cited Cases

A non-exclusive license of rights by a copyright owner to another party is not assignable by that party without the permission of the copyright holder under federal copyright law, since the license represents only a personal and not a property interest in the copyright. 17 U.S.C.A. § 201(d)(2).

[24] **Bankruptcy** 3106
51k3106 Most Cited Cases

The general rule is that intellectual property licenses, including copyright licenses, are executory contracts. Bankr.Code, 11 U.S.C.A. § 365(c); 17 U.S.C.A. § 201(d)(2).

[25] **Bankruptcy** 3105.1
51k3105.1 Most Cited Cases

An executory contract may not be assumed by a debtor in possession if it may not be assigned under applicable non-bankruptcy law, such as federal copyright law. Bankr.Code, 11 U.S.C.A. § 365(c); 17 U.S.C.A. § 201(d)(2).

[26] **Bankruptcy** 3105.1
51k3105.1 Most Cited Cases

Since non-exclusive licenses may not be assigned by a licensee under applicable copyright law, they may not be assumed by a debtor in possession. Bankr.Code, 11 U.S.C.A. § 365(c); 17 U.S.C.A. § 201(d)(2).

[27] **Copyrights and Intellectual Property**

67.2
99k67.2 Most Cited Cases
If the first sale of phonorecords or copies in which the copyrights are fixed is transacted without the permission of the copyright holder or its exclusive licensee, that seller and all subsequent sellers are liable for infringement. 17 U.S.C.A. § 109(a).

[28] **Copyrights and Intellectual Property 38.5**
99k38.5 Most Cited Cases
An owner of a copy of a copyrighted work cannot be created by an unauthorized first sale; once a lawfully made copy is sold with the requisite permission, a first sale owner is created, the right to control distribution is cut off, and no subsequent seller can be held liable for infringement. 17 U.S.C.A. § 109(a).

[29] **Bankruptcy 3067.1**
51k3067.1 Most Cited Cases
Debtor in possession could exercise Chapter 11 corporate debtor's right to sell copyrighted materials under distribution agreement even though contract was not assumable, since debtor was not seeking to exercise any right that it did not already possess as of commencement of case and was not seeking to obtain additional performance from consignment vendors; debtor's rights became property of estate as of petition date and could be exercised by debtor in possession without need to assume distribution agreement. Bankr.Code, 11 U.S.C.A. § 365(c); 17 U.S.C.A. § § 109(a), 201(d)(2).

[30] **Bankruptcy 3622**
51k3622 Most Cited Cases
A debtor and a debtor in possession are considered to be two different entities.

[31] **Bankruptcy 2544**
51k2544 Most Cited Cases

[31] **Bankruptcy 3106**
51k3106 Most Cited Cases
Licenses are generally considered to be executory contracts and thus the rights of the debtor under such licenses are vested in the debtor in possession as of the petition date. Bankr.Code, 11 U.S.C.A. § 365(c); 17 U.S.C.A. § § 109(a), 201(d)(2).

[32] **Bankruptcy 3105.1**
51k3105.1 Most Cited Cases
A debtor in possession is not a third party for whom the debtor would have to get a licensor's permission prior to assignment. Bankr.Code, 11 U.S.C.A. § 365(c)(1)(A, B).

[33] **Bankruptcy 2422.5(4.1)**
51k2422.5(4.1) Most Cited Cases

[33] **Bankruptcy 3101**
51k3101 Most Cited Cases
A non-debtor party to an executory contract is required to accept performance from the debtor in possession despite the executory nature of the contract and the possibility that it may not be assumable by that debtor in possession; the remedy of the non-debtor party is a motion to lift the automatic stay in order to terminate the non-assumable contract. Bankr.Code, 11 U.S.C.A. § 365(c)(1)(A, B).

[34] **Contracts 147(2)**
95k147(2) Most Cited Cases
Under California law, effect must be given to the mutual intent of the parties as it existed at the time of the contracting, so far as it is ascertainable and lawful; such intent is to be inferred, if possible, solely from the written provisions of the contract.

[35] **Contracts 143(2)**
95k143(2) Most Cited Cases

[35] **Contracts 176(2)**
95k176(2) Most Cited Cases
Under California law, when construing a contract, no term shall be considered uncertain or ambiguous if its meaning can be ascertained by fair inference from the terms of the agreement, thus, if contractual language is clear and explicit, it governs; the determination of ambiguity is the court's to make.

[36] **Copyrights and Intellectual Property 48**
99k48 Most Cited Cases
A licensee may not exceed the scope of the permission granted in a license. 17 U.S.C.A. § § 109(a), 201(d)(2).

[37] **Bankruptcy 3101**
51k3101 Most Cited Cases
The contract law of Delaware governing the distribution agreements provides the rules of contractual construction of licenses to the extent that they do not interfere with the federal protection of intellectual property.

[38] **Bankruptcy 2872**
51k2872 Most Cited Cases
Consignment vendors did not have administrative priority claim to debtor in possession's postpetition sale of copyrighted material supplied prepetition pursuant to distribution agreement, since permission to sell survived commencement of Chapter 11 case and became property right of estate, there was no postpetition service being provided by vendors, and there was no additional value that accrued to estate under license other than what already existed as of commencement of case. Bank.Code, 11 U.S.C.A. § § 363(b), 503(b); 17 U.S.C.A. § § 109(a), 201(d)(2).

[39] **Bankruptcy 2871**
51k2871 Most Cited Cases

[39] **Bankruptcy 2926**
51k2926 Most Cited Cases
To establish administrative expense priority, the burden is on the claimant to demonstrate that the obligation claimed as an administrative expense (1) arose out a postpetition transaction with the debtor in possession, and (2) directly and substantially benefitted the estate. Bank.Code, 11 U.S.C.A. § 503.

[40] **Bankruptcy 2871**
51k2871 Most Cited Cases
The principal purpose of the administrative expense provision is to induce entities to do business with a debtor after bankruptcy by insuring that those entities receive payment for services rendered; the provision contemplates some quid pro quo wherein the estate accrues debt in exchange for some consideration necessary to the operation of the estate. Bankr.Code, 11 U.S.C.A. § 503(b).

[41] **Bankruptcy 2871**
51k2871 Most Cited Cases
Priority is granted to compensate the providers of necessary goods, services or labor, but a debt is not entitled to administrative priority merely because the right to payment arises postpetition; it is the substantial contribution to the estate, not the activity, such as sale, that incurs the obligation that must occur in the Chapter 11 case. Bank.Code, 11 U.S.C.A. § 503(b).

[42] **Bankruptcy 2873**
51k2873 Most Cited Cases
A postpetition act alone does not create a administrative expense; there must also be a contribution of value to the estate from a postpetition transaction with the debtor. Bankr.Code, 11 U.S.C.A. § 503.

[43] **Bankruptcy 3072(1)**
51k3072(1) Most Cited Cases
Risk associated with consignment vendors' obligation to pay for merchandise returns at price invoiced to Chapter 11 debtor, regardless of price paid at postpetition auction by debtor in possession, would not impose inequitable burden on vendors, even though they had expended manufacturing costs, they would receive no money from sale of merchandise, and would be liable for royalties and fees to third parties due on sale of merchandise; vendors were aware of commercial realities of their industry's return policy.

[44] **Bankruptcy 3101**
51k3101 Most Cited Cases
Distribution agreement, that required termination to be in form of written notice sent by "express mail, registered, or certified mail, or telefax with a hard copy to follow via airmail," was effectively terminated as against Chapter 11 debtor by e-mail sent by debtor prepetition within time frame provided by agreement where debtor expressed its intent not to renew agreement unless consignment vendor modified agreement and vendor did not modify agreement.

[45] **Bankruptcy 2164.1**
51k2164.1 Most Cited Cases
Genuine issues of material fact existed as to scope of implied license between copyright holder and Chapter 11 debtor in possession, as consignee, and whether that license was terminated or breached, precluding summary judgment. 17 U.S.C.A. § § 109(a), 201(d)(2); Fed.Rules Civ.Proc.Rule 56, 28 U.S.C.A.

[46] **Copyrights and Intellectual Property 48**
99k48 Most Cited Cases
A non-exclusive license may be inferred from a course of dealing between the copyright holder and another party. 17 U.S.C.A. § § 109(a), 201(d)(2).

[47] **Copyrights and Intellectual Property 48**
99k48 Most Cited Cases
A non-exclusive license is not a transfer of ownership of the copyright itself within the provision of the Copyright Act and thus need not be in writing. 17 U.S.C.A. § § 109(a), 201(d)(2).

[48] **Copyrights and Intellectual Property 77**
99k77 Most Cited Cases
A licensor may bring an infringement suit if the licensee's use of the implied license exceeds its scope. 17 U.S.C.A. § § 109(a), 201(d)(2).

[49] **Federal Courts 429**
170Bk429 Most Cited Cases
While federal copyright law may recognize an implied license from a course of dealing, whether such a license arises and the scope of such a license is determined by state contract law. 17 U.S.C.A. § § 109(a), 201(d)(2).

***111** Karen Jacobs Louden, Robert J. Dehney, Eric D. Schwartz, Jason W. Staib, Morris, Nichols, Arsht & Tunnell, Wilmington, DE, for Valley Media, Inc.

William P. Bowden, Ashby & Geddes, Wilmington, DE, Jonathan N. Helfat, Houston & Rosen, P.C., New York City, to Congress Financial Corporation (Northwest).

Teresa K.D. Currier, Klett, Rooney, Lieber & Schorling, Wilmington, DE, Michael A. Bloom, Morgan, Lewis & Bockius, LLP, Philadelphia, PA, Counsel to the Committee.

Carl N. Kunz, III, Morris, James, Hitchens &

Williams, LLP, R. Karl Hill, Seitz, Van Ogtrop & Green, P.A., Charles J. Brown, William D. Sullivan, Elzufon, Austin, Reardon, Tarlov & Mondell, P.A., Francis A. Monaco, Jr., Rachel M. Mersky, Brian J. McLaughlin, Walsh, Monzack & Monaco, P.A., Wilmington, DE, Michael L. Moskowitz, Richard E. Weltman, Weltman & Moskowitz, LLP, Christopher R. Whent, Christopher R. Whent, New York City, Counsel to Objecting Vendors.

OPINION

PETER J. WALSH, Chief Judge.

This is with respect to the January 10, 2002 motion of Valley Media, Inc. ("Valley" or the "Debtor") to sell its inventory at auction [FN1] ("Auction Motion") (Doc. 118) and the objections made by certain consignment vendors ("Objecting Vendors") [FN2] to ***112** the Auction Motion ("Auction Objections") [FN3]. The Auction Objections were primarily filed by vendors who, prepetition, provided the DNA division of Valley ("DNA") with consignment goods under the terms of certain distribution agreements ("Distribution Agreements"). The Objecting Vendors seek to exclude inventory which they provided to DNA on a consignment basis ("Contested Inventory") from sale ("Auction Sale") under the Auction Motion. Motions have also been filed requesting relief from the automatic stay to recover the Contested Inventory held by the Debtor ("Relief Motions") [FN4]. Discovery was conducted, the various parties submitted briefs [FN5] on the matter and a ***113** hearing was held on February 26 and 27, 2002 at which both live and deposition witness testimony [FN6] was presented regarding Valley's and DNA's operations. The primary issue in this matter is whether DNA can be considered a "merchant" under revised Uniform Commercial Code ("U.C.C.") § 9-102(a)(20) or a "person conducting business" under former U.C.C. § 2-326(3)(b). Subsequently, the parties [FN7] simultaneously submitted proposed findings of fact and conclusions of law [FN8] and, finally, objections to the proposed findings of fact and conclusions of law [FN9]. For the reasons discussed below, I will overrule the Auction Objections and grant the Auction Motion as to the Contested Inventory provided that such sale complies with the scope of the permission to sell the Contested Inventory granted in the Distribution Agreements. I will also deny those Relief Motions related to recovery of the Contested Inventory by the Objecting Vendors. However, I find that the situations ***114** of The Music Cartel, Inc., Beatville Records and Rotten Records, Inc. are unique in that their Distribution Agreements may have terminated pre-petition and the final section of this opinion will discuss the applicability of this decision to the Contested Inventory claimed by these three Objecting Vendors. The following will serve as this Court's findings of fact and conclusions of law on this matter.

FN1. The Debtor's motion is entitled: Motion of the Debtor For An Order Pursuant to 11 U.S.C. § 363 Authorizing 1.) Liquidation Procedures For Sale of Inventory And Miscellaneous Furniture, Fixtures And Equipment By Auction Free And Clear Of Liens, Encumbrances And Other Interests, And 2.) Approval of Contract With Great American Group As Auctioneer (Doc. 118).

FN2. The Objecting Vendors are listed in Real Authentic Sounds' Exhibit 1 as: Castle Music; DTK Metrodome Ltd.; Snapper Music; Zeit Distribution; Revolver Music Limited; Diamante Media Group; Rockview Records; Evidence Music, Inc.; Justin Time Records, Inc.; Distribution Fusion III, Inc.; Checkered Past Records, LLC; Sugar Free Records, Inc.; Gearhead Records; GTS Records, Inc.; Real Authentic Sound, Inc.; Rounder Records Corp.; Schallplatten Produktion And Vertlieb, GmbH (SPV); D3 Entertainment, Inc.; Beatville Records; Blood and Fire Limited; Domo Records, Inc.; Eagle Music Group, Inc.; The Music Cartel, Inc.; SST Records, Inc.; and Ron Petersen t/a Rotten Records, Inc.
Although not listed above, Music Club USA (Doc. 161) and Sonic Image Records (Doc. 174) filed timely objections to the Auction Motion and appeared telephonically at the February 26 and 27, 2002 hearing. ARC Music Productions International (Doc. 284) filed a motion for turnover of property which asserted similar arguments as the other Objecting Vendors who requested relief from the automatic stay to recover inventory. Therefore, these three vendors are included in the Court's use of the term "Objecting Vendors".

FN3. The objections related to the Contested Inventory are: Revelation Record's Objection to Motion for Order Authorizing Liquidation and Approving

Great American Contract (Doc. 144), Justin Time Records et al.'s Objection to Motion of Debtor for Order Pursuant to 11 U.S.C. Section 363 Authorizing, Inter Alia, Liquidation of Inventory by Auction (Doc. 156), Objection of Music Club USA to Motion of Debtor for an Order pursuant to 11 U.S.C. § 363 Authorizing (1) Liquidation Procedures for Sale of Inventory by Auction (Doc. 161); Objection of Rounder Records to Motion of Debtor for Order Pursuant to 11 U.S.C. Section 363 Authorizing, Inter Alia, Liquidation Procedures for Sale of Inventory by Auction (Doc. 164); Objection of Castle Music, Ltd. et al. to Auction Motion filed by Debtor (Doc. 169); Opposition of Sonic Image Records to Motion of Debtor For an Order Authorizing (1) Liquidation Procedures For Sale of Inventory By Auction (Doc. 174), Objection of Certain Independent Labels to Motion for an Order Pursuant to 11 U.S.C. § 363 Authorizing (1) Liquidation Procedures for Sale of Inventory (Doc. 177); Motion of Louisiana Red Hot Records for Turnover of Personal Property and in Opposition to Debtor's Motion Pursuant to 11 U.S.C. Section 363 Authorizing (1) Liquidation Procedures for Sale of Inventory (D.I. 181); Objection of Mean Street Records to Motion of Debtor For An Order Authorizing Liquidation Procedures for Sale of Inventory (Doc. 200); Objection of D3 Entertainment, Inc. to Motion of Debtor for an Order Pursuant to 11 U.S.C. Section 363 Authorizing (1) Liquidation Procedures for Sale of Inventory (Doc. 213); and Revelation Records' Supplement to its Objection to Debtor's Motion to Sell Inventory (Doc. 441).

FN4. The following motions for relief from the automatic stay and/or turnover of property have been filed and are still pending: Real Authentic Sounds, Inc.'s Motion For Relief From The Stay (Doc. 50); Motion of Rounder Records Corp. For Turnover of Personal Property (Doc. 77); Ron Peterson t/a Rotten Records' Motion For Relief From the Automatic Stay (Doc. 123); Schallplatten Produktion and Vertieb, GmbH's Motion For Relief From The Automatic Stay (Doc. 126); Motion of D3 Entertainment Inc. For Relief from the Automatic Stay Pursuant to 11 U.S.C. § 392(d)(1) and (d)(2) (Doc. 127); Motion of Louisiana Red Hot Records For Turnover Of Personal Property And In Opposition to Debtor's Motion Pursuant to 11 U.S.C. Section 363 Authorizing (1) Liquidation Procedures for Sale of Inventory, Miscellaneous Furniture Fixtures and Equipment by Auction Free and Clear of Liens, Encumbrances and Other Interests And (2) Approval of Contract With Great American Group As Auctioneer (Doc. 181); Motion for Turnover by ARC Music Productions International (Doc. 284);and Motion for Relief From Stay of Certain Independent Labels (Doc. 503).

FN5. The following briefs have been submitted: Opening Brief in Support of Objection Of D3 Entertainment, Inc. (Doc. 210); Opening Brief of Real Authentic Sound, Inc., et al. (Doc. 212); Opening Brief of Certain Independent Labels (Doc. 244); Brief of the Official Committee of Unsecured Creditors (Doc. 390); Brief of Congress Financial Corp. (Northwest) (Doc. 393); Debtor's Answering Brief (Doc. 397); Reply Brief of Justin Time Records (Doc. 422); Reply Brief of Certain Consignment Suppliers (Doc. 435); Reply Brief of Certain Independent Labels (Doc. 436); Reply Brief of D3 Entertainment (Doc. 438); Revelation Records' Joinder to Brief Filed by Certain Independent Labels And Supplemental Objection to Debtor's Motion to Sell Inventory (Doc. 441).

FN6. The following witnesses gave testimony: Live Testimony:
Lewis Garrett: Current President and Chief Operating Officer of the Debtor.
Gary Himelfarb: President and 95% owner of Real Authentic Sounds, Inc., ("RAS") an Objecting Vendor.
Eric Lemasters: President and owner of The Music Cartel Inc. ("MCI"), an Objecting Vendor.
Mark Dickinson: President and owner of Beatville Records ("Beatville"),an Objecting Vendor.
Deposition Testimony:
John Ruch: Director of Marketing and Label Relations for Valley's DNA division.
James Lawlor: Former Import Product Manager for Valley's DNA division.
James Colson: General Manager of Valley's

DNA division from 1997 through mid 1999. Concurrently the Vice President of Valley's Independent Distribution Business and General Manager of Valley's DNA division from mid 1999 until his departure in November 2001.

FN7. The Objecting Vendors filed their post-hearing materials jointly. The Debtor, the Official Creditor's Committee and Congress Financial Corporation (Northwest) ("Congress") also filed their post-hearing materials jointly and I will refer to their arguments as being the Debtor's arguments. Both the Official Creditors Committee and Congress are supporting Debtor's Auction Motion. Congress is Valley's largest secured creditor.

FN8. The findings of fact are:
The Objecting Vendors' Joint Proposed Findings of Fact and Conclusions of Law In Support of Their Objections to the Debtor's Motion for an Order Pursuant to 11 U.S.C. § 363... ("Obj. Vendors' FOF") (Doc. # 521)
Proposed Findings of Fact and Conclusions of Law of the Debtor, The Official Committee of Unsecured Creditors, and Congress Financial Corp. (Northwest) On the Motion of Certain DNA Vendors for Relief From the Automatic Stay And Debtor's Motion for Approval of Auction Sales of Inventory. ("Debtor's FOF") (Doc. 522)

FN9. Objections to proposed findings of facts and conclusions of law:
Objection and Response Of the Objecting Vendors To Proposed Findings of Fact and Conclusions of Law of the Debtor, The Official Committee of Unsecured Creditors, and Congress Financial Corp. (Northwest) On the Motion of Certain DNA Vendors for Relief From the Automatic Stay And Debtor's Motion for Approval of Auction Sales of Inventory. (Obj. to Debtor's FOF) (Doc. 573)
Objections of the Debtor, The Official Committee of Unsecured Creditors and Congress Financial Corporation (Northwest) To The Joint Proposed Findings of Fact And Conclusions of Law Of the Objecting Vendor On the Motions Of Certain Of the Objecting Vendors For, Among Other Things, Relief From The Automatic Stay And Debtor's Motion For Approval of Auction Sales Of Inventory. ("Obj. to Objecting Vendor's FOF") (Doc. 575)

BACKGROUND

Valley Media, Inc. ("Valley") filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. § § 101 *et seq.* (the "Bankruptcy Code") on November 20, 2001. Prior to filing, Valley was the largest full-line supplier of entertainment software products (primarily CDs, DVDs, and VHS tapes) in the United States. (RAS Ex. 34 at 1); (Tr. 2/27/02 Garrett at 95:23-24) [FN10]. Valley was a "one-stop" distributor (Tr. 2/26/02 Dickinson 54:10-11)(Tr. 2/27/02 Lawlor 21:25; Garrett 100:2-5) and as such carried a wide variety of materials including materials from every major record company as well as hundreds of import and independent labels. (Tr. 2/26/02 Dickinson 55:21-24); (Tr. 2/27/02 Lawlor 22:2-6; Garrett 100:2- 5). Valley had over 600 product vendors who supplied inventory. (Tr. 2/27/02 Garrett 121:17, 168:15-17.)

FN10. Citations to the trial transcript are in the form: (Tr. Date, witness name, page: line)
Citations to the exhibits are as follows:
Debtor's Exhibits 1 through 5 cited herein as (Debtor Ex.#)
Consignors including Real Authentic Sound's Exhibits 1-34, cited herein as (RAS Ex.#)
Certain Independent Labels' Exhibits 1-16, cited herein as (CIL Ex.#)
D3 Entertainment, Inc.'s Exhibits 1-2, cited herein as (D3 Ex.#)
Citation herein to the Distribution Agreements generally will be to the Beatville Records' agreement (CIL.Ex. # 3) which is used a "representative" agreement and cited herein as: (DA ¶ x.x). Citations to specific admitted Distribution Agreements will be to the admitted exhibit.

DNA, formerly known as Distribution North America, was a wholly owned, unincorporated division of Valley. (Tr. 2/27/02 Lawlor 36:23-37:1.) DNA was formed in September 1994 as an equal partnership between Rounder Records and Valley. (RAS Ex. 34 at 1); (Tr. 2/27/02 Lawlor 20:6-11). In January 1997, Valley acquired Rounder Records' interest in DNA and thus, 100% ownership of DNA. (RAS Ex. 34 at 1); (Tr. 2/27/02 Lawlor 20:11-12).

The fact that DNA has been wholly owned by Valley for all times relevant to this dispute has not been challenged. After the first quarter of 2001, Valley produced a marketing brochure ("Marketing Brochure") (RAS Ex. # 34) and attempted to sell DNA. (Tr. 2/27/02 Garrett 138:8-14; Colson 61:24-62:5.) The brochure portrays DNA as a separable unit of Valley that could be sold apart from Valley. (Tr. 2/27/02 Garrett 139:14-17.) However, none of the scenarios listed in the Marketing Brochure suggest that DNA could stand on its own without some combination of significant financing in the form of a $7 million to $16 million equity investment *and* either a continued affiliation with Valley for distribution services or an affiliation with a distributor or label. (RAS Ex. 34 at 8-9.) The Marketing Brochure was distributed on a limited basis and only some competing independent distributors and select major labels received it. (Tr. 2/27/02 Garrett 139:1-13.)

DNA had no officers or directors of its own (Tr. 2/27/02 Lawlor 36:23-37:1; Garrett 112:2-6) and the CEO of Valley had ultimate responsibility for the DNA division (Tr. 2/27/02 Garrett 112:13-18). DNA had its own staff. (Tr. 2/27/02 Colson 69:22-23.) Although these employees may have considered themselves employees of ***115** DNA (Tr. 2/27/02 Lawlor 22:9-11), all employees working for the DNA division were employed and compensated by Valley (Tr. 2/27/02 Garrett 106:2-3,112:23-113:2). Although DNA was a division of Valley, the two had separate logos (Tr. 2/27/02 Colson 70:7-8), websites (Tr. 2/27/02 Colson 68:10-13) and registrations with the National Association of Recording Merchandisers (Tr. 2/26/02 Garrett 75:21-76:1-14). DNA had a separate profit and loss statement from Valley's which was generated using financial information provided by Valley. (Tr. 2/27/02 Garrett 135:19-22.)

DNA had supply relationships with approximately 150-200 vendors (the "DNA Vendors"). (Tr. 2/27/02 Garrett 104:12-105:9.) The DNA Vendors supplied inventory under either a terms relationship based on purchase invoices ("Terms Vendors") or a consignment relationship based on a Distribution Agreement ("Consignment Vendors"). (Tr. 2/27/02 Colson 76:2-6); (RAS Ex.19,21). The parties concur in their understanding of the primary difference between the terms and consignment models. Under a terms model, a distributor purchases inventory outright. The vendors invoice for products when shipped and the distributor pays based on the negotiated terms, usually 60-90 days from the date of invoice. (Tr. 2/27/02 Lawlor 28:20-29:22; Colson 52:9-25); (Tr. 2/26/02 Garrett 65:19-22). Under a consignment arrangement, the title to the inventory remains with the vendor and the goods are not paid for until the distributor sells the products. (Tr. 2/27/02 Lawlor 30:5-13; Colson 51:21- 52:1, 52:19-53:6); (Tr. 2/26/02 Garrett 65:1-7). However, as will be discussed below, despite the intent of the parties, the legal effect of the consignment relationship may be determined by provisions of the Uniform Commercial Code in certain situations.

DNA did not perform all the functions of a distributor and was dependent on Valley for many essential operational services. At trial Lewis Garrett, the current President of Valley, contrasted the capacities of the Valley and DNA operations by reviewing the twelve functions which he deemed necessary for a distributor to get product from a label that produces a music recording to an end user who purchases it for individual or retail use. (Tr. 2/27/02 Garrett 107:17-111:23.) Of the twelve operational functions which a distribution company must perform, DNA only performed two: sales and marketing. (Tr. 2/27/02 Garrett 110:18-20.) [FN11] The rest of the functions were performed for DNA by Valley through Valley employees with no connection to the DNA operations. These included: treasury and banking (Tr. 2/27/02 Garrett 108:17-21), product procurement (Tr. 2/27/02 Garrett 108:22-109:9), invoicing (Tr. 2/27/02 Garrett 109:10-18), customer service (Tr. 2/27/02 Garrett 109:19- 20), warehousing and distribution (Tr. 2/27/02 Garrett 110:4-7), credit and collections (Tr. 2/27/02 Garrett 110:8-15) and various support functions including human resources, information technology ("I.T.") and financial reporting (Tr. 2/27/02 Garrett 110:16-18)(RAS Ex.34 at 6). DNA was assessed an overhead charge for the services Valley provided, including rent [FN12], and these charges were ***116** reflected in the DNA financial statements. (Tr. 2/27/02 Garrett 165:11-20.)

FN11. DNA staff also assisted with Accounts Payable reconciliation for DNA and Jim Colson, the General Manager of DNA, performed some facets of customer service for DNA. (Tr. 2/27/02 Garrett 109:19-110:3,110:18-21.) However, Valley's Vice President of finance approved all of DNA's payments before they were made. (Tr. 2/27/02 Garrett 110:21-22.) The bulk of the customer service was provided by a 40 member department in Valley. (Tr. 2/27/02 Garrett 109:19-110:4.)

FN12. Valley was the contracting party on all leases for space used by DNA and Valley paid the rent for those spaces. (Tr. 2/27/02 Garrett 122:13-20.)

As a distributor, Valley obtained music product from vendors through purchasing and procurement, stored the procured inventory in one of two large distribution facilities, marketed and sold the inventory through three distribution lines and then shipped the purchased inventory. DNA was one of these three distribution lines and as such was just one part of the sales and distribution side of Valley's overall operation.

The purchasing and procurement functions for Valley's three distribution channels were performed by employees in Valley's buying department. (Tr. 2/27/02 Garrett 98:16-23.) Two employees working in the DNA division procured product from DNA Vendors that was distributed through all three distribution channels. (Tr. 2/27/02 Garrett 108:25-109:9.) While these employees may have acted in DNA's name, they were Valley employees. *Id.* They also reported to Garrett while he was the Executive Vice President responsible for Valley's buying, marketing and sales and thus were not independent of Valley's authority (Tr. 2/27/02 Garrett 92:18-93:13, 97:8-11.)

Valley stocked over 325,000 different titles or "SKUs" (stock keeping units), including all titles procured from DNA Vendors, at two large distribution facilities in Woodland, California and Louisville, Kentucky. (Tr. 2/27/02 Garrett 97:15-16,111:12-14.) After a particular title was ordered from a vendor by Valley or DNA, it was received and stored at one of Valley's two distribution centers. (Tr. 2/27/02 Garrett 98:16-99:4.) When an order was received from a customer ordering through one of the three distribution lines, product was picked from its storage location in the warehouse, packaged and shipped to the customer. (Tr. 2/27/02 Garrett 99:4-6.) All of these warehouse and distribution functions were carried out by Valley employees. (Tr. 2/27/02 Garrett 99:7-11.)

All of the inventory held at the two warehouse facilities, whether obtained by terms or consignment, was comingled (Tr. 2/27/02 Garrett 122:1-8, 124:4-8) and essentially indistinguishable as to whether it was held on a terms or a consignment basis (Tr. 2/27/02 Garrett 121:16-122:2). No signs were posted in Valley's warehouses, nor were there any markings on the inventory that would indicate to an outside observer that some of the inventory held by Valley had been obtained on a consignment basis. (Tr. 2/27/02 Garrett 122:5-8, 124:4-8.) Valley was able to track inventory locations, sources and amounts by means of a computer program. This system allowed Valley to track the titles on hand and differentiate between consignment and terms inventory. (Tr. 2/27/02 Garrett 149:16-150:18, 160:16-161:10.) Without access to this system, one could only differentiate the vendor source of the inventory by reading the bar code on each CD. (Tr. 2/26/02 LeMasters 49:11-50:1); (Tr. 2/27/02 Garrett 149:3-15). Valley used this system to produce monthly reports to Congress Financial Corporation (Northwest) ("Congress") which broke down the inventory on a consigned and terms basis. (Tr. 2/27/02 Garrett 160:16-161:10.) Valley was also able to segregate the Contested Inventory prior to the Auction Sale. (Tr. 2/26/02 Garrett 70:12-23.)

Valley's sales and distribution were conducted through three channels: Full-Line Distribution, I-Fulfillment and Independent Distribution. Customers who purchased ***117** through the Full-Line [FN13] and I-Fill [FN14] distribution lines had full access to all 325,000 titles in the Valley catalogue. Valley had over 600 product vendors who provided these titles. (Tr. 2/27/02 Garrett 121:17, 168:15-17.) The Valley catalogue of 325,000 titles included music from four main sources [FN15], including product from the DNA Vendors (including the Objecting Vendors). DNA sales and marketing operations formed the third Valley distribution line. (Tr. 2/27/02 Garrett 104:9-20.) Valley purchased the product for the DNA distribution line from the DNA Vendors (Tr. 2/27/02 Garrett 109:8-9) and DNA distributed it to all types of retailers and wholesalers around the country (Tr. 2/27/02 Lawlor 21:1-3). The DNA distribution line customers did not have access to Valley's full 325,000 title catalogue and could only purchase product provided by the DNA Vendors. (Tr. 2/27/02 Garrett 104:12-105:9.) If product from DNA Vendors was purchased through the Full-Line Distribution or I-Fulfillment lines, the purchased product would first be transferred from DNA to Valley via an intra-company transfer. (Tr. 2/27/02 Garrett 105:10-12, 135:5-18.) This transfer was recorded on the DNA and Valley financial statements. (Tr. 2/27/02 Garrett 135:23-25.)

FN13. The Full-Line distribution channel targeted "brick and mortar" retail stores around the country and made all 325,000 titles available to stores ranging in size from a local record store to Tower Records. (Tr. 2/27/02 Garrett 99:17-24, 100:11-19.) All

Full-Line sale operations were conducted by Valley employees. (Tr. 2/27/02 Garrett 101:15-17.)

FN14. The I-Fill channel served approximately 125 businesses that fulfilled orders over the Internet, such as Amazon.com and other Internet retailers, giving these retailers access to all 325,000 titles carried by Valley. (Tr. 2/27/02 Garrett 102:1-10.) All orders placed through I-Fill were processed by Valley employees. (Tr. 2/27/02 Garrett 102:24-103:1.)

FN15. Valley obtained CDs and other materials for its music distribution business from four principal sources: (a) all five major labels, including EMI Music Distribution, Universal Music and Video Distribution, Warner/Elektra/Atlantic, BMG Distribution and Sony Music Inc.; (b) distributors such as Koch, RED and Caroline; (c) non-exclusive independent labels which did business with Valley as well as other distributors on a non-exclusive basis; and (d) exclusive or near exclusive labels. (Tr. 2/27/02 Garrett 96:8-97:3, 97:22-98:1.) The DNA Vendors and thus the Objecting Vendors were in the exclusive or near exclusive label category. (Tr. 2/27/02 Garrett 98:2-5.)

Prior to 1996, all of DNA's vendors were on a terms basis. (Tr. 2/27/02 Lawlor 28:16-25, 29:23-30:3) The consignment model was implemented by Jim Colson in 1996 or 1997 to make DNA more profitable. (Tr. 2/27/02 Lawlor 29:23- 30:3; Colson 48:5-49:4, 59:3-13.) As of the filing date, 80 to 90 of the approximately 200 DNA suppliers were operating on terms and 100 to 110 operated on consignment. (Tr. 2/27/02 Garrett 117:25-118:1.)

The consignment relationship provided certain advantages to Valley. No cash was required to obtain inventory since no payment was made until Valley or DNA sold the consigned products. (Tr. 2/26/02 Garrett 65:1-22)(Tr. 2/27/02 Colson 53:7-14.) This allowed Valley to maintain higher levels of inventory so that product would be available for customer orders. (Tr. 2/26/02 Garrett 65:5-13)(Tr. 2/27/02 Colson 53:15-25.) Since Valley's cash was not impacted, it could save on shipping costs by making bulk returns to labels a few times a year. (Tr. 2/27/02 Colson 54:1-12.) The amount of consigned inventory did not affect the availability of credit under Valley's credit line with Congress. (Tr. 2/27/02 Colson 54:13-55:19.)

Valley's Creditors:

At the time of filing, Valley had over 1,000 creditors including equipment lessors, ***118** travel agents, utilities, and insurance providers, most of whom had no reason to know of the consigned nature of Valley's inventory. (Tr. 2/27/02 Garrett 130:5-132:20.); (Debtor's Ex.4 at Schedules D, E & F, listing Valley creditors). Only Congress, Valley's largest secured creditor, and the Consignment Vendors were clearly aware that Valley obtained consignment inventory through it DNA division. (Tr. 2/27/02 Garrett 144:25-145:2.) Some of the Terms Vendors may also have been aware, if they were approached by James Colson with a proposal for a consignment arrangement. (Tr. 2/27/02 Colson 71:4-12, 59:3-13.) A limited number of major labels and other distributors to whom Valley submitted the Marketing Brochure for the spin-off sale of DNA may have been aware of the consignment nature of the inventory obtained for the DNA division of Valley. (Tr. 2/27/02 Garrett 139:1-13); (RAS Ex.34). However, no showing was made at trial that any other creditors of Valley were actually aware of the consignment arrangements. (Tr. 2/27/02 Garrett 130:5-132:20; Colson 71:4-12.) Both Colson and Garret testified that they were not aware of any other Valley creditors who had knowledge of DNA's consignment relationships with its vendors. *Id.*

Potential DNA Creditors:

At trial the Objecting Vendors attempted to prove that DNA had creditors [FN16]. The following potential creditors of the DNA division in the year preceding bankruptcy were identified at trial: the DNA Vendors (Tr. 2/27/02 Garrett 139:18-140:5, 141:3-19), Valley employees working for DNA (Tr. 2/27/02 Garrett 140:5-20), and printers and other marketing vendors hired by DNA (Tr. 2/27/02 Garrett 140:21-141:2). The creditors would also have included Congress and Valley. (Id. at 141:20-142:3.) As of the filing date, there were approximately 200 DNA Vendors of which 100-110 were Consignment Vendors. (Tr. 2/27/02 Garrett 117:25-118:1, 168:12-14). The number of employees, printers, or marketing creditors was not established. Some number of the Terms Vendors brought on after 1996 may have known about the consignment relationship because James Colson attempted to bring new suppliers on as consignment vendors. (Tr. 2/27/02 Garrett 141:3-16.) The

Consignment Vendors, Congress and Valley were clearly aware of DNA's consignment arrangements. (Tr. 2/27/02 Garrett 139:18- 140:5, 141:20-142:3.)

FN16. The capacity of DNA to have creditors will be discussed in section I of this opinion, *infra.*

Valley's Consigned Inventory

On the petition date, Valley had in its possession approximately $108 million worth of inventory (Tr. 2/26/02 Garrett 68:5-7) of which more than $91.5 million was purchased on terms (Tr. 2/27/02 Garrett 120:10-12). As of the petition date, consigned goods accounted for less than 15% of Valley's total inventory base. (Tr. 2/27/02 Garrett 127:4-8); (RAS Ex. 19). Historically, the percentage of consignment inventory held by Valley was half that number. *Id.* As of November 25, 2000, approximately one year prior to Valley's petition date, consigned goods accounted for only 7.5% of Valley's total inventory base [FN17]. (Tr. 2/27/02 Garrett 126:25-127:3.) The increase in the percentage of consigned inventory from 7.5% in November 2000 to 14.82% in November 2001 was caused by a decrease in the value of the terms inventory while the value of the consigned inventory was almost the ***119** same at the beginning and end of that one year period despite a bubble mid-year. (Tr. 2/26/02 Garrett 68:22-69:9); (RAS Ex.19). The value of Valley's terms inventory declined by approximately $120 million during the year preceding bankruptcy (Tr. 2/26/02 Garrett 67:24-68:16) as Valley exited the video products market and returned other obsolete stock purchased on terms to the suppliers for credit (Tr. 2/27/02 Garrett 125:21-126:2, 126:14-24).

FN17. As of that time Valley had approximately $229 million in inventory and $17.2 million in consigned inventory. (Tr. 2/26/02 Garrett 67:23-68:2);(RAS Ex.19).

DNA's Consigned Inventory:

Valley's DNA division had supplied approximately $26.3 million worth of the Valley inventory on hand as of the filing date. (Tr. 2/27/02 Garrett 118:11-15); (RAS Ex.15). Roughly $15.7 million (59%) of that $26.3 million was held on a consignment basis (Tr. 2/27/02 Garrett 119:10-15) while the balance had been purchased on a terms basis (Tr. 2/27/02 Garrett 119:10-120:16)(Debtor Ex.3).

Distribution Agreements

The Distribution Agreements at issue here are substantially identical, other than the names of parties and date of execution. (Tr. 2/27/02 Lawlor 25:17-21.) Each was signed by James Colson, the General Manager of DNA. (*See* RAS Ex.2-11, CIL Ex.1-7, D3 Ex.1.) The purpose of the Distribution Agreements was to place the Consignment Vendor's product in DNA's possession and permit DNA through Valley or other sub-dealers to distribute and sell goods provided by the DNA Vendors. (Tr. 2/26/02 Lemasters 42:13-19, Dickinson 60:16-18); (DA ¶ ¶ 2, 4.1,5.1, 5.2,9.1, 9.2). The three aspects of the Distribution Agreements relevant to the dispute before me are: the guarantee of good title in the contested inventory, the right to sell and use the consigned goods containing the copyrighted material, and the methods and effect of termination. I will reference other provisions as necessary in the subsequent discussion.

Good Title Warranties:

The Consignment Vendors, made a number of representations and warranties in connection with the Distribution Agreements to ensure that DNA, as their distribution agent, would pass clear title to the Product [FN18] when the consigned inventory was sold, including that such sale was also with permission from the third party copyright holders so that no copyright would be infringed. (DA ¶ ¶ 7.1(a)-(e), 9.1.) Specifically, the Consignment Vendors represented and warranted that they held "good, clear, and marketable title" to the Product (DA ¶ 7.1(a)), that the DNA Vendors had obtained all necessary rights and consents to allow Valley to distribute the Product such that Valley need not obtain third party authority to sell the Product (DA ¶ 7.1(c)) and that the Products and their distribution would not violate the copyright of any third party (DA ¶ ¶ 7.1(d), 9.1). As Lemasters and Dickinson testified at trial, the Consignment Vendors entered into agreements with artists granting the labels the ability to produce and/or the authority to sell goods embodying the artist's work. (Tr. 2/26/02 Lemasters 34:19-35:24, 42:5-16; Dickinson 60:12-18.) That authority to sell goods embodying the third party artists' copyrights was regranted by the Consigning Vendors to DNA through the Distribution Agreements. (DA ¶ ¶ 2,5.1(a), 7.1(a)-(e), 9.1, 9.2.) Additionally, the Consignment Vendors made themselves liable for any payments to these copyright holders arising from sale of the Product by retaining the obligation ***120** to pay "all costs of production and manufacture of the Product, including but not limited to:...the payment of royalties, (including mechanical royalties), fees, or other sums to artists, producers, record labels or others..." (DA ¶ 5.3(a).)

FN18. "The term 'Products' means all phonorecords embodying or derived from sound recordings and any copies of audiovisual works which during the Term are owned or controlled by Label and are released by Label, or for which Label possesses the right to authorize distribution." (DA ¶ 1.) The Contested Inventory falls within this definition.

Licenses to sell and use:

Pursuant to the Distribution Agreements, the DNA Consignment Vendors named either "DNA" or "DNA, a division of Valley Media" as sole and exclusive distributor of the Product (i.e., phonorecords and audiovisual works) in the United States, its territories and possessions. (D.A.¶ ¶ 1,2.) Valley, through the Objecting Vendors' agreements with DNA, was specifically authorized to distribute Product provided by the Consignment Vendors upon the execution of the Distribution Agreement. (Tr. 2/26/02 Lemasters 42:13-19; Dickinson 60:16-18);(Tr. 2/27/02 Lawlor 45:16-21). The Distribution Agreements also allowed DNA to appoint Valley as a sub dealer or agent for purposes of distribution. (DA ¶ 5.2.) The Consignment Vendors also granted Valley under the heading "License to Use Materials" the right "to reproduce ... distribute and display, and otherwise use the Materials" in connection with the distribution and sale of the Product [FN19]. (DA ¶ 9.2.) This authorization was limited to the term of the Distribution Agreements [FN20]. *See* DA ¶ 2 (limiting grant of distribution rights to distribute Product to term of agreement); DA ¶ 9.2 (limiting use of Materials to term of the agreement); DA ¶ 12 (defining term of agreement); DA ¶ 13.1 (setting forth method of termination for material breach). During the term of the Distribution Agreements, DNA had the sole discretion to determine the method of distribution and the collection of payment (DA ¶ 5.1(a)), as well as the prices at which the Product was sold (DA ¶ 4.1).

FN19. The term "Materials" is specifically defined in the Distribution Agreements to include "the rights in and to the names, designs, artwork, packaging, and advertising associated with its Products, including all performances and artistic, musical material embodied in the Products and the trademarks and logos used in connection therewith, together with any new or revised names, designs, artwork, packaging, and advertising which Label may adopt to identify it or any Product during the Term (collectively Materials)." (DA ¶ 9.1.)

FN20. In some agreements there was a limited right to fill outstanding orders after the termination date. (*See* RAS Ex. 6 at ¶ 4.2(b).)

Termination of the Agreements:

The Distribution Agreements contain specific means of termination which require a material breach, written notification of breach to the breaching party and, generally, a 30 day cure period. (DA ¶ 13.1.) Certain rights and obligations survive termination of the contract including the indemnification covenants [FN21]. (DA ¶ 13.2.) The Distribution Agreements may also be terminated pursuant to paragraph 12 which requires written notice by either party 90 days before the automatic renewal date. (DA ¶ 12.)

FN21. The Consignment Vendors have covenanted to indemnify the DNA for any "damages, liabilities, costs and expenses (including, without limitation, reasonable attorney fees) which may be sustained or suffered ...arising out of any actual or alleged breach by Label of any of the representations, warranties, agreements or covenants of Label under this Agreement." (DA ¶ 10.1.) DNA granted the same indemnification to the Consignment Vendors. (DA ¶ 10.2.)

DISCUSSION

[1] The Objecting Vendors seek the denial of the Auction Motion with regard to the Contested Inventory on the basis of two primary arguments: (1) The Objecting Vendors have superior rights in the Contested ***121** Inventory under applicable state law as to both Congress and the Debtor; and (2) The sale of the Contested Inventory will be a "first sale" without the requisite permission of the Objecting Vendors and third party copyright holders and would thus violate federal copyright law and give rise to actions for infringement. The Debtor refutes both of these assertions. The Objecting Vendors also seek equitable relief from the Auction Sale claiming that the proposed sale would place an inequitable burden on the Objecting Vendors because, as a matter of

industry practice, the Contested Inventory may be returned to the DNA Vendors for full credit, the Objecting Vendors have not yet been paid for the inventory, and, indeed, may also be liable for royalties to third parties on that inventory. The Debtor responds that the Objecting Vendors were well aware of that industry practice as reflected in the Distribution Agreements' return provisions. (DA ¶ ¶ 4.2(a), 4.2(e), 4.2(f), 13.3.) I will address each of these arguments in turn.

1. THE OBJECTING VENDORS' RIGHTS IN THE CONTESTED INVENTORY:

The Objecting Vendors base their Auction Objections and Relief Motions on the assertion that under the terms of the Distribution Agreements, which are governed by California law [FN22], they are consignors and thus the owners of the Contested Inventory. However, the Objecting Vendors may be estopped from asserting those ownership rights under California law when claims are made against the Contested Inventory in the possession of Valley by Valley's creditors. The Valley creditor asserting a claim against the Contested Inventory in this proceeding is the Debtor in Possession, as a judicial lien creditor of the pre-petition debtor, Valley, pursuant to 11 U.S.C. § § 544(a)(1) & 1107(a) [FN23].

FN22. "The validity, interpretation and legal effect of this Agreement shall be governed by the laws of the State of California applicable to contracts entered into and performed entirely within said State." (DA ¶ 14.3.)

FN23. The Objecting Vendors misapprehend the priority contest at issue in this proceeding. The priority contest is between the Debtor in Possession in the guise of a judicial lien creditor of the consignee Valley and the Objecting Vendors as unperfected consignors of inventory held by Valley. Congress' priority in the Contested Inventory or its proceeds is not at issue here and will be resolved between the Debtor, as a trustee and fiduciary for all of the estate's creditors, and Congress at a later date.

[2] While California courts may determine that an agreement constitutes a consignment based on the intent of the parties [FN24], such a consignment contract alone does not necessarily allow a consignor's ownership interests in the consigned goods to prevail over the claims of the consignee's creditors. *Bank of Cal. v. Thornton-Blue Pac., Inc.,* 53 Cal.App.4th 841, 62 Cal.Rptr.2d 90, 94 (1997) (adoption of 2326 made retention of title by consignor irrelevant to resolving claims to consigned goods as between consignor and creditors of consignee); *Minor v. Stevenson,* 227 Cal.App.3d 1613, 278 Cal.Rptr. 558, 562 (1991)(intent of the parties to form a consignment relationship does not control when U.C.C. § 2-326 applies); *accord Windsor Communications* ***122***Group, Inc. v. Freedom Greeting Card Co., Inc. (In re Windsor Communications Group, Inc.),* 63 B.R. 767, 770 (Bankr.E.D.Pa.1986), *rev'd on other grounds* 815 F.2d 697 (3d Cir.1987). The parties agree that the ability of the Objecting Vendors to assert their ownership rights against a creditor of the consignee in the context of the consignment relationship formed by the Distribution Agreements is governed either by former U.C.C. § 2-326 [FN25] (prior to July 1, 2001) or by revised U.C.C. § 9-102(a)(20) [FN26] (from July 01, 2001 forward). Revised U.C.C. § 9-102-(a)(20) also implicates revised U.C.C. § § 9-319(a) [FN27] & 9-103(d) [FN28]. I need not decide which code provision applies in this case since the parties have agreed that the analysis of ***123** the Objecting Vendors' rights to the Contested Inventory remains the same under either the former or the revised U.C.C. provisions as enacted in California.

FN24. *See Bank of Cal. v. Thornton-Blue Pac., Inc.,* 53 Cal.App.4th 841, 62 Cal.Rptr.2d 90, 94 (1997)(defining consignment); *Consolidated Accessories Corp. v. Franchise Tax Board,* 161 Cal.App.3d 1036, 1040, 208 Cal.Rptr. 74 (1984)(finding that as between consignor and consignee, the intent to form a consignment is controlling).

FN25. Former U.C.C. § 2-326 was enacted as Cal. Com.Code § 2326 which states:
"(1) Unless otherwise agreed, if delivered goods may be returned by the buyer even though they conform to the contract, the transaction is...(b) A "sale or return" if the goods are delivered primarily for resale.
(2) Except as provided in subdivision (3),... goods held on sale or return are subject to [the claims of the buyer's creditors] while in the buyer's possession.
(3) Where goods are delivered to a person for sale and the person maintains a place of business at which he or she deals in goods of

the kind involved, under a name other than the name of the person making the delivery, *then with respect to claims of creditors of the person conducting the business the goods are deemed to be on sale or return.* The provisions of this subdivision are applicable even though an agreement purports to reserve title to the person making delivery until payment or resale or uses such words as "on consignment" or "on memorandum". However this subdivision is not applicable if the person making the delivery does any of the following:
(b) *Establishes that the person conducting the business is generally known by his or her creditors to be substantially engaged in selling the goods of others.*
(c) Complies with the filing provisions of the division on secured transactions (Division 9) ..." Ann. Cal. Com.Code § 2326(1)(2) & (3)(West 2001), (text of section operative until July 01, 2001) (emphasis added).

FN26. Revised U.C.C. § 9-102(a)(20) is enacted in the California Code at Cal. Com.Code § 9102(a)(20), effective July 01, 2001, and reads in relevant part:
"(20) 'Consignment' means a transaction, regardless of its form, in which a person delivers goods to a merchant for the purpose of sale and *all of the following conditions are satisfied:*
(A) The *merchant* satisfies all of the following conditions:
(i) He or she deals in goods of that kind under a name other than the name of the person making delivery.
(ii) He or she is not an auctioneer.
*(iii) He or she is **not** generally known by its creditors to be substantially engaged in selling the goods of others.*
(B) With respect to each delivery, the aggregate value of the goods is one thousand dollars ($1,000) or more at the time of delivery.
(C) The goods are not consumer goods immediately before delivery.
(D) The transaction does not create a security interest that secures an obligation."
Ann. Cal. Com.Code § 9102(a)(20) (West 2002)(effective July 01, 2001) (emphasis added).

FN27. Revised U.C.C. § 9-319 is enacted in the California Code at Cal. Com.Code § 9319, effective July 01, 2001, and reads in relevant part:
"(a) Except as otherwise provided in subdivision (b), for purposes of determining the rights of creditors of, and purchasers for value of goods from, a consignee, while the goods are in the possession of the consignee, the consignee is deemed to have rights and title to the goods identical to those the consignor had or had power to transfer." Ann. Cal. Com.Code § 9319(a) (West 2001)(effective July 01, 2001).
This language mirrors the language in former Cal. Com.Code § 2326(3).

FN28. Revised U.C.C. § 9-103(d) is enacted in the California Code at Cal. Com.Code § 9103(d) effective July 01, 2001 and reads in relevant part: "The security interest of a consignor in goods that are the subject of a consignment is a purchase money security interest in inventory." Ann. Cal. Com.Code § 9103(d) (West 2002) (effective July 01, 2001).

[3][4] Once it is determined that either former U.C.C. § 2-326(3) or revised U.C.C. § § 9-102(a)(20) & 9-319(a) applies, the goods are deemed to be on sale or return with respect to claims made by the creditors of the consignee. *See Minor,* 278 Cal.Rptr. at 563-64 (holding that if the transaction fulfills the prerequisites of former U.C.C. § 2-326(3) [FN29], a conclusive presumption that the goods are held on a "sale or return" basis arises and former U.C.C. § 2-326 governs the competing rights of the consignor and the creditors of the consignee); *accord Quaker City Iron Works, Inc. v. Ganz (In re Wicaco Mach. Corp.),* 49 B.R. 340, 343 (E.D.Pa.1984); *In re Windsor,* 63 B.R. at 769-70. This fiction allows the consignee's creditors to attach the consigned goods as if the consignee actually had title to the goods. Neither the application of former U.C.C. § 2-326(3) or revised U.C.C. § 9-319(a) affects the ownership rights of the consignor in relation to the consignee [FN30]. Therefore, I must reject the Debtor's contention that the Objecting Vendors lost title to the Contested Inventory under California law when they did not perfect their consignment interests and that such title then vested in Valley. (*See* Debtor's FOF, Doc. 522 at ¶ 61.)

FN29. The elements that must be met are 1)goods are delivered to a person for sale; and 2) the person maintains a place of business at which he or she deals in goods of the kind involved; 3) under a name other than the name of the person making the delivery. *See* Minor, 278 Cal.Rptr. at 561. These elements are fulfilled in the instant case.

FN30. Once the transaction is determined to fall within the revised U.C.C. § 9-102(a)(20) definition of consignment, then revised U.C.C. § 9-319(a) applies when a creditor of the consignee seeks to recover against the consigned goods. Once again, the consignee is deemed to have acquired title, but only for the purposes of determining the rights of creditors of the consignee, not the rights of the consignee to the consigned goods.

[5] A consignor may prevent the application of former U.C.C. § 2- 326(3) or revised U.C.C. § § 9-102(a)(20) & 9-319(a) if it qualifies for one of the two exceptions provided under California law. *Minor,* 278 Cal.Rptr. at 563; *accord, In re BRI Corp.,* 88 B.R. 71, 73-74 (Bankr.E.D.Pa.1988); *In re Wicaco Mach. Corp.,* 49 B.R. at 343-44. The two exceptions are the same whether the former or revised code applies. The consignor must either have (1) filed a UCC-1 financing statement as required under U.C.C. Article 9 or (2) prove that the deliveree is generally known by his creditors to be substantially engaged in selling the goods of others. *See Minor,* 278 Cal.Rptr. at 563 (holding that consignors may rebut the conclusive presumption that goods are on sale or return); *Escrow Connection v. Haas,* 189 Cal.App.3d 1640, 235 Cal.Rptr. 200, 202 n. 4 (1987); *accord In re BRI Corp.,* 88 B.R. at 74; *Wonder Indus. v. Chimneys, Chimes 'N Chairs, Inc. (In re Chimneys, Chimes 'N Chairs, Inc.),* 17 B.R. 776, 778-79 (Bankr.N.D.Ohio 1982). If either of these notice requirements of U.C.C. Article 2 are met, then former U.C.C. § 2-326(3) and revised U.C.C. § § 9-102(a)(20) & 9-319(a) will not apply and the consignee's creditors may not reach the consigned goods in the consignee's possession [FN31]. *See id.*

FN31. "These exceptions the involve the consignor giving notice to the consignee's creditors that goods do not in fact belong to the consignee; when the consignor gives such notice, the transaction is treated as a true consignment rather than a sale or return." *Heller Financial, Inc. v. Samuel Schick, Inc. (In re Wedlo Holdings, Inc.),* 248 B.R. 336, 341 (Bankr.N.D.Ill.2000).

***124** It is undisputed that none of the Objecting Vendors perfected their interests in the Contested Inventory by meeting the U.C.C. Article 9 filing requirements before the bankruptcy preference period. [FN32] Therefore, the key question is whether or not the Objecting Vendors can demonstrate that the deliveree is generally known by its creditors to be substantially engaged in the selling of goods of others. While the purpose of this test is different under former U.C.C. § 2-326(3) and revised U.C.C. § 9-102(a)(20), the effect of proving this proposition is the same under either provision. [FN33] If the Objecting Vendors can prove this proposition, then former U.C.C. § 2-326(3) and revised U.C.C. § 9-102(a)(20) and 9-319(a) will be inapplicable and the Objecting Vendors' will be able to assert their ownership interest in the Contested Inventory against creditors of the Debtor such as a judicial lien creditor.

FN32. The one Objecting Vendor that filed a UCC-1 financing statement was Revelation Records. According to trial testimony, the financing statement was filed within 90 days prior to bankruptcy (Tr. 2/27/02 Garrett 129:20-25) and is thus voidable by the Debtor in Possession. No contrary evidence was offered at trial.
Although not part of the record, I also note that the Dunn & Bradstreet Public Records Report attached as Exhibit B to the Auction Motion (Doc. 118) indicates that Revelation Records filed on October 12, 2001.

FN33. The Court notes that the purpose of the Generally Known/Substantially Related Test is slightly different under the former and revised U.C.C. as enacted in California. Under former Cal. Com.Code. § 2326, the fulfillment of this test preserves the consignment arrangement by preventing the application of Cal. Com.Code. § 2326(3) which would otherwise deem the consigned goods to be on "sale or return" with regard to the consignee's creditors and thus subject the consigned goods in the consignee's possession to the claims of those creditors.
Under revised Cal. Com.Code. 9102(a)(20), however, the fulfillment of this test (which is actually the failure to meet one of the requirements of being a merchant under revised Cal. Com.Code. 9102(a)(20)(A)(iii)--*See* note 26, *supra*) allows the goods to **escape** inclusion in the definition of

consignment because the consignee would not fit the definition of "merchant". If the consignee is not a merchant, then the relationship is not a consignment and Cal. Com.Code. § 9319(a) does not apply. Cal. Com.Code. § 9319(a) is the provision which allows creditors of the consignee to reach consigned inventory in the consignee's possession. The relationship also escapes treatment as a purchase money security interest under revised Cal. Com.Code. § 9103.

Since the parties have agreed that the test is the same under both former Cal. Com.Code. § 2326 and revised Cal. Com.Code. § 9102(a)(20), the Court *will not* consider any assertion by the Objecting Vendors that the Contested Inventory was a consignment or any assertion by the Debtor that the Contested Inventory was *not* a consignment to be an admission for the purposes of revised Cal. Com.Code. § 9102(a)(20).

Legal standard

[6][7][8] Proving that the deliveree is generally known by its creditors to be substantially engaged in the selling of goods of others is ultimately the burden of the consignor. *Haas*, 235 Cal.Rptr. at 204; *accord ATG Aerospace Ltd. v. High-Line Aviation, Ltd. (In the Matter of High-Line Aviation, Inc.)*, 149 B.R. 730, 738 (Bankr.N.D.Ga.1992); *In re BRI Corp.*, 88 B.R. at 74-75; *Multibank Nat'l of W. Mass., N.A. v. State St. Auto Sales, Inc. (In re State St. Auto Sales, Inc.)*, 81 B.R. 215, 218 (Bankr.D.Mass.1988). The consignor must prove by a preponderance of the evidence (1) that the consignee is substantially engaged in selling the goods of others, *and* (2) that it is generally known by the creditors of the consignee that this is the case. *See Leverett Co. v. Arthur A. Everts Co. (In re Arthur A. Everts Co.)*, 35 B.R. 706, 708 (Bankr.N.D.Tex.1984); *Steege v. Affiliated Bank/N. Shore Nat'l (*125In re Alper-Richman Furs)*, 147 B.R. 140, 150 (Bankr.N.D.Ill.1992). Both prongs of this test must be satisfied in order for the consignor to avoid the application of former U.C.C. § 2-326(3) and revised U.C.C. § 9-102(a)(20). *See In re State St. Auto Sales*, 81 B.R. at 218 (finding that even if general knowledge prong met, consignor still has to prove the substantially engaged prong to prevail); *High-Line Aviation, Inc.*, 149 B.R. at 738. In order to be "substantially engaged" in selling the goods of others, a merchant must not hold less than 20% of the value of its inventory on a consignment basis. *See Heller Financial, Inc. v. Samuel Schick, Inc. (In re Wedlo Holdings, Inc.)*, 248 B.R. 336, 342 (Bankr.N.D.Ill.2000) (holding, as a matter of law, that consignee who obtained only 15% to 20% of its inventory on consignment was not substantially engaged in selling the goods of others) [FN34]. To satisfy the "generally known" prong of the test, the Objecting Vendors must prove that a majority of the debtor-consignee's creditors were aware that the consignee was substantially engaged in selling the goods of others, i.e. consignment sales. *In re BRI Corp.*, 88 B.R. at 75. That majority is determined by the number of creditors, not by the amount of creditor claims. *See In re Wicaco Mach. Corp.*, 49 B.R. at 344 (holding that one-fifth of creditors knowing of consignment relationship does not satisfy general knowledge requirement, notwithstanding that such creditors represented 63% of claims against debtor) [FN35]. Testimony as to general knowledge in the industry is insufficient to prove knowledge by a majority of creditors. *See In re Wedlo Holdings*, 248 B.R. at 341-42.

FN34. *See also, In re State St. Auto Sales*, 81 B.R. at 216, 218 (goods held on consignment comprising only about 20% of total inventory deemed insufficient to consider debtor as being substantially engaged in selling the goods of others); *In re Arthur A. Everts Co.*, 35 B.R. at 708-09 (consignee in jewelry business held not primarily engaged in selling goods where only $75,000.00 of the $690,000.00 or 10.8% worth of inventory was held on consignment).

FN35. *See also: In re BRI, Corp.*, 88 B.R. at 75 (holding consignor must show that most of consignee's creditors knew of consignment practice and, must establish number of such creditors); *In re State St. Auto Sales*, 81 B.R. at 218 (consignor must establish number of creditors in number not amount of claims); *In re Wedlo Holdings*, 248 B.R. at 341 (same).

[9][10] The purpose of former U.C.C. § 2-326(3) and now revised U.C.C. § § 9-102(a)(20) & 9-319(a) is to protect general creditors of the consignee from claims of consignors that have undisclosed consignment arrangements with the consignee that create secret liens on the inventory. *Thornton-Blue Pac.*, 62 Cal.Rptr.2d at 95; *Haas*, 235 Cal.Rptr. at 202-03 ("...[T]he agreement between the consignor and consignee cannot operate to grant the consignor an unpublicized, nonpossessory lien.") Under these

U.C.C. provisions, the court is not concerned with the rights between the consignor and consignee, but rather solely with the rights of the third party creditors of the consignee. *See* Minor, 278 Cal.Rptr. at 564; *Thornton-Blue Pac.*, 62 Cal.Rptr.2d at 95. Creditors of the consignee need not demonstrate actual reliance on the goods or the lack of a financing statement in extending credit in order to benefit from the protections of these provisions. *Haas*, 235 Cal.Rptr. at 204. [FN36]

FN36. However, some courts have held that an individual creditor of the consignee with actual knowledge of the consignment relationship does not need protection from potential secret liens. *See* *GBS Meat Industry Pty. Ltd. v. Kress-Dobkin Co., Inc.*, 474 F.Supp. 1357, 1363 (W.D.Pa.1979) (creditor with knowledge of consignment had no right under U.C.C. § 2-326 to proceeds of inventory sale); *Eurpac Svc. Inc. v. Republic Acceptance Corp.*, 37 P.3d 447, 450-51 (Colo.Ct.App.2000).
I need not attempt to determine whether California follows this actual knowledge exception to the test. The priority contest in this case is between the Objecting Vendors and the Debtor in Possession who pursuant to 11 U.S.C. § § 544(a) & 1107(a) is a creditor *without* actual knowledge.

***126** *Valley is the Subject of the Test:*

The parties agree that in order for the Objecting Vendors to demonstrate that their interests in the Contested Inventory are preserved under either provision, it must be established that the "person conducting the business" under former U.C.C. § 2-326(3) or the purported "merchant" under revised U.C.C. § 9-102(a)(20) is generally known by his or her creditors to be substantially engaged in selling the goods of others. *See* Cal. Com.Code. Former § 2326 and Revised § 9102(a)(20). The parties disagree, however, as to whether Valley or its wholly owned DNA division should be the subject of this test. The Objecting Vendors assert that DNA, as the consignee under the Distribution Agreements, is the "person conducting business" or the purported "merchant" and therefore, they need only establish that DNA was generally known by DNA's creditors to be substantially engaged in selling the goods of others to avoid the application of these U.C.C. provisions.

Tracing the definitions of "person" and "merchant", it is clear that the subject of the test must be an entity, whether legal or commercial. [FN37] The Objecting Vendors concede this under their proposed analysis of the term "merchant" and by means of their contention that DNA, as a "commercial entity" [FN38], is the proper merchant or person for the test [FN39]. The Debtor counters that DNA, as an unincorporated division of Valley, is not a legal entity, and thus cannot be the subject of the test since it is incapable of having creditors of its own for purposes of the "general knowledge" prong of the test. Instead, the Debtor asserts that the Objecting Vendors must establish that Valley was generally known by Valley's creditors to be substantially engaged in selling the goods of others. The Objecting Vendors respond that DNA should be treated as an independent "commercial entity" by this Court since, among other things, DNA functioned as an independent entity, was believed to be a ***127** separate entity by its employees, and both Valley and DNA held DNA out as a stand alone entity capable of independent existence.

FN37. Revised U.C.C. § 9-102(a)(20) refers to a "merchant". Merchant is defined as "a *person* who deals in goods of the kind or otherwise holds himself out as having knowledge or skill peculiar to the practices or goods involved in the transaction..." *See* Ann. Cal. Com.Code § 2104(1) (West 2002)(emphasis added).
Former U.C.C. § 2-326(3) also refers to a consignee as a "*person* {that} maintains a place of business at which he deals in goods of the kind involved, under a name other than the person making the delivery." *See* Ann. Cal. Com.Code § 2326(3)(West 2001)(text effective until July 01, 2001)(emphasis added).
The U.C.C. defines *person* as "an individual or an *organization*." *See* Ann. Cal. Com.Code § 1201(30) (West 2002) (emphasis added).
The U.C.C. defines an organization to include "a corporation...or any other *legal or commercial entity*." *See* Ann. Cal. Com.Code § 1201(28) (West 2002)(emphasis added).

FN38. It seems from the context of this assertion that the Objecting Vendors believe that this is a lesser standard than "legal entity". However, they have offered no support for this proposition. (Obj. to Debtor's FOF at 8.)

FN39. Although I find that under revised U.C.C. § 9-102(a)(20) the Objecting Vendors must show that the DNA is not a merchant in order to prevail, they must initially convince me that DNA is an entity that could form its own contracts without binding Valley. Otherwise, the Objecting Vendors' relationship is with Valley and Valley is the proper subject of the revised U.C.C. § 9-102(a)(20) test of merchant status. The same holds true under former U.C.C. § 2-326(3) where the Objecting Vendors must demonstrate that DNA was a "person" that could be subject to the Generally Known/ Substantially Engaged test.

[11][12] I find the question of whether DNA is an entity to be the threshold, and I believe dispositive, issue in determining whether the Objecting Vendors may assert their ownership rights to the Contested Inventory against the Debtor in Possession in a 11 U.S.C. § 544(a) action. Although the Debtor argues that DNA must be a "legal entity" and the Objecting Vendors argue that DNA need only be a "commercial entity", I find that the core question is whether DNA is an entity at all. An entity [FN40] must have a legal identity apart from its members, here the purported officers and employees of DNA. It follows that it must also have a legal identity apart from its owner, here Valley. I find that as an unincorporated division of Valley, DNA did not have a legal identity independent from Valley. Nor does California state law, which governs the contract, or Delaware state law, which governs Valley's corporate existence, organization and governance, recognize a separate legal existence for DNA. I also find no reason to bifurcate the business lines [FN41] nor any viable reliance argument that would justify treating DNA as an entity in contravention of the policies underlying former U.C.C. § 2-326 or revised U.C.C. § 9-102(a)(20).

FN40. Black's law dictionary defines **entity** as: "An organization (such as a business or a governmental unit) that has a legal identity apart from its members." Black's Law Dictionary (7th ed.1999)

FN41. The Objecting Vendors have cited the case of *Newhall v. Haines,* 10 B.R. 1019 (D.Mont.1981) as authority to bifurcate Valley's business lines for the purposes of the Generally Known/Substantially Engaged test. The *Newhall* court based its decision that U.C.C. § 2- 326 did not apply on its finding that the consigned goods differed in nature from the regular inventory of the store. *See Newhall,* 10 B.R. at 1023. Here the consigned goods are the same, and in fact, are indistinguishable from the terms inventory held by Valley and DNA. Thus, I find *Newhall* inapplicable.

[13] In order to have its own creditors, DNA, as an unincorporated division of Valley, would have to be an entity which has both the capacity to contract and the capacity to sue or be sued in order to enforce obligations. The capacity to sue or be sued is a prerequisite to being a party in an action at state or federal law. California law, which governs the Distribution Agreements, grants a legal identity to unincorporated associations [FN42], grants them the capacity to contract [FN43] and grants them ***128** the capacity to sue and be sued in order to enforce obligations [FN44]. Delaware law also recognizes unincorporated associations and grants them the capacity to sue or be sued. [FN45] Even if an unincorporated association lacks the capacity to be a party in an action at state law, it may still be a party in an adversary proceeding in Bankruptcy under Fed.R.Civ.P. 17(b)(1) [FN46] provided that it fits within the narrow federal definition of an unincorporated association. *Equal Employment Opportunity Commission v. St. Francis Xavier Parochial School,* 77 F.Supp.2d 71, 76-77 (D.D.C.1999)(listing cases setting forth the federal definition of unincorporated association). Thus it would seem that an unincorporated entity could have the capacity to have creditors.

FN42. In Title 3 of the California Corporate Code, Unincorporated Associations, an unincorporated association is defined as "any partnership or other unincorporated organization of two or more persons whether organized for profit or not, but does not include a government or governmental subdivision or agency." Ann. Cal.Corp.Code § 24000(a) (West 2002) California case law defines an "association" as "an unincorporated organization composed of a body of men partaking in general form and mode of procedure of the characteristics of a corporation..." *Law v. Crist,* 41 Cal.App.2d 862, 865, 107 P.2d 953 (1940).

FN43. California law makes an unincorporated association liable "to a person who is not a member of the association for an act or omission of the association, and for the act or omission of its officer, agent or employee acting within the scope of his office, agency, or employment, to the same extent as if the association were a natural person." Ann. Cal. Corp.Code § 24001 (West 2002).

Unincorporated associations have been authorized to enter into contracts and thus incur liability on behalf of the association. Ann. Corp Code § 24001 (West 2002), Law Revision and Comment 1967 Addition. *citing* Cal. Com Code § 1201(29) (defining a party as person); § 1201(30) (defining person to include an organization) and § 1201(28)(defining organization to include an association).

A contract is defined as "the total legal obligation that results from the parties' agreement as affected by this code and any other applicable rules of law." Ann. Cal. Com.Code § 1201(11)(West 2002).

FN44. "A partnership or other unincorporated association, whether organized for profit or not, may sue and be sued in the name it has assumed or by which it is known." Ann. Cal.Civ.Proc.Code § 369.5(a)(West 2002)

FN45. An unincorporated association may do business in the state of Delaware upon proper registration (6 Del. C. § 3104), sue and be sued in its common name (10 Del. C. § 3904), and is subject to writs of attachment to enforce judgments (10 Del.C. § 3504).

FN46. Fed. R. Bank. P. 7017 makes Fed.R.Civ.P. 17(b) applicable to adversary proceedings in bankruptcy.

DNA, however, is not an unincorporated association. While it is undisputed that DNA itself is not incorporated, this does not mean that DNA is not subject to a corporate charter. As a wholly owned division of Valley, DNA operates under the Valley charter and enjoys no separate legal existence from Valley. *See St. Francis,* 77 F.Supp.2d at 77 ("Although the division is not separately incorporated, it is still governed by the terms of the corporate charter and still enjoys corporate status because it is a unit of the larger corporation."); *Mayer Pollock Steel Corp. v. Warner,* Docket No. 350,1995, appealed from Superior CA 91C-02-014, 1996 WL 145791 (Del.1996)(holding that a wholly owned unincorporated division had no separate legal existence from its owner corporation). [FN47]

FN47. In the cited case, a merger had taken place between separate corporations which eliminated their separate legal existence and left only an owner corporation and a wholly owned division. This unpublished decision reversed the lower court which had found that although the separate legal existence of the two corporations had been eliminated, the two entities were sufficiently distinct that the owner corporation would not be considered the employer of a division employee. This in effect would have allowed the division employee to bring a tort suit against the owner corporation as if it were not his employer despite 19 *Del C.* § 2304 which prescribed workman's compensation as the exclusive remedy available to employees. The Delaware Supreme Court held that the lower court had committed reversible error in not giving effect to the merger of the two corporations.

[14] I have found no other basis in law that would support a finding that DNA should be treated as a separate legal entity from Valley. The Objecting Vendors argue that DNA was an entity during the time it existed as a joint venture and should still be considered to be an entity in its capacity as a wholly owned division of Valley. (*See* Obj. to Debtor's FOF, Doc. 573 at 10.) In support, they assert that there has been essentially no change in DNA's operations since Valley assumed full ownership and the only change was one of corporate structure. *Id.* That change in corporate structure however, is conclusive to the issue of DNA's ability to ***129** be an entity once the joint venture was absorbed by Valley. The law of Delaware, the state governing Valley's corporate existence and organization, does not recognize DNA as a separate legal entity merely because it was previously a separate entity in its former existence as a joint venture. The buyout of the venture partnership by Valley extinguished the independent existence of DNA as a legal entity and it was subsumed into the corporate body of Valley making the two entities one for all purposes. *See Mayer Pollock* at *1-*2 [FN48] (finding legal error had been committed when a lower court did not give effect to a merger between two formerly separate legal entities). Similarly, California law does not recognize DNA as a separate legal entity from Valley

merely because Valley continued to use the DNA name and to act under that name [FN49]. A corporation may use names other than the one in its charter and yet, it is still not more than one entity. *See* *Pinkerton's, Inc. v. Superior Court,* 49 Cal.App.4th 1342, 57 Cal.Rptr.2d 356, 360 (1996)("Doing business under another name does not create an entity distinct from the person operating the business. The business name is a fiction, and so too is any implication that the business is a legal entity separate from its owner."); *Duval v. Midwest Auto City, Inc.,* 425 F.Supp. 1381, 1387 (D.Neb.1977)("The individual who does business as a sole proprietor under one or several names remains one person, personally liable for all his obligations. So also with a corporation which uses more than one name.") [FN50] While a suit may be brought under the fictitious business name in California, the only entity with capacity to be sued is the corporation itself. *Pinkerton's,* 57 Cal.Rptr.2d at 361 (Cal.Civ.Proc.Code § 474)(finding that no legal action could proceed against the fictitious business name after the legal entity, the corporation using that name, had been dismissed from the suit).

FN48. Although decided by the Delaware Supreme Court under a Pennsylvania statute governing corporate merger, the court cited to a similar Delaware provision, reflecting the court's view that the corporate form chosen by a duly organized corporation is to be respected. Since there have been no arguments made that the joint venture was not properly absorbed into Valley under Delaware law, this case applies without further analysis.

FN49. In the case of a corporation, a fictitious business name is defined at California law as "any name other than the corporate name stated in its articles of incorporation". Ann. Cal. Bus. & Prof.Code § 17900(a)(3)(West 2002).

FN50. This case was incorporated into California law by *Providence Washington Ins. Co. v. Valley Forge Ins. Co.,* 42 Cal.App.4th 1194, 50 Cal.Rptr.2d 192, 194 (1996) and *Pinkerton's Inc. v. Superior Court,* 49 Cal.App.4th 1342, 57 Cal.Rptr.2d 356, 360 (1997).

Therefore, I must conclude that DNA was not an entity and cannot be the "merchant" or "person" who is the subject of the Generally Known/ Substantially Engaged test. Nor was DNA capable of having creditors of its own because as an unincorporated division of Valley, DNA had no legal existence or independent legal identity apart from Valley, it could not bind itself in contract without binding Valley, and it had no capacity to be a party, on it's own, in any legal proceeding at state or federal law.

I am not persuaded by the Objecting Vendors' arguments that the Court should treat DNA as an entity for the purposes of the Generally Known/ Substantially Related test because it functioned as an independent entity or was held out as an independent entity. The Objecting Vendors have offered no case to support the proposition that these assertions, even if true, ***130** could form a basis for finding that DNA was an entity capable of having creditors. The evidence presented has not proven the Objecting Vendors' assertions.

First, the Objecting Vendors have not demonstrated that DNA operated independently from Valley. I find Mr. Garrett's testimony regarding the twelve functions of a distributor discussed above to be compelling in this regard. DNA was in effect merely a sales and marketing arm of Valley for a specific target group of independent labels. DNA could not authorize payment of its own bills. Nor did it handle its own customer service, IT, credit and collections, warehousing, distribution, human resources,etc. I find the Objecting Vendors' assertion that DNA could have outsourced these functions to be unpersuasive because nothing in the record indicates that DNA would have been free to make such a decision without Valley's approval. The fact that Valley created separate financial statements for DNA and charged overhead expenses to that profit and loss statement is also not conclusive of DNA's independence. Similar situations exist in many large companies. It is merely indicative of good business judgement to design accounting systems that assist managers in identifying profitable and unprofitable areas of the business and it is not conclusive of independent existence.

Second, the Objecting Vendors have not effectively demonstrated that DNA was held out as an independent entity to the public such that the Objecting Vendors or other "DNA creditors" could not be aware that DNA was part of Valley. Other than the DNA Vendors, no testimony was offered that a significant number of other "DNA creditors" existed or what their numbers might be. Any Objecting Vendor that signed a form such as the one attached as Exhibit B to the Rotten Records, Inc.

Distribution Agreement was clearly on notice that (1) they were making an agreement with Valley [FN51] and (2) that Valley's creditors might in the absence of such letter, believe the consigned inventory to be property of Valley. (CIL Ex.1.) The DNA Marketing Brochure had only limited distribution and clearly did not represent that DNA was an independent entity from Valley [FN52]. It is also evident from the Distribution Agreements that Valley and DNA shared some close connection worthy of inquiry [FN53].

FN51. The letter reads "Reference is made to the existing consignment arrangements between [Rotten Records, Inc.] and Valley Media, Inc., f/k/a Valley Record Distributors, Inc. (Valley) pursuant to which we from time to time sell and/or deliver goods on consignment (the Consigned Goods) to Valley." (CIL Ex. 1 at Ex. B.)

FN52. The Marketing Brochure that Valley prepared for the sale of DNA acknowledges that DNA utilizes Valley's product fulfillment services as well as accounting, collections, customer service and human resource functions. (RAS Ex. 34 at 6 & 7.) Not one of the Investment Scenarios states that DNA could operate as a stand-alone without financing and either continuing support service from Valley or affiliating itself with another distributor or label or both. (*Id.* at 9.)

FN53. At a minimum the Distribution Agreements submitted as exhibits indicate that Valley could be appointed a sub-dealer (DA ¶ 5.2), all correspondence was sent care of Valley Media (DA ¶ 14.7) and any "shrink wrapping" would be done at prices in effect at Valley Media (DA ¶ 3.2(b)). For Objecting Vendors switching from a terms relationship with Valley to a consignment relationship with DNA, the agreements indicated that the inventory would be moved "from Valley to Distributor {DNA} in Valley's computer system." (CIL Ex. # 1,2,6 at ¶ 4.3); (CIL Ex.# 3 at ¶ 4.4). In other agreements, the Objecting Vendors made the agreement with "DNA, a division of Valley Media, Inc., a Delaware corporation ('Valley')". (CIL Ex. # 4,5, & 7; Ras Ex. # 3,4,8,9,10; D3 Ex.# 1.)

***131** Finally, the Objecting Vendors' argument that DNA was "held out" as an independent entity and Valley should be bound by this for the purposes of the test is contrary to the policy and purposes behind former U.C.C. § 2-326 and now revised § § 9-102(a)(20) & 9-319(a). These sections exist to protect creditors of the consignee from hidden liens, not the consignors' rights to goods in the possession of a consignee. *See In re Wicaco Mach. Corp*, 49 B.R. at 343; *In re Eurpac*, 37 P.3d at 450. As noted by the California Appellate court:

" 'We are not concerned in these cases with the rights between owners and dealers but with the rights of third parties. Rights of third parties may be affected by private arrangements not available to them, but they should not be completely controlled by such terms. Courts should be principally concerned with the reasonable expectations of third parties. Determining the rights of third parties based on ostensible ownership rather than on actual ownership has long been a part of our law. This principle, expressed elsewhere in the Code [fn. omitted.] should apply to these types of cases. We find this position particularly compelling because the owner can easily protect himself by filing a financing statement.' "

Minor, 278 Cal.Rptr. at 564 (2 White and Summers, Uniform Commercial Code (3d 1988) § 23-5, p. 256)(all changes made in *Minor*). Thus, Valley's actions regarding DNA and the Objecting Vendors pre-bankruptcy are of no import to the application of the Generally Known/Substantially Engaged test which only focuses on the reasonable expectations of Valley's non-consigning creditors. It was the Objecting Vendors' duty to inquire about the party that they were dealing with and to make appropriate inquiries about the corporate status of DNA and its affiliation with Valley. To the extent that the Objecting Vendors felt that they were misled as to who they contracted with or what that relationship was, there are other remedies at law adequate to that purpose. Those remedies, however, have no effect on the inquiry at hand.

Objecting Vendors Do Not Meet Their Evidentiary Burden:

Therefore, the burden [FN54] on the Objecting Vendors was to establish that Valley was generally known by Valley's creditors to be substantially engaged in selling the goods of others. I find that the Objecting Vendors have not met this burden nor can they. The Objecting Vendors have not demonstrated that a majority of Valley's creditors in number knew that Valley was substantially engaged in selling the goods of others. All the Objecting Vendors have shown is that the Consignment Vendors and Congress knew that Valley was engaged in consignment sales. Some unproven number of new Terms Vendors and recipients of the Marketing Brochures, if they were Valley creditors, may also have known. However, there was no evidence ***132** offered as to the actual knowledge of the vast majority of Valley's creditors including equipment vendors, travel agents, and insurance carriers, etc. Case law also suggests that the Consignment Vendors are not the creditors who should be protected under the applicable U.C.C. provisions and thus should be excluded from the calculation. *See In re BRI Corp.,* 88 B.R. at 75. Even if the Objecting Vendors could have demonstrated that a majority of Valley's creditors knew of the consignment sales, they could not and did not show that Valley was actually substantially engaged in such sales. *See In re State St. Auto Sales,* 81 B.R. at 218. For the period of time evidenced by the Valley Media Inventory Analysis (RAS Ex. 19), the percentage of the value of consigned inventory to total inventory for Valley was never more than 17.03% which is below the 20% threshold set by case law on the issue. *See In re Wedlo Holdings,* 248 B.R. at 342.

FN54. Under former U.C.C. § 2-326(3) it is clear that the Objecting Vendors have the burden of establishing that the Generally Known/Substantially Engaged test has been met to rebut the presumption that the consignment was a "sale or return" arrangement. However, under revised U.C.C. § 9-102(a)(2) the party seeking to avoid the consignor's interest must first prove that the arrangement at issue is indeed a consignment by showing that the deliveree was a merchant. Thus, under revised U.C.C. § 9-102(a)(2), it seems that the burden would be on the Debtor to demonstrate that Valley was *not* generally known by its creditors to be substantially engaged in the selling of the goods of others. *See* notes 26 & 33, *supra.* The Debtor in Possession has met this burden. I am satisfied, therefore, that the outcome in this case remains the same under either provision.

I conclude that the Objecting Vendors have not met their burden on either prong of the test. Therefore former U.C.C. § 2-326(3) or revised U.C.C. § § 9-102(a)(20) & 9-319(a) would apply if a creditor of Valley seeks to recover against the Contested Inventory.

Debtor's § 544 Powers:

[15][16] The Objecting Vendors did not perfect their interest in the Contested Inventory by filing and do not qualify for any other exception to the application of former U.C.C. § 2-326(3) or revised U.C.C. § § 9-102(a)(20) & 9-319(a). Thus, the Objecting Vendors may not assert ownership rights in the Contested Inventory against the Debtor in Possession as a hypothetical lien creditor of Valley pursuant to 11 U.S.C. § § 544(a) [FN55] & 1107(a) [FN56]. *See In re BRI Corp.,* 88 B.R. at 74. No knowledge of the pre-petition debtor regarding the consignments is imputed to the Debtor in Possession. *See* 11 U.S.C. § 544; *High-Line Aviation,* 149 B.R. at 739 (actual knowledge of the consignment is not imputed to the bankruptcy trustee under 11 U.S.C. § 544(a)(1)); 5 *Collier on Bankruptcy,* ¶ 544.02 at 544-4 & 5, ¶ 544.03 at 544-7 & 8 (15th ed. rev.2001). Therefore, while a consignor that failed to protect its interest under former U.C.C. § 2-326(3) or revised U.C.C. § 9-102(a)(20) might prevail over a secured creditor of the consignee who had actual knowledge of the consignment, that consignor will not prevail over a trustee exercising its powers pursuant to 11 U.S.C. § 544(a). *See High-Line Aviation,* 149 B.R. at 739.

FN55. In relevant part, 11 U.S.C. § 544 reads:
"(a) The trustee shall have, as of the commencement of the case, and without regard to any knowledge of the trustee or of any creditor, the rights and powers of, or may avoid any transfer of property of the debtor or any obligation incurred by the debtor that is voidable by--
(1) a creditor that extends credit to the debtor at the time of the commencement of the case, and that obtains, at such time and with respect to such credit, a judicial lien on all property on which a creditor on a simple contract could have obtained such a judicial lien, whether or not such a creditor exists;..."

FN56. In relevant part, 11 U.S.C. § 1107 reads:
"(a) Subject to any limitations on a trustee serving in a case under this chapter, and to such limitations or conditions as the court prescribes, a debtor in possession shall have all the rights, other than the right to compensation under section 330 of this title, and powers, and shall perform all the functions and duties, except the duties specified in sections 1106(a)(2), (3), and (4)

of this title, of a trustee serving in a case under this chapter."

A judicial lien creditor is a creditor of the consignee Valley that may invoke former U.C.C. § 2-326(3) under California law [FN57]. *See Haas,* 235 Cal.Rptr. at 204. ***133** Since the Objecting Vendors have not proven that Valley was generally known by its creditors to be substantially engaged in selling the goods of others, a judicial lien creditor may attach consigned goods in the possession of Valley under former U.C.C. § 2-326(3) or revised U.C.C. § 9-319(a). The Debtor must bring an adversary proceeding to complete the 11 U.S.C. § 544(a) action. However, I find that the Debtor may sell the Contested Inventory since its interest in that inventory is superior to the Objecting Vendors' interests.

FN57. Since the intent of revised U.C.C. § § 9-102(a)(20) and 9- 319(a) are the same as former § 2-326(3), the holding applies to these sections as well.

[17] Therefore, I must conclude that the Objecting Vendors' may not obtain relief from the stay to recover the Contested Inventory. *See In re Tristar Automotive Group,* 141 B.R. 41, 44 (Bankr.S.D.N.Y.1992) (a consignor that neither files nor proves that the consignee was generally known to be substantially engaged in selling the goods of others is treated as a general unsecured creditor and as such is not entitled to relief from the automatic stay) The Objecting Vendors will have a pre-petition unsecured claim [FN58] against the estate for the invoice price [FN59] of the Contested Inventory. *See In re BRI Corp.,* 88 B.R. at 75 (holding that the consignor is left with an unsecured claim against the estate subordinated to the rights of the trustee under 11 U.S.C. § 544(a)(1).) [FN60]

FN58. Courts differ in their view of whether the 11 U.S.C. § 544(a)(1) action when a consignor has failed to protect its interest under former U.C.C. § 2-326(3) should be reviewed under a priority of interest analysis or a property of the estate analysis. *See* Hillinger, *The Treatment of Consignments in Bankruptcy,* § § 1,2, & 3, 6 Bankr.Dev.J. 73, 92-103 (1989). However, courts concur that the consignor holds an unsecured claim against the Debtor as a result of the 11 U.S.C. § 544(a)(1) action, regardless of whether they consider that the inventory has become property of the estate *In re Auclair,* 131 B.R. 185, 187 (Bankr.M.D.Ala.1991), that the trustee's rights are superior to the consignor's rights in the inventory *In re BRI Corp.,* 88 B.R. 71,75 (Bankr.E.D.Pa.1988) or that the trustee has set aside or avoided the consignor's unperfected security interest *In Matter of High-Line Aviation, Inc.,* 149 B.R. 730, 732 & 739 (Bankr.N.D.Ga.1992) as a result of such action.

FN59. *See* CIL Ex. 1 at Ex. A (listing prices to be paid by distributor); CIL Ex. 2 at Ex. A (same).

FN60. *See also, In re Russell,* 254 B.R. 138, 144 (Bankr.W.D.Va.2000)(holding that a bankruptcy trustee's rights in consigned inventory are superior to rights of any consignors who have not filed financing statements when those consignors do not prove the generally known/substantially engaged exception to former UCC § 2-326(3)); *In Matter of High-Line Aviation, Inc.,* 149 B.R. 730, 738 (Bankr.N.D.Ga.1992) (holding that under 11 U.S.C. § 544 a trustee may avoid a consignor's interest that is not protected under former UCC § 2-326 at the time the consignee files bankruptcy); *In re Auclair,* 131 B.R. 185, 187 (Bankr.M.D.Ala.1991)(consignor has an unsecured claim for inventory it failed to protect under former U.C.C. 2-326(3) exceptions and may file a proof of claim in the case).

2. COPYRIGHT AND LICENSES:

[18] The Objecting Vendors have asserted that any sale of the Contested Inventory will violate federal copyright law because it will be made without the requisite authority of the copyright owners. Although the Distribution Agreements clearly gave Valley the right to distribute consigned inventory delivered into its possession pursuant to those agreements, the Objecting Vendors argue that this authority has terminated and may not be revived except with their express permission.

The Objecting Vendors' arguments are as follows: 1)The Distribution Agreements and the licenses they contain have already been terminated; 2) if not terminated, the Distribution Agreements are executory ***134** contracts and the licenses they contain to distribute the Contested Inventory and use other intellectual property may not be exercised by the Debtor unless the Debtor assumes the Distribution Agreements; 3) the Debtor may not assume or assign the Distribution Agreement licenses under Third Circuit case law regarding § 365(c)(1) unless they obtain the permission of the Objecting Vendors; and 4) even if the Debtor still has permission to sell, the Auction Sale exceeds the scope of authority to distribute granted by the license.

The Debtor in turn asserts that it need not assume the Distributions Agreements because: 1)Valley has title to the Contested Inventory and thus under the first sale doctrine, the Debtor does not need authorization from the copyright holders to sell [FN61]; 2) the Distribution Agreements were not terminated according to their terms prior to the petition date and are still in effect; 3) the Objecting Vendors' right to authorize distribution was exhausted upon delivery of the Contested Inventory [FN62]; 4) the right to sell survives the termination of agreements [FN63]; and 5) the Auction Sale will not exceed the scope of the licenses. Rather than addressing each argument, I will only address such arguments of parties as are necessary to determine the Debtor's right to distribute for the purposes of the Auction Sale.

FN61. It is clear from the discussion in section I of this opinion regarding the effect of former U.C.C. § 2-326(3) and revised U.C.C. § 9- 319(a) on title, *supra,* that Valley did not have title to the Contested Inventory pre-petition. I find that I need not reach the issue of whether an involuntary transfer of title under § 544(a) in combination with former U.C.C. § 2-326(3) or revised U.C.C. § 9-319(a) is either possible or would effect a first sale. *See Platt & Munk Co. v. Playmore, Inc.,* 315 F.2d 847, 854 (2d Cir.1963) (recognizing in dicta that a first sale may result from involuntary transfer of title through judicial sale or court compelled assignment if the copyright holder received his reward for the use of the article and that the right holder may be estopped from denying authorization of the transfer by means of presumed consent to the rights and remedies applicable to goods in the course of trade); *United States v. Atherton,* 561 F.2d 747, 750 (9th Cir.1977)(first sale not limited to voluntary sale).

FN62. I need not address this argument since I find that the Distribution Agreements have not been terminated.

FN63. This is clearly not the case. The authorization to sell was limited to the duration of the Distribution Agreements. *See* DA ¶ 2 (limiting grant of distribution rights to term of agreement); DA ¶ 9.2 (limiting use of materials to term of the agreement).

[19][20] Copyright in a work protected by federal copyright law vests initially in the author of the work. 17 U.S.C. § 201(a). Copyright owners possess certain exclusive rights, including the right to distribute or authorize the distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership [FN64]. 17 U.S.C. § 106(3). Once a copyright owner consents to the sale of particular copies or phonorecords, the distribution right is terminated with regard to those particular copies or phonorecords. 17 U.S.C. § 109(a) [FN65]; *See* 2 Nimmer ***135** on Copyright § 8.12[B][1] at 8-150.6 (2001) After the first sale of the copyrighted item "lawfully made under this title", the purchaser and subsequent purchasers are an "owner" of that item under 17 U.S.C. 109(a). *Quality King Distributors, Inc. v. L'anza Research Int'l., Inc.,* 523 U.S. 135, 145, 118 S.Ct. 1125, 1130, 140 L.Ed.2d 254 (1998). This is the so called first sale doctrine embodied in 17 U.S.C. § 109(a) and prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred. *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.,* 847 F.2d 1093, 1096 (3d Cir.1988). An owner of a lawfully made copy, or one authorized by such owner, may sell that copy without any further permission of the copyright owner. See 17 U.S.C. § 109(a); *Quality King,* 523 U.S. at 146-47, 118 S.Ct. at 1131. Ownership of the copyright is distinct from ownership of any material object in which the work is embodied, such as the Contested Inventory. 17 U.S.C. § 202 [FN66]. Therefore, mere legal or authorized possession, such as in the case of a bailee or consignee, does not grant the requisite authority to make the first sale and will not protect the bailee or subsequent sellers from infringement actions. *Quality King,* 523 U.S. at 146-47, 118 S.Ct. at 1131; *Little Brown & Co. v. American Paper Recycling Corp.,* 824 F.Supp. 11, 17 (D.Mass.1993);.

FN64. 17 U.S.C. § 106(3) reads in relevant part:
"Subject to sections 107 through 121, the

owner of a copyright under this title has the exclusive rights to do and to authorize any of the following:
...(3)to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."

FN65. 17 U.S.C § 109(a) reads in relevant part:
"Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord..."

FN66. 17 U.S.C. § 202 reads in relevant part:
"Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object;..."

[21][22][23][24][25][26] Permission to sell is granted by the copyright owner to other parties via licenses. An exclusive license to distribute grants the holder of that license all the rights and remedies of the copyright owner pertaining to distribution. 17 U.S.C. § 201(d)(2). Exclusive licenses grant the licensee a property right in the copyright that is freely transferrable and the licensor is precluded from transferring those rights again to someone else. *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 300, 309 (Bankr.D.Del.2001). The Objecting Vendors have such licenses from third party copyright holders whose copyrighted work is embodied in the Contested Inventory. (DA ¶ ¶ 7.1(a)-(e), 9.1); (Tr. 2/26/02 Lemasters, 34:19-35:24, 42:5-42:19; Dickinson 60:12-18); (CIL Ex. 8). A non-exclusive license of rights by a copyright owner to another party is not assignable by that party without the permission of the copyright holder under federal copyright law since the license represents only a personal and not a property interest in the copyright. *In re Golden Books*, 269 B.R. at 309. The Third Circuit follows the general rule that intellectual property licenses, including copyright licenses, are executory contracts within the meaning of 11 U.S.C. § 365(c) under the Countryman test [FN67]. *In re Golden Books*, 269 B.R. at 308; *In re Access Beyond Tech., Inc.*, 237 B.R. 32, 43 (Bankr.D.Del.1999). An executory contract may not be assumed by a debtor in possession if it may not be assigned under applicable non-bankruptcy law, such as federal copyright law. *See In the *136Matter of West Electronics, Inc.*, 852 F.2d 79, 82- 83 (3d Cir.1988); *In re Golden Books*, 269 B.R. at 308-309; *In re Access Beyond Tech., Inc.*, 237 B.R. at 48. Since non-exclusive licenses may not be assigned by the licensee under applicable copyright law, they may not be assumed by the debtor in possession. *See In re Golden Books*, 269 B.R. at 308-309.

FN67. The Countryman test is applied in the Third Circuit to determine whether a contract is executory. Under this test, a contract is executory when the obligations of both the bankrupt and the other party are so far underperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other. *In re Columbia Gas System, Inc.*, 50 F.3d 233, 244 n. 20 (3d Cir.1995); *In re Golden Books*, 269 B.R. at 308.

[27][28] The Debtor-in Possession must have the requisite authority to sell the Contested Inventory or become an infringer. If the first sale of the phonorecords or copies in which the copyrights are fixed is transacted without the permission of the copyright holder or its exclusive licensee, that seller and all subsequent sellers are liable for infringement. *Platt & Munk Co. v. Playmore, Inc.*, 315 F.2d 847, 852 (2d Cir.1963)(holding that the lack of an authorized first sale is a defect in title making all subsequent sellers liable for infringement); *American Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir.1978)(holding that even subsequent purchasers without knowledge of the unauthorized first sale are liable for infringement if the copy was not the subject of an authorized first sale). In other words, an owner as contemplated in 17 U.S.C. § 109(a) cannot be created by an unauthorized first sale. Once a lawfully made copy is sold with the requisite permission, a 17 U.S.C. § 109(a) owner is created, the right to control distribution is cut-off and no subsequent seller can be held liable for infringement. *See* 17 U.S.C. § 109(a); *Quality King*, 523 U.S. at 145, 118 S.Ct. at 1130.

There are three copyright owners in this case: 1) the authors of the musical compositions ("Music

Writers") from whom the Objecting Vendors or the Artists (defined below) have, or should have, obtained mechanical licenses to record their compositions [FN68], 2) the copyrights of the those who recorded and or produced the recordings (the "Artists"), and 3) the Objecting Vendors' own copyright in recordings which they produced themselves (collectively, the "Copyright Owners"). The purpose of the Distribution Agreement was to allow Valley to sell the consigned inventory for the Objecting Vendors. (Tr. 2/26/02 Lemasters 42:13-19, Dickinson 60:12-18.) The Objecting Vendors warranted in the Distribution Agreements that they had obtained the necessary authority from the Music Writers and Artists to allow Valley to distribute the Contested Inventory without infringing the rights of the Music Writers or Artists. (DA ¶ ¶ 7.1(a)-(e),9.1); (Tr. 2/26/02 Lemasters, 34:19- 35:24, 42:5-42:19; Dickinson 60:12-18); (CIL Ex. 8) The Objecting Vendors also granted Valley their own permission to distribute the Contested Inventory. (DA ¶ ¶ 2,9.2.) Thus the Distribution Agreements granted Valley authority to sell the Contested Inventory without infringing on the distribution rights of any of the Copyright Owners, including the Objecting Vendors rights. In other words, Valley was authorized by the Objecting Vendors as copyright owners and exclusive licensees of the Artists and the holder of mechanical licenses from the Music Writers to sell the phonorecords that embodied those copyrighted works. The individuals and entities purchasing from Valley obtained title to lawfully made phonorecords and became 17 U.S.C. § 109(a) owners who could make subsequent sales without infringement. Neither the Objecting Vendors (unless they purchased CD's from Artists) nor Valley were 17 U.S.C. § 109(a) owners since neither could sell without the licenses they held. The question before me is whether Valley's ***137** authority to sell the Contested Inventory still exists in bankruptcy under the executory, non-exclusive licenses in the Distribution Agreements. I find that it does.

FN68. In the event that the Objecting Vendors do not make the requisite mechanical license payments, debtor has made an agreement with The Harry Fox Agency, which represents most of the Music Writers, to pay the royalties. *See* Auction Order (Doc. 287).

Distribution Agreements Were Not Terminated:

[29] As an initial matter, I find that the Distribution Agreements have not been terminated. While Valley may have breached the Distribution Agreements prepetition by failing to make the October 2001 payments to the Objecting Vendors, none of the Objecting Vendors have demonstrated that they successfully terminated the Distribution Agreements prepetition according to the termination provisions in those agreements [FN69]. (DA ¶ ¶ 12, 13.1.) The automatic stay prevented the Objecting Vendors from terminating the agreements post-petition, despite any post-petition breach, without first seeking relief from the stay. 11 U.S.C. § 362. The Objecting Vendors have not moved for relief on this basis in their Relief Motions [FN70]. Nor were the licenses in the Distribution Agreement terminated automatically by any breach. The Distribution Agreements specifically deal with the consequences of a material breach of any kind and the methods for terminating the agreements, and thus the licenses they contain, in ¶ 13.1 entitled "Events of Termination". (DA ¶ 13.1.)

FN69. Except that The Music Cartel, Inc., Beatville Records, and Rotten Records, Inc. have made credible, factual assertions that their Distribution Agreements may have been terminated pre-petition in accordance with the requirements of paragraph 12 or 13.1 of those agreements. I will discuss my findings regarding the Distribution Agreements of these three Objecting Vendors in section 5 of this opinion, *infra.*

FN70. The relief from stay motions were to recover the Contested Inventory. Generally the relief motions asserted that the Contested Inventory was not property of the estate because it was on consignment and the Objecting Vendors held title to the inventory.

Debtor in possession succeeds to rights in executory contracts:

[30][31] The Objecting Vendors' assertion that the licenses terminated when the pre-petition Debtor ceased to exist and was replaced by the Debtor in Possession is similarly unpersuasive. The debtor and the debtor in possession are indeed considered to be two different entities. *In re West Electronics, Inc.*, 852 F.2d at 83; *In re Trans World Airlines, Inc.*, 261 B.R. 103, 115 (Bankr.D.Del.2001). However, the rights of a trustee expressly include the rights the debtor has under executory contracts and the debtor in possession is vested with all the rights and powers of a trustee. 11 U.S.C. § § 365, 541, 1107; *In re*

Access Beyond Tech., Inc., 237 B.R. at 39. Licenses are generally considered to be executory contracts and thus the rights of the debtor under such licenses are vested in the debtor in possession as of the petition date. *See In re Golden Books,* 269 B.R. at 308; *In re Access Beyond Tech., Inc.,* 237 B.R. at 43. A finding that the debtor in possession may exercise rights under contracts during the pendency of the case even though the contracts are not assumable under 11 U.S.C. § 365(c) does not conflict with federal copyright law which prohibits the assignment of non-exclusive licenses since the debtor is not assigning the license to the debtor in possession.

[32][33] The case cited by the Objecting Vendors for the proposition that the debtor in possession may not exercise the license rights possessed by the debtor at the commencement of the case is inapplicable here because there is no similar fiduciary ***138** duty between the pre-petition debtor and the Objecting Vendors that would conflict with the duties of the Debtor in Possession to the estate creditors. *See In re Harms,* 10 B.R. 817, 821-22 (Bankr.D.Colo.1981) (decided within the context of the fiduciary duties of a general partner to limited liability partners and the unique aspects of partnership agreements and partnership law.) *citing Matter of Unishops, Inc.,* 543 F.2d 1017 (2d Cir.1976) [FN71]. Additionally, although *In re West Electronics, Inc.* recognizes that the pre-petition debtor and the debtor in possession are different entities, the debtor in possession is not a "third party" for whom the debtor would have to get a licensor's permission prior to assignment. *See* 852 F.2d at 83 ("Thus, if non-bankruptcy law provides that the government would have to consent to an assignment of the West contract to a third party, i.e., someone 'other than the debtor or the debtor in possession' then West, as the debtor in possession cannot assume that contract.") As indicated in 11 U.S.C. § 365(c), the debtor in possession becomes the party to the executory contract, without assignment as of the petition date:

> FN71. While *Harms* held a that the debtor and the DIP were separate entities, the court based it's decision that a debtor in possession could not remain the general partner in a partnership on the personal nature of the agreement and the inherent conflicts of interests in the fiduciary duty a general partner owes to its limited partners and the fiduciary duty a debtor in possession owes to creditors of the general partner's estate. Thus the court found that the partnership dissolved at the petition date when the general partner ceased to exist. *Unishops* cited to the proposition that debtor and debtor in possession are not the same entity only to reassert that use of that proposition was limited to the rejection of labor collective bargaining agreements by a debtor in possession without following the requirement of § 8(a) of the National Labor Relations Act. *See Unishops,* 543 F.2d at 1018. The *Shopmen's* court, which established the rule, had held that the debtor in possession was not a party to the labor agreement and was not bound by the restriction on termination contained in the statute. *See Shopmen's Local Union No. 455 v. Kevin Steel Products, Inc.,* 519 F.2d 698, 704 (2d Cir.1975); *Truck Driver's Union No. 807 v. The Bohack Corp.,* 541 F.2d 312, 319-20 (2d Cir.1976) (limiting the holding of *Shopmen's.*)

> "(c) the trustee [which includes the debtor in possession] may not assume ... any executory contract...if ...(1)(A) applicable law excuses a party, other than the debtor, to such contract...from accepting performance from...**an entity other than the debtor or debtor in possession**...and (B) such party does not consent to such assumption..." (emphasis added)

See In re West Electronics, Inc., 852 F.2d at 82-83; 11 U.S.C. § 365(c)(1)(A) & (B), (changes in *In re West Electronics, Inc.*). The language of this section indicates that the non-debtor party to the contract is required to accept performance from the debtor in possession despite the executory nature of the contract and the possibility that it may not be assumable by that debtor in possession. The remedy of the non-debtor party is a motion to lift the automatic stay in order to terminate the non-assumable contract. *See In re West Electronics, Inc.,* 852 F.2d at 80, 82 (court ruled that the bankruptcy and district courts should have granted the non-debtor's motion to lift stay and terminate executory contract according to its terms when the debtor in possession could not assume the contract under 11 U.S.C. § 365(c)(1)).

Thus, I conclude that the Debtor in Possession in this case is not required to assume the licenses to make use of the rights they contain. The cases cited by the Objecting Vendors to support their arguments that the Debtor in Possession ***139** may not assume the licenses pursuant to the restrictions of § 365(c)(1) [FN72] or assign [FN73] the licenses under the law of copyright are not relevant to these facts. The

Debtor in Possession is not seeking to either assume the licenses for the benefit of the post bankruptcy reorganized company or to assume and assign (i.e., sell) the licenses for the benefit of the estate.

FN72. For the proposition that the licenses are not assumable by the debtor in possession, the Objecting Vendors cite to: *In re Access Beyond Technologies,* 237 B.R. 32, 48 (Bankr.D.Del.1999); *In re Golden Books,* 269 B.R. 300 (Bankr.D.Del.2001); *In re CFLC, Inc.,* 89 F.3d 673 (9th Cir.1996).

FN73. For the proposition that the licenses are not assignable without the licensor's consent, the Objecting Vendors cite to: *Gardner v. Nike,* 30 Fed.Appx. 726 (9th Cir.2002)

Indeed, the Debtor in Possession is not seeking to exercise any right that it did not already possess as of the commencement of the case and is not seeking to obtain additional performance from the Objecting Vendors. The exercise of the right to sell will not place any obligation on the Objecting Vendors that did not already exist as of the delivery of the Contested Inventory to Valley. As of the time that Valley signed the Distribution Agreements, it had the right to distribute the product of the Objecting Vendors by a method in its sole discretion (DA ¶ 5.1(a)), at a price within Valley's sole discretion (DA ¶ 4.1), without needing to request further permission from the Objecting Vendors, obtain third party permissions for sale, or pay royalties to the Music Authors or Artists. (DA ¶ ¶ 2, 7.1(c), 9.2.) The Objecting Vendors, through the Distribution Agreements, guaranteed that any product delivered for sale would have clear and marketable title and the sale of the product would not violate any copyright or trademark. (DA ¶ ¶ 7.1(a)-(e), 9.1.) The parties offered cross indemnification for damages resulting from breaches of the agreements. (DA ¶ ¶ 10.1, 10.2.) As part of the guarantee of good title, the Objecting Vendors indemnified Valley against intellectual property claims by other copyright holders (such as the Music Writers and the Artists) resulting from Valley's use of the Materials or sale of the Product. (DA ¶ 9.3.) Additionally, the Objecting Vendors retained the responsibility for making all royalty payments, including mechanical royalties. (DA ¶ 5.3(a).) Thus at the time the Contested Inventory was delivered, Valley had authorized possession of the product, authority to sell free of infringement claims by third parties or the Objecting Vendors, and a promise from the Objecting Vendors to indemnify Valley on any infringement claims from third parties. All of these rights became property of the estate as of the petition date and may be exercised by the Debtor in Possession without the need to assume the Distribution Agreements.

Therefore, I find that Valley, as the Debtor in Possession has the requisite authority to sell the Contested Inventory rather than mere authorized possession [FN74]. The Auction Sale will qualify as a "first sale" where the owner of the copyrights or exclusive licensee of those Copyright Owners authorized another to sell the copies or phonorecords embodying the copyrighted work.

FN74. *See e.g.,Quality King,* 523 U.S. at 146-47, 118 S.Ct. at 1130; *Platt & Munk, Co.,* 315 F.2d at 851-52 (lawful possession by another does not deprive copyright proprietor of right to control transfer of the copyrighted objects).

The Auction Sale Does not Exceed the Scope of the License:

[34][35][36][37] A licensee may not exceed the scope of the permission granted in a license. *See* ***140***_MacLean Assoc., Inc. v. Mercer- Meidinger-Hansen, Inc.,_ 952 F.2d 769, 779 (3d Cir.1991) (the licensor may still bring an infringement suit if the licensee's use of the implied license exceeds its scope); *S.O.S. Inc. v. Payday, Inc.,* 886 F.2d 1081, 1087 (9th Cir.1989) (licensee infringes owner's copyright if it exceeds scope of license). Thus any sale by the Debtor is confined to the scope of the permission granted by the Objecting Vendors in the licenses to distribute contained in the Distribution Agreements. The contract law of the state governing the Distribution Agreements provides the rules of contractual construction of licenses to the extent that they do not interfere with the federal protection of intellectual property. *See S.O.S. Inc. v. Payday, Inc.,* 886 F.2d at 1087; *Intel Corp. v. Broadcom Corp.,* 173 F.Supp.2d 201, 210 (D.Del.2001) (a license agreement is a contract governed by state law) [FN75]. I find the Distribution Agreements unambiguous on this issue. The Debtor is authorized under the Distribution Agreements to "use commercially reasonable efforts to distribute the Label's Product by soliciting and fulfilling orders for such Product. The method of distribution of Products hereunder and the collection of payment therefor shall be within the sole discretion of Distributor." (DA ¶ 5.1(a).) [FN76] The Distribution Agreements

also granted Valley sole discretion to set the sale price for the consigned inventory. (DA ¶ 4.1.) Valley was appointed the Objecting Vendors "sole and exclusive distributor for the Products during the Term within the United States, its territories and possessions (the 'Territories')..." (DA ¶ 2.) I find no other restrictions on the authority to distribute. Therefore as long as the auction sale is to purchasers within the United States, the scope of the authority to sell will not be violated.

FN75. California law on the construction of contracts requires that I "give effect to the mutual intent of the parties as it existed at the time of the contracting, so far as it is ascertainable and lawful. Cal. Civ Code § 1636; *AIU Ins. Co. v. Superior Ct.,* 51 Cal.3d 807, 274 Cal.Rptr. 820, 799 P.2d 1253, 1264 (1990)... 'Such intent is to be inferred, if possible, solely from the written provisions of the contract.' *AIU Ins.,* 274 Cal.Rptr. 820, 799 P.2d at 1264 (citing Cal. Civ.Code § 1639). In construing a contract, 'no term shall be considered uncertain or ambiguous if its meaning can be ascertained by fair inference from the terms of the agreement.' *Ellis v. McKinnon* Broadcasting *Co.,* 18 Cal.App.4th 1796, 23 Cal.Rptr.2d 80 (1993). Thus '[i]f contractual language is clear and explicit, it governs'. *Foster-Gardner, Inc. v. National Union Fire Ins. Co.,* 18 Cal.4th 857, 77 Cal.Rptr.2d 107, 959 P.2d 265, 272 (1998)." *Intel Corp. v. Broadcom Corp.,* 173 F.Supp.2d 201, 210-11 (D.Del.2001). (case interpreting patent licenses under California law) The determination of ambiguity is the court's to make. *Id.*

FN76. The Objecting Vendors cite to the D3 Distribution Agreement (D3 Ex.# 1 at ¶ 5.1(b)) under which Valley is to use "reasonable efforts to promote the sale of the Label's Product through Distributor's wholesale and retail customers." (Obj. Vendor's FOF, Doc. 521 at 16.) However, ¶ 5.1(b) of that agreement deals with promotions and advertising, not method of sale.

3. NO ADMINISTRATIVE PRIORITY CLAIM FOR SALE OF CONTESTED INVENTORY

[38] The Objecting Vendors have asserted that the post-petition sale of the Contested Inventory will give rise to an administrative claim under 11 U.S.C. § 363(b). (Obj. to Debtor's FOF, Doc. 573 at 15) I find that the Auction Sale will not give rise to any administrative claim.

[39][40][41] To establish administrative expense priority the burden is on the claimant to demonstrate that the obligation claimed as an administrative expenses (1) arose out a post-petition transaction with the debtor in possession and (2) directly and substantially benefitted the estate. ***141** *Calpine Corp. v. O'Brien Environmental Energy, Inc. (In re O'Brien Environmental Energy, Inc.),* 181 F.3d 527, 532-33 (3d Cir.1999); *In re Mid-American Waste,* 228 B.R. at 821; *Microsoft Corp. v. DAK Indus., Inc. (In re DAK Indus., Inc.),* 66 F.3d 1091, 1094 (9th Cir.1995). The principal purpose of 11 U.S.C. § 503 is to induce entities to do business with a debtor after bankruptcy by insuring that those entities receive payment for services rendered. *In re DAK Indus., Inc.,* 66 F.3d at 1097. Section 503(b) contemplates some quid-pro-quo wherein the estate accrues debt in exchange for some consideration necessary to the operation of the estate. *Pennsylvania Dept. of Environmental Resources v. Tri-State Clinical Laboratories, Inc.,* 178 F.3d 685, 689-90 (3d Cir.1999). Priority is granted to compensate the providers of necessary goods, services or labor. *Id.* A debt is not entitled to administrative priority merely because the right to payment arises post-petition. *In re Mid-American Waste Systems,* 228 B.R. at 821. It is the substantial contribution to the estate, not the activity, such as sale, that incurs the obligation that must occur in the chapter 11 case. *Lebron v. Mechem Fin., Inc.,* 27 F.3d 937, 944 (3d Cir.1994).

As discussed in section I of this opinion, *supra,* the Objecting Vendors will have an unsecured claim against the Debtor's estate for the invoice value of the Contested Inventory pursuant to the operation of 11 U.S.C. § 544(a) in connection with the Objecting Vendors' failure to prove an exception under former U.C.C. § 2-326(3) or revised U.C.C. § 9-102(a)(20). It is clear that under Third Circuit law, the sale of this inventory would not create an administrative expense claim. The inventory was provided to Valley pre-petition and does not represent a post-petition transaction with the Debtor in Possession.

[42] The remaining question is whether the post-petition sale of the Contested Inventory is a use of an executory license that would give rise to an administrative claim. *See N.L.R.B. v. Bildisco,* 465 U.S. 513, 104 S.Ct. 1188, 1199, 79 L.Ed.2d 482 (1984). (during the post-petition period in which the

debtor has yet to assume or reject an executory contract, the debtor is obligated to pay for the reasonable value of services provided under that contract). While it is true that the Debtor will make use of the permissions granted by the Distribution Agreements in order to sell the Contested Inventory, a post-petition act does not alone create a administrative expense. *In re Mid-American Waste Systems,* 228 B.R. at 821. There must also be a contribution of value to the estate from a post-petition transaction with the debtor.

Here the alleged contribution to the estate is the permission to sell. This permission was granted pre-petition along with the delivery of the Contested Inventory. That permission survived the commencement of the chapter 11 case and became a property right of the estate. There is no post-petition transaction with the Debtor in this case. There is no post-petition service being provided by the Objecting Vendors. And finally, there is no additional value that accrues to the estate under the license other than what already existed as of the commencement of the case. At the time the Contested Inventory was delivered, Valley had authorized possession of the product, authority to sell free of infringement claims by third parties of the Objecting Vendors, and a promise from the Objecting Vendors to indemnify Valley on any infringement claims from third parties. The Objecting Vendors will not be providing any additional value on the sale of the inventory. *See In re DAK Indus., Inc.,* 66 F.3d at 1097 (no administrative expense where the licensor was not induced to do business with the debtor post-***142** petition and did not do business with the debtor post-petition). The debtor in possession has not sought any additional performance under the Distribution Agreements and the Objecting Vendors have not delivered additional inventory that would give rise to obligations that did not exist as of the petition date.

4. EQUITABLE RELIEF FROM AUCTION SALE NOT WARRANTED

[43] The Objecting Vendors have also raised the issue that the proposed Auction Sale will impose an inequitable burden on them since the Contested Inventory may be returned to the Objecting Vendors for the price they would have invoiced to Valley, regardless of the price paid at auction. [FN77] In support, the Objecting Vendors assert that it is inequitable that they be exposed to the risk of paying for returns when they have expended manufacturing costs, will receive no money from the sale of the Contested Inventory, and will also be liable for royalties and fees to third parties due on the sale of the Contested Inventory. The Objecting Vendors were aware of the commercial realities of their industry's return policy and I see no reason to relieve them of a burden common to all members of that industry. Nor do I see any reason to relieve the Objecting Vendors of their contractual obligations to make payments to third parties, such as the Music Writers or the Artists, which the Objecting Vendors assumed under the terms of the Distribution Agreements. (DA at ¶¶ 5.3(a),7.1(c).)

FN77. For example, if an Objecting Vendor invoiced DNA $8.00 for a title, the record industry return policy would allow a retailer or any entity that purchased the goods at auction to return that item to the Objecting Vendor for the full $8.00, regardless of how much they paid at auction. (Tr. 2/26/02 Himelfarb, 21:6-22:10); *See* CIL Ex. 1 at Ex. A (listing prices to be paid by distributor); CIL Ex. 2 at Ex. A (same).

The Court previously addressed a motion based on the "inequity" of the industry return policy at the February 6, 2002 hearing when I denied Columbia Tri-Star's request that the Court require the Debtor to mark Columbia Tri-Star's product prior to selling it under the Auction Order. (Tr. 2/06/02 The Court, 77:21-78:9.) Columbia Tri-Star requested the marking so that it could avoid the effects of the industry return policy for product sold under the Auction Sale. The same concerns expressed at the February 6, 2002 hearing are present in the matter before me and I see no reason to revise or alter my ruling on the issue merely because the Objecting Vendors were consignment vendors and Columbia Tri-Star was a terms vendor. Therefore, I will deny any request that the Contested Inventory be excluded from the Auction Sale or marked for such sale based on the return policy or any other burdensome contractual obligation which the Objecting Vendors assumed under the Distribution Agreements.

5. NON-APPLICABILITY OF THIS DECISION TO CERTAIN OBJECTING VENDORS.

Three of the Objecting Vendors have asserted that their Distribution Agreements were terminated prepetition according to the terms provided in ¶ 13.1 or ¶ 12 of those agreements. This section of the opinion applies only to these three Objecting Vendors who put forth some concrete factual allegations that conformed to these two termination provisions in the Distribution Agreements:

1. *The Music Cartel, Inc.*: Based on the testimony and documents submitted into evidence by Eric Lemasters of The Music Cartel, Inc. ("MCI"), I find that ***143** MCI successfully terminated its Distribution Agreement (CIL Ex. 7) prepetition pursuant to paragraph 13.1 of that agreement. The cure period in that agreement was only 15 days and the notice letters sent to DNA/Valley indicate that MCI properly and effectively exercised its termination rights under the agreement and had requested the return of its inventory. (CIL Ex. 7 at ¶ 13.1); (CIL Ex. 10, 11); (Tr. 2/26/02 Lemasters 37:9-39:11). Therefore, the Debtor has no rights in the inventory nor authority to sell it. MCI's request for relief from the stay to recover the inventory is granted.

[44] 2. *Beatville Records*: Based on the testimony and documents submitted into evidence by Marc Dickinson of Beatville Records ("Beatville"), I find that DNA terminated Beatville's Distribution Agreement (CIL Ex. 3) prepetition pursuant to paragraph 12 of that agreement. Marc Dickinson testified that his agreement with DNA was terminated by DNA in writing prepetition. (Tr. 2/27/02 Dickinson, 6:9-8:20) DNA sent Beatville Records an e-mail dated August 02, 2001 (CIL Ex. 12) confirming that an e-mail was sent on July 31, 2001 in accordance with paragraph 12 of the agreement and re-stating their intent not to renew the Beatville's Distribution Agreement unless Dickinson consented to moving Beatville to Emerge (another division of Valley). (CIL Ex. 3 at ¶ 12.) Debtor did not challenge the authenticity of this document. Paragraph 12 provides the Term of the Agreement as well as means for non-renewal. *Id.* Paragraph 12 of the agreement states that the initial terms was to expire October 31, 2000 and would automatically renew for one year unless written notice to terminate was given 90 days before the termination date. The e-mail was sent pursuant to this clause to express DNA's intent not to renew if the condition of moving Beatville to Emerge was not met. No breach was required to terminate under this clause. (CIL Ex.3 at ¶ 12) Paragraph 14.7 requires written notice be sent by "express mail, registered, or certified mail, or telefax with a hard copy to follow via airmail." (CIL Ex.3) However, it was Valley/DNA that sent the termination notice via e-mail and confirmed the same. While product was shipped during the 90 notice period, none was shipped after 10/31/01 which was the expiration date of the agreement. (Tr. 2/27/02 Dickinson 9:23-10:22) Debtor provided no evidence of Dickinson's consent to be moved to Emerge, any other negotiated renewal of the agreement, or that any product was shipped after October 31, 2001. Therefore, the Debtor has no rights in the inventory nor authority to sell it. Beatville's motion for relief from the stay to recover its inventory is granted.

[45] 3. *Rotten Records, Inc.*: In their objection to the Auction Sale (Doc. 123) Rotten Records, Inc. ("Rotten") states that their Distribution Agreement with DNA expired on July 31, 2000 and that the 240 day return period expired in April 2001. (Doc. 123 at Ex. B.) Rotten's Distribution Agreement did not contain a renewal clause in paragraph 12 and simply stated that it expired on July 31, 2000. (CIL. Ex.1 at ¶ 12.) On November 20, 2001, Rotten sent a demand letter for the return of its inventory. (Doc 123 at ¶ 5 and Ex. B.) No other letters regarding termination or intent not to renew were submitted to the Court by either party. No evidence was presented as to whether or not Rotten continued to ship inventory to DNA/Valley after July 31, 2000.

[46][47][48][49] The apparent expiration of the Distribution Agreement is not controlling in this case. A non-exclusive license may be inferred from a course of dealing between the copyright holder and another party. *See* ***144**De Forest Radio Tel. Co. v. United States, 273 U.S. 236, 241, 47 S.Ct. 366, 367, 71 L.Ed. 625 (1927); *MacLean Assoc., Inc.*, 952 F.2d at 778-79; *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821, 826 (9th Cir.2001); *McCoy v. Mitsuboshi Cutlery, Inc.*, 67 F.3d 917, 920 (Fed.Cir.1995); 3 *Nimmer on Copyright* § 10.03[A][7] at 10-42 (2001) ("...[A] nonexclusive license may therefore be granted orally, or may even be implied from conduct. When the totality of the parties' conduct indicates an intent to grant such permission, the result is a non-exclusive license.") A non-exclusive license is not a transfer of ownership of the copyright itself within the provision of the Copyright Act and thus need not be in writing. *See* *MacLean Assoc., Inc.*, 952 F.2d at 778-79. Here, the implied license would be for authority to sell and as such is merely the authority to use of one of the five property rights held by a copyright owner, not a transfer of the property right itself. *Rodrigue v. Rodrigue*, 218 F.3d 432, 435 (5th Cir.2000) (a copyright is a finite bundle of five fundamental rights which includes exclusive rights to reproduction, adaptation, publication, performance, and display). The licensor may still bring an infringement suit if the licensee's use of the implied license exceeds its scope. *MacLean Assoc., Inc.*, 952 F.2d at 779. While federal copyright law may recognize an

implied license from a course of dealings, whether such a license arises and the scope of such a license is determined by state contract law, here the law of the state of California. McCoy, 67 F.3d at 920 (an implied license is governed by state contract law) No evidence has been presented by either party as to the course of dealings between Valley and Rotten after July 31, 2000.

Therefore, based on the record, the Court is not in a position to determine whether Rotten is entitled to the same relief as Beatville and MCI. The Court will hold in abeyance any determination regarding Rotten's rights to the inventory it supplied to DNA pending further submissions by the parties. Such submissions should address evidence of the dealings between DNA/Valley and Rotten after July 31, 2000, as well as relevant California contract law.

CONCLUSION:

For the reasons set forth above, the motion of the Debtor to sell the Contested Inventory consigned by the Objecting Vendors (Doc. 118) is granted with regard to the inventory provided by the Objecting Vendors other than MCI, Beatville, and Rotten. The Certain Independent Labels' Relief Motion (Doc. 503) pertaining to the Contested Inventory is granted only as to MCI and Beatville and is denied as to the other Objecting Vendors' joined in that motion. The Objecting Vendors' Relief Motions (Doc. 50, 77, 126, 127, 181 and 284) pertaining to the Contested Inventory are denied. The Court will continue to take under advisement the rights of Rotten (Doc. 123) for the reasons discussed above and invites the parties to make further submissions on the matter.

ORDER

For the reasons set forth in the Court's Opinion of this date:

1. The motion (Doc. 118) of the Debtor, Valley Media Inc., to sell the inventory consigned by certain objecting vendors is **GRANTED** with regard to inventory supplied by the objecting vendors other than The Music Cartel, Inc., Beatville Records and Rotten Records, Inc. The motion (Doc. 118) is **DENIED** with regard to the inventory supplied by The Music Cartel, Inc. and Beatville Records and as to Rotten Records, Inc., a ruling is held in abeyance regarding the inventory supplied by Rotten ***145** Records, Inc. pending further submissions by the parties.

2. The Certain Independent Labels' motion for relief from the stay (Doc. 503) is **GRANTED** as to The Music Cartel, Inc. and Beatville Records and **DENIED** with regard to the other objecting vendors included in that motion.

3. A ruling on the motion for relief from the stay filed by Rotten Records, Inc. (Doc. 123) is held in abeyance pending further submissions by the parties.

4. The objecting vendors' remaining motions for relief from the stay (Docs. 50, 77, 126, 127, 181, and 284) pertaining to the inventory are **DENIED.**

279 B.R. 105, 47 UCC Rep.Serv.2d 1178

END OF DOCUMENT

Date of Printing: OCT 28,2004

KEYCITE

H In re Valley Media, Inc., 279 B.R. 105, 47 UCC Rep.Serv.2d 1178 (Bankr.D.Del., Apr 25, 2002) (NO. 01-11353(PJW))

History
Direct History

=> 1 **In re Valley Media, Inc.,** 279 B.R. 105, 47 UCC Rep.Serv.2d 1178 (Bankr.D.Del. Apr 25, 2002) (NO. 01-11353(PJW))

Related References (U.S.A.)

▷ 2 In re Valley Media, Inc., 288 B.R. 189, 40 Bankr.Ct.Dec. 188 (Bankr.D.Del. Jan 07, 2003) (NO. 01-11353 PJW, ADV.02-2212)

H 3 In re Valley Media, Inc., 289 B.R. 27, 40 Bankr.Ct.Dec. 204 (Bankr.D.Del. Jan 21, 2003) (NO. 01-11353 PJW, 02-3203)

H 4 In re Valley Media, Inc., 290 B.R. 73, 40 Bankr.Ct.Dec. 254 (Bankr.D.Del. Feb 21, 2003) (NO. 01-11353(PJW))

H 5 In re Valley Media, Inc., 2003 WL 21956410 (Bankr.D.Del. Aug 14, 2003) (NO. 01-11353 (PJW), ADV. 02-04553)

Citing References
Positive Cases (U.S.A.)
★★★★ Examined

C 6 In re Corvette Collection of Boston, Inc., 294 B.R. 409, 414+, 50 Collier Bankr.Cas.2d 743, 743+, 51 UCC Rep.Serv.2d 426, 426+, 16 Fla. L. Weekly Fed. B 143, 143+ (Bankr.S.D.Fla. Jun 11, 2003) (NO. 01-36177-BKC-SHF, 02-3190-BKC-SHF-A) **HN: 1,5,9 (B.R.)**

★★ Cited

H 7 In re Morgansen's LTD, 302 B.R. 784, 787, 51 Collier Bankr.Cas.2d 435, 435 (Bankr.E.D.N.Y. Oct 14, 2003) (NO. 803-80994-288) “” **HN: 9 (B.R.)**

★ Mentioned

H 8 Lowry's Reports, Inc. v. Legg Mason, Inc., 271 F.Supp.2d 737, 750, 2003 Copr.L.Dec. P 28,655, 28655, 69 U.S.P.Q.2d 1754, 1754 (D.Md. Jul 10, 2003) (NO. CIV.WDQ-01-3898) **HN: 49 (B.R.)** (BNA Version)

H 9 In re Buildnet, Inc., 2002 WL 31103235, *5 (Bankr.M.D.N.C. Sep 20, 2002) (NO. 01-82293, 01-82296, 01-82299, 01-82294, 01-82297, 01-82295, 01-82298) **HN: 22 (B.R.)**

Secondary Sources (U.S.A.)

10 Anderson on the Uniform Commercial Code s 1-201:369, DEFINITION (2004) **HN: 1 (B.R.)**

11 Anderson on the Uniform Commercial Code s 2-326:54, TRANSFER OF TITLE IN CONSIGNMENT SALE (2004)

12 Anderson on the Uniform Commercial Code s 2-326:74, CONSIGNMENT SALE UNDER PRE-1999 VERSION OF UCC S 2-326(3) (2004)

13 Anderson on the Uniform Commercial Code s 2-326:91, GENERALLY (2004)

14 Anderson on the Uniform Commercial Code s 2-326:98, EXCEPTION: REPUTATION OF DEALER (2004)

15 Anderson on the Uniform Commercial Code s 9-102:30R, -EXCLUDED TRANSACTIONS (2004)

16 Anderson on the Uniform Commercial Code s 9-319:4R, GENERAL RULE (2004)

17 Anderson on the Uniform Commercial Code s 9-319:5R, APPLICABLE LAW WHEN CONSIGNOR'S INTEREST PERFECTED (2004)
18 Asset-Based Lending: A Prac. Guide to Sec. Financ. s 15:2.11, Consignments (2003)
19 Bankruptcy Service Lawyers Edition s 19:937, s 19:937. Other particular defaults (2004) **HN: 18,38 (B.R.)**
20 Bankruptcy Service Lawyers Edition s 20:28, s 20:28. Other determinations (2004) **HN: 29,38 (B.R.)**
21 Bankruptcy Service Lawyers Edition s 21:134, s 21:134. Licenses (2004) **HN: 18,29,38 (B.R.)**
22 Bankruptcy Service Lawyers Edition s 21:218, s 21:218. Generally (2004) **HN: 33 (B.R.)**
23 Bankruptcy Service Lawyers Edition s 21:228, s 21:228. Licenses (2004) **HN: 25,26 (B.R.)**
24 Bankruptcy Service Lawyers Edition s 21:401, s 21:401. Assumption as prerequisite to assignment (2004) **HN: 25,26,32 (B.R.)**
25 Bankruptcy Service Lawyers Edition s 23:420, s 23:420. Underlying policies -- Encouraging third parties to do business with debtor and act to benefit estate (2004) **HN: 40 (B.R.)**
26 Bankruptcy Service Lawyers Edition s 23:442, s 23:442. Requirements; two-part test (2004) **HN: 39,41 (B.R.)**
27 Bankruptcy Service Lawyers Edition s 23:448, s 23:448. Demonstrable benefit requirement (2004) **HN: 41 (B.R.)**
28 Bankruptcy Service Lawyers Edition s 23:512, s 23:512. Executory contracts -- Administrative expense priority denied (2004) **HN: 29,38 (B.R.)**
29 Bankruptcy Service Lawyers Edition s 31:94, s 31:94. Consigned items and proceeds thereof (2004) **HN: 5,16,18 (B.R.)**
30 Documenting Secured Transactions s 3:6, Consignments (2003)
31 Documenting Secured Transactions s 3:6.1, Cases Prior to the Revision (2003)
32 Equipment Leasing - Leveraged Leasing s 7:3.1, Temporary Suspension of Mutuality (2003)
33 Guidebook to Security Interests Personal Property s 36:11, s 36:11. Summary of changes -- Creditors of consignee when consignor has not perfected (2004) **HN: 5 (B.R.)**
34 Guidebook to Security Interests Personal Property s 36:6, s 36:6. Consignments under original UCC [Article 2 and original Article 9] (2004) **HN: 16 (B.R.)**
35 Guidebook to Security Interests Personal Property s 36:8, s 36:8. Summary of changes (2004)
36 The Law of Sec. Trans. Under the UCC P 1.06(2), THE CASE LAW (2004) **HN: 1 (B.R.)**
.. 20 Minnesota Practice Series s 10.1.04, Consignments (2005) **HN: 11 (B.R.)**
38 The Law of Debtors and Creditors s 7:25, --CONSIGNMENTS UNDER REVISED ARTICLE 9 (2004)
39 4C Vernon's Oklahoma Forms 2d s 9.12, Filing of Financing Statements by Consignors and Lessors (2003) **HN: 1 (B.R.)**
40 14A West's Legal Forms s 16.1, Introduction To Consignments **HN: 5 (B.R.)**
41 4 White & Summers UCC s 30-4, Consignments as Security Interests (2002)
42 Williston on Contracts s 78:11, -TERMINATION OF LICENSE OR FRANCHISE (2004) **HN: 18,31 (B.R.)**
43 Williston on Contracts s 78:40, PARTICULAR CONTRACTS AS EXECUTORY OR NOT EXECUTORY, GENERALLY (2004)
44 CONSIGNMENT THE WRONG WAY: OR HOW TO BECOME LAST IN LINE, 21-NOV Am. Bankr. Inst. J. 14, 14+ (2002) **HN: 5 (B.R.)**
45 U.C.C. SURVEY-ARTICLE 9 DEVELOPMENTS, 58 Bus. Law. 1635, 1656 (2003) **HN: 5 (B.R.)**
C 46 2 DePaul Bus. & Com. L.J. 47, SURVEY OF CASES DECIDED UNDER REVISED ARTICLE 9: THERE'S NOT MUCH NEW UNDER THE SUN (2003) **HN: 5 (B.R.)**
47 062404 American Bankruptcy Institute 207, UPDATE ON EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN BANKRUPTCY PROCEEDINGS (2004) **HN: 22,24,36 (B.R.)**
48 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ061 ALI-ABA 233, 267 (2004)
49 INTELLECTUAL PROPERTY ASPECTS OF CORPORATE ACQUISITIONS, SJ025 ALI-ABA 319, 369 (2003) **HN: 33 (B.R.)**

50 BANKRUPTCY TOPICS AND CONCERNS RECENT DEVELOPMENTS, 2002 WL 32152233 (Georgetown CLE), *17+ (2002) **HN: 26,29 (B.R.)**

51 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 862 PLI/Comm 195, 228+ (2004) **HN: 19,27,28 (B.R.)**

52 INTELLECTUAL PROPERTY AND BANKRUPTCY-SALIENT ISSUES, 862 PLI/Comm 313, 325+ (2004) **HN: 22,23,26 (B.R.)**

53 TRANSFER OF INTELLECTUAL PROPERTY RIGHTS IN BANKRUPTCY, 849 PLI/Comm 1291, 1315+ (2003) **HN: 19,27,28 (B.R.)**

54 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 794 PLI/Pat 123, 191 (2004) **HN: 33 (B.R.)**

55 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 762 PLI/Pat 1093, 1116 (2004)

56 BANKRUPTCY AND LICENSING, 764 PLI/Pat 571, 582+ (2003) **HN: 22,24,26 (B.R.)**

57 STRUCTURING DEALS INVOLVING INTELLECTUAL PROPERTY ASSETS, 751 PLI/Pat 223, 281 (2003) **HN: 33 (B.R.)**

58 INTELLECTUAL PROPERTY LICENSES: THE IMPACT OF BANKRUPTCY, 722 PLI/Pat 203, 225 (2002)

Court Documents

Court Documents

Trial Court Documents (U.S.A.)

Trial Motions, Memoranda and Affidavits

59 Brenda L. PHILLIPS, Plaintiff, v. Eddie Lee SHORT et al., Defendants., 2004 WL 2156410, *2156410+ (Trial Motion, Memorandum and Affidavit) (S.D.Ohio Apr 05, 2004) **Reply of Defendants to Plaintiff's Response In ...** (NO. C-2-03-853) ★★

60 Brenda L. PHILLIPS, Plaintiff, v. Eddie Lee SHORT Marsha Short Martin Short Angela Short Barry Ash Anna Ash John Doe #1 - #25, Defendants., 2004 WL 2156406, *2156406 (Trial Motion, Memorandum and Affidavit) (S.D.Ohio Mar 24, 2004) **Fesponse In Opposition To Defendants' Motion For ...** (NO. C203853) ★★

Briefs and Other Related Documents

Court of Appeal, Fourth District, Division 3, California.
SUPERBRACE, INC., et al., Plaintiffs and Respondents,
v.
Kelly TIDWELL et al., Defendants and Appellants.
No. G033363.

Nov. 23, 2004.
Certified for Partial Publication. [FN*]

FN* Parts III, IV, V and VI of this opinion are not certified for publication. (See Cal. Rules of Court, rules 976(b) and 976.1.)

Background: Holders of patent license and prospective buyer of license brought action for damages and declaratory and injunctive relief against inventor, and inventor cross-complained for breach of contract. After a court trial, the Superior Court, Orange County, No. 01CC15624, Richard Beacom, J., entered judgment that holders could assign their rights to prospective buyer, but that buyer could not resell rights until debt to inventor was paid. Inventor appealed.

Holdings: The Court of Appeal, O'Leary, Acting P.J., held that:
(1) state common law allowing free assignability of patents, rather than contrary federal common law, applied to this case, and
(2) holders' rights were not personal and were therefore assignable.
Affirmed.

West Headnotes

[1] Patents 193
291k193 Most Cited Cases

[1] Patents 206
291k206 Most Cited Cases
A patent license differs from an assignment of a patent in the respect that a licensor retains legal title to the patent whereas an assignor transfers his title to the patent.

[2] Patents 213
291k213 Most Cited Cases
State common law allowing free assignability of patents, rather than contrary federal common law, applied to dispute between inventor and holders of exclusive license to manufacture, market, and sell inventor's patented motorcycle products, concerning whether holders could transfer license to third party.
See 1 Witkin, Summary of Cal. Law (9th ed. 1987) Contracts, § 921 et seq.; 4 Witkin, Summary of Cal. Law (9th ed. 1987) Personal Property, § 52 et seq.; Cal. Jur. 3d, Assignments, § 15 et seq.

[3] Patents 213
291k213 Most Cited Cases
Rights of holders of exclusive license to manufacture, market, and sell inventor's patented motorcycle products were not personal and were therefore assignable without inventor's consent, notwithstanding parties' friendship when entering into licensing contract; there was no personal aspect to inventor's retention of title to patents as security for payment, and holders were not the only persons capable of making and selling the products.

[4] Patents 286
291k286 Most Cited Cases
An exclusive patent licensee that does not have all substantial rights to a patent has standing to sue third parties for patent infringement only as a coplaintiff with the patentee.

[5] Assignments 19
38k19 Most Cited Cases
There are contracts for personal service or other personal performance which cannot be assigned so as to transfer the concurrent obligation without the consent of the person entitled to such performance.
****405 *391** McClaugherty & Associates, Jay S. McClaugherty, Arcadia, and David H. Ryan, Temecula, for Defendants and Appellants.

The Walker Law Firm, Joseph A. Walker and Mary G. Finlay for Plaintiffs and Respondents.

OPINION

O'LEARY, Acting P.J.

There is a debate among federal and state courts as to whether state or federal common law should be applied to cases involving the transfer of patent license rights. In the case before us, Kelly Tidwell and Fran Cyrus (collectively Tidwell unless otherwise indicated) challenge the trial court's application of state law in holding Robert and Barbara Gebauer could transfer their exclusive license to manufacture, market, and sell Tidwell's patented inventions. After considering our Supreme Court's ruling in *Farmland Irrigation Co. v. Dopplmaier* (1957) 48 Cal.2d 208, 308 P.2d 732 (*Dopplmaier*), and reviewing recent federal cases to the contrary, we affirm the trial court's ruling. Applying state law, we conclude the license rights were not personal and therefore were assignable. Tidwell also challenges the court's: (1) order obligating Tidwell to protect the patents until the Gebauers obtain the patent titles; (2) order allowing the Gebauers to retain and sell (if they desire) their motor oil distribution rights; and (3) refusal to impose damages for patent infringement. Finding Tidwell's contentions lack merit, the judgment is affirmed.

I

Tidwell owns and operates several companies. S.T.D. Enterprises, Inc., manufactures specially formulated motor oils and ****406** lubricants. PurePower Lubricants, Inc., distributes S.T.D.'s products. In addition, Tidwell has invented several products tailored for the motorcycle industry, including: (1) a fork stabilizer that attaches to the front of a motorcycle to aid with steering; (2) a belly pan to be placed underneath certain motorcycles to create an added down force; and (3) a trailer hitch for motorcycles. Tidwell patented these products and obtained the trade name SuperBrace for use in conjunction with the development, manufacturing, and marketing of these inventions to the motorcycle community.

Tidwell was friends for many years with his next-door neighbors, Robert and Barbara Gebauer. After much discussion, the Gebauers decided to ***392** purchase part of Tidwell's business. Because the agreement was between friends, the parties did not consult an attorney and instead Robert Gebauer drafted the contract.

The agreement consists of 10 plainly worded paragraphs. The first three described what was being sold: (1) all assets currently owned by Tidwell under the name of "SuperBrace;" (2) the SuperBrace and Belly Pan patents and trademarks; (3) the exclusive "world sales rights" to the motorcycle industry of the "SuperBrace front fork brace, [the] System 1 stainless steel oil filter, a SuperBrace line of S.T.D. Enterprises oil, [the] Belly Pan and the trailer hitch;" and (4) all inventory generally used or related to the motorcycle business, including work tables, and the present 800 phone number.

Tidwell agreed "to protect" the Gebauers' "exclusive world sales rights, without time limits, on all the products mentioned ... in any sale or other actions taken with either" PurePower or S.T.D. Tidwell promised to give the Gebauers six weeks of training as well as eight months of "promotional and technical advice." In return, the Gebauers agreed to use a certain grade aluminum when manufacturing the inventions and to "continue to maintain the quality of the products in every way possible."

Two paragraphs were devoted to the terms of the sale. The sale price was set at $325,000. The Gebauers agreed to provide a $108,000 down payment and pay the balance in 120 monthly installments in addition to a 4 percent rate of interest. The contract provided the loan would "be secured by the retention of the SuperBrace patents and the assets of the new SuperBrace Inc. corporation."

The following year, the Gebauers asked Scott Edwards (owner of American Metal Engineering, LLC) to fabricate the SuperBrace fork stabilizers. Approximately three years later, the Gebauers advised Tidwell they wanted to sell "the business" to Edwards. Tidwell asserted the business could not be transferred until the full balance owed on the contract had been paid.

SuperBrace, Inc., the Gebauers, American Metal Engineering and Edwards (collectively Gebauers unless otherwise indicated) filed a complaint seeking:

(1) declaratory relief on the right to sell the business to Edwards; (2) damages for breach of contract based on allegations Tidwell sold motor oil to the motorcycle industry; and (3) an injunction prohibiting Tidwell from selling any more motor oil to the motorcycle industry.

Tidwell filed a cross-complaint alleging breach of contract based on the Gebauers alleged failure to make payments on the debt and failure to successfully sell S.T.D.'s oil and products to the motorcycle industry. Tidwell ***393** asserted the Gebauers could not transfer their license to Edwards, and sought an injunction to stop Edwards from "practicing the patents." ****407** Tidwell also sought declaratory relief on the issue of whether the

Gebauers had abandoned the motorcycle oil distributorship and requested the reversion of all selling rights back to Tidwell. In addition, Tidwell sought termination of the agreement and an injunction precluding the Gebauers from manufacturing, marketing, or selling the patented motorcycle products.

The Gebauers prevailed after a court trial. In a lengthy judgment and statement of decision, the court determined the Gebauers could assign their rights to Edwards and enjoined Tidwell from selling motor oil to the motorcycle industry. However, the court also decided the sale could only occur between the Gebauers and Edwards, and that Edwards could not resell the rights until the debt was paid and the SuperBrace patents and assets no longer served as security.

II
SHOULD STATE LAW OR FEDERAL COMMON LAW APPLY IN THIS CASE?

The United States Patent statutes grant a patent owner the exclusive right to make, use, sell, and offer for sale the patented invention or discovery for a limited period of time. (35 U.S.C. § [illegible] A patent has the "attributes of personal property." (35 U.S.C. § [illegible] Therefore, its ownership may be transferred by an assignment. An assignee may freely transfer his or her acquired rights. (*Ibid.*)

[1] A patent owner may also grant rights to a license to practice the invention in exchange for consideration (commonly referred to as royalties). "A license differs most fundamentally from an assignment in the respect that a licensor retains legal title to the patent whereas an assignor transfers his title to the patent." (2 Browne, Cal. Business Litigation (Cont. Ed. Bar 2002) § [illegible] (rev.12/03).) Another important difference is that while the patent statutes unequivocally deal with assignments, there are no provisions governing licenses.

Federal courts have fashioned a rule of federal common law to apply in cases concerning transfers of patent licenses. It is now well settled that a licensee has only a personal and not a property interest in the patent that is not transferable unless the patent owner authorizes the assignment or the license itself permits assignment. (See *Everex Systems, Inc. v. Cadtrak Corp.* (9th Cir.1996) 89 F.3d 673, 679 (*Everex*) [regarding nonexclusive licenses]; *In re Hernandez* (Bankr.D.Ariz.2002) 285 B.R. 435 [applying same logic to exclusive licenses].)

***394** However, in California, the Supreme Court determined *state law*, not federal common law, should be applied when deciding whether a patent license is assignable. (*Dopplmaier, supra*, 48 Cal.2d 208, 308 P.2d 732.) In that case, an inventor granted a nonexclusive license to a manufacturer to produce his patented "agricultural sprinkling apparatus." (*Id.* at p. 213, 308 P.2d 732.) The agreement permitted the manufacturer to sublicense its rights "on condition that it assume responsibility for the payment of all royalties due on sales by its sublicensees." (*Id.* at p. 214, 308 P.2d 732.) Within a few years the licensee's corporation dissolved and its assets passed to its shareholders, who in turn sold the assets (including the license agreement), to Farmland Irrigation Company. At first, the inventor accepted royalty payments from Farmland, but then changed his mind and filed a lawsuit in district court seeking an accounting of royalties allegedly owed. Farmland "counterclaimed for a declaration of its rights under the license." (*Ibid.*) It also filed an action in California where the state court determined the licensee's rights were assignable. The inventor appealed.

****408** Justice Traynor, writing for the unanimous California Supreme Court, affirmed the judgment. The court first noted that the United State's Supreme Court has often applied state law to many patent license disputes. It stated, "Every action that involves, no matter how incidentally, a United States patent is not for that reason governed exclusively by federal law. The police power of the states, for example, has long been held to include reasonable regulation of the manufacture and sale of patented articles dangerous to public safety [citation], and regulation of the transfer of patent rights to prevent fraud. [Citation.] A patent is not granted without reference to the general powers the states possess over their domestic affairs." (*Dopplmaier, supra*, 48 Cal.2d at pp. 216-217, 308 P.2d 732.)

The Supreme Court explained, "It has been established by a long line of cases, ... that an action to set aside, specifically enforce, or recover royalties on a patent license contract is not an action arising under the patent laws of the United States for the purpose of determining the exclusive jurisdiction of the federal courts. [Citations.] State courts have jurisdiction over such actions, and in the absence of diversity of citizenship it is exclusive of the federal courts. [Citations.] [[illegible] with whether a case was one 'arising under the patent laws' within the meaning of the federal jurisdictional statutes and the federal policy apportioning business between state and federal courts. Nevertheless, since the jurisdictional test they established was tied to the law that created the cause of action stated in the complaint and made the source of that law its operative fact [citations], in holding that federal jurisdiction did not exist, they necessarily held that the patent statutes did not govern the elements of the plaintiff's case." (*Dopplmaier, supra*, 48 Cal.2d at p. 217, 308 P.2d 732.)

***395** The *Dopplmaier court* highlighted the United States Supreme Court case *Wilson v. Sandford* (1850) 51 U.S. (10 How.) 99, 101-102, 13 L.Ed. 344, which held that a dispute arises out of the contract if it " 'does not arise under any act of Congress' " or " 'depend upon the construction of any law in relation to patents' " and " 'there is no act of Congress providing for or regulating contracts of this kind.' " (*Dopplmaier, supra*, 48 Cal.2d at p. 218, 308 P.2d 732.) It also referred to cases holding that "absent a question of the validity or scope of the patent itself, there was no jurisdiction in the United States Supreme Court to review state court decisions on patent licenses. [Citations.]" (*Ibid.*)

In light of the above authority, the *Dopplmaier court* concluded Farmland's cause of action "arose under and was governed by the general common law of contracts." It explained, "Licenses have no statutory basis, and rights under them arise from contract rather than from the fact that patent rights are involved. [Citation.]" (*Dopplmaier, supra*, 48 Cal.2d at p. 220, 308 P.2d 732.) Finally, citing the holding of *Erie R.R. Co. v. Tompkins* (1938) 304 U.S. 64, 58 S.Ct. 817, 82 L.Ed. 1188 (*Erie*), the court held "the law governing the elements of [Farmland's] cause of action is state law--state law acting of its own force and not merely by incorporation into federal law. The language of Mr. Justice Holmes in *American Well Works Co. v. Layne & Bowler Co.* [1916], 241 U.S. 257, 260 [36 S.Ct. 585, 60 L.Ed. 987][,] ... a case involving an action for libel and slander of the plaintiff's title to a machine the defendant claimed infringed his patent, is appropriate: 'But whether it is a wrong or not depends upon the law of the State where the act is done, not upon the patent ****409** law, and therefore the suit arises under the law of the State. A suit arises under the law that creates the cause of action.... The State is master of the whole matter, and if it saw fit to do away with actions of this type altogether, no one, we imagine, would suppose that they still could be maintained under the patent laws of the United States.' [Citations.]" (*Dopplmaier, supra*, 48 Cal.2d at pp. 218-219, 308 P.2d 732.) [FN1]

FN1. In *Erie,* the United States Supreme Court declared that "[t]here is no federal general common law." (*Erie, supra*, 304 U.S. at p. 78, 58 S.Ct. 817.) This is commonly referred to as the Erie Doctrine.

The Supreme Court recognized this conclusion did not "completely dispose of the problem." (*Dopplmaier, supra*, 48 Cal.2d at p. 219, 308 P.2d 732.) It observed, "Even if state law governs the basic elements of the plaintiff's case in an action to recover royalties on a license, it does not follow that every issue in the case, including the assignability of the license, is governed by state law. [Citations.] If the policy of the patent laws or some other federal statute requires it, state law must of course give way. [Citations.] Moreover, the absence of any specific statutory provision governing the issue does not in itself mean that federal law does not control, for if the policy of the federal statute or the ***396** implications of the federal system require a uniform rule of decision, the federal courts have paramount power to fashion such a rule. [Citations.]" (*Dopplmaier, supra*, 48 Cal.2d at p. 219, 308 P.2d 732.)

After much consideration, the court in *Dopplmaier* concluded there was "no policy underlying the federal patent statues that requires a uniform federal rule of construction of license contracts to determine their assignability. The purpose in granting a patent monopoly is to promote progress in science and the useful arts by stimulating invention and encouraging disclosure. So long as state law does not destroy the advantages of the monopoly, it respects the federal purpose, and there is no reason why it should not govern, as with any other property, the incidents attached to the ownership of the patent." (*Dopplmaier, supra*, 48 Cal.2d at p. 220, 308 P.2d 732.) The court acknowledged Congress may "legislate on this subject and thereby oust state law [citation], but in the absence of such action we will not postulate a policy we cannot find in the existing federal statutes. If any federal interest exists, it is too remote and speculative to justify displacing state law. [Citation.]" (*Ibid.*)

As for the existing line of federal cases holding to the contrary, the *Dopplmaier* court held those cases failed to create a general federal policy against the free assignability of licenses. It noted many of the cases were written before *Erie,* "and therefore involved no conscious choice between state and federal law." (*Dopplmaier, supra*, 48 Cal.2d at p.

219, 308 P.2d 732.) The court found that the few federal cases written after *Erie* "do not state what law governs the issue [citations], and decisions from the state courts have been equally unenlightening on the applicable law." *(Ibid.)*

Having determined "the question is one for determination by the law of this state," the Supreme Court continued on to define the applicable state law. (*Dopplmaier, supra,* 48 Cal.2d at p. 221, 308 P.2d 732.) It concluded, "The statutes in this state clearly manifest a policy in favor of the free transferability of all types of property, including rights under contracts. (Civ.Code, §§ [illegible], 1044, 1458.) The terms and purpose of a contract may show however, ****410** that it was intended to be nonassignable. Thus the duties imposed upon one party may be of such a personal nature that their performance by someone else would in effect deprive the other party of that for which he bargained. The duties in such a situation cannot be delegated. [Citation.] Rights likewise cannot be assigned if the assignment would materially impair the nonassigning party's chance of obtaining the performance he expected. [Citations.]" (*Id.* at p. 222, 308 P.2d 732.)

***397** The court acknowledged federal cases are generally viewed as persuasive authority, but concluded that on this issue the federal authority was unconvincing. It explained, "The authoritative federal statement that a patent license is not assignable unless made expressly so is contained in *Hapgood v. Hewitt* [1886] 119 U.S. 226, 233-234 [7 S.Ct. 193, 30 L.Ed. 369] [(*Hapgood*)].... The court stated that the license was purely personal and was extinguished with the dissolution of the corporate licensee, although it pointed to no peculiarly personal rights involved. The court relied on the earlier cases of *Troy Iron & Nail Factory v. Corning* [1852] 14 How. (U.S.) 193, 216 [14 L.Ed. 383] [(*Troy*)] ..., and *Oliver F. & C. Co. v. Rumford Chemical Works* [1883] 109 U.S. 75, 82 [3 S.Ct. 61, 27 L.Ed. 862] [(*Oliver*)]. The statement in the *Troy* case, however, was not necessary to the decision, and in *Oliver* ... there were provisions in the license calling for the exercise of the personal skill of the licensee that would have restricted transfer of rights under the license even under ordinary rules of construction. In *Providence Rubber Co. v. Goodyear* [1869] 9 Wall. (U.S.) 788, 799 [19 L.Ed. 566] ..., another case before *Hapgood v. Hewitt*, the court found the licensee's rights personal and nonassignable only after examining the terms of the instrument and the testimony in the record to ascertain the true meaning and purpose of the contract. [Citation]. [illegible] Many of the cases since *Hapgood v. Hewitt* can be explained on the ground that language in the instrument or the purposes of the contract clearly excluded assignability [citations], but nevertheless the rule of *Hapgood v. Hewitt* appears to have been consistently adhered to by the federal courts, although without any satisfactory explanation of the reasons underlying it. [Citations.] The only exception is when the transferee succeeds to the entire business of the licensee, and assumes all its assets and liabilities. [Citation.] [illegible] States Supreme Court would, in view of the modern tendency in favor of assignability, adhere today to the rule it laid down in *Hapgood v. Hewitt*. Furthermore, we do not find it necessary or wise to establish a fixed rule, peculiar to patent licenses, that such contracts are not assignable unless made expressly so. There is no reason to exempt these contracts from a general rule adapted to facilitate the freest possible transfer of valuable contract rights, while at the same time respecting the parties' intentions. The federal cases have relied on the flat statement that a license creates a merely personal right. This statement should follow as a conclusion from an examination of the purposes and provisions of the particular license, rather than stand as a self-evident first principle. Nothing in the nature of patent licenses makes the rights conferred by them necessarily so personal that the parties must have intended that they be nonassignable." (*Dopplmaier, supra,* 48 Cal.2d at pp. 221-222, 308 P.2d 732.)

[2] Recognizing the trial court, and this court, are legally bound to follow Supreme Court precedent, Tidwell nevertheless urges us to hold the Supreme ***398** Court was wrong 50 years ago. It argues that ****411** "although the United States Supreme Court has not revisited *Hapgood*, recent federal decisions show that [*Dopplmaier*] is incorrect in its assumption that *Hapgood* was not correctly decided." (Citing *Everex, supra,* 89 F.3d 673.) Stated another way, Tidwell believes recent federal cases have effectively created a general federal policy against the free assignability of licenses that state courts can no longer ignore. We are not persuaded.

Tidwell maintains a 1996 Ninth Circuit federal case (*Everex*) provides a satisfactory federal policy explanation to support the 1886 *Hapgood* rule. In *Everex,* the Ninth Circuit analyzed the preemption issue. It offered the following rationale, "The construction of a patent license is generally a matter of state contract law, [citation] ..., except where state law 'would be inconsistent with the aims of federal patent policy, [citations]. Two circuits have found such an inconsistency and expressly held that '[q]uestions with respect to the assignability of a patent license are controlled by federal law.' *PPG Industries, Inc. v. Guardian Industries Corp.* [6th Cir.1979] 597 F.2d 1090, 1093 ...; *Unarco Industries, Inc. v. Kelley Co.* [7th Cir.1972] 465 F.2d 1303, 1306 ...." (*Everex, supra*, 89 F.3d at pp. 677-678.)

The Ninth Circuit dissected in depth the *Unarco* opinion, finding the Seventh Circuit's reasoning "less firm than might be wished." Nevertheless, the Ninth Circuit reached the same ultimate conclusion (but for different reasons). It determined, "Federal patent policy ... does justify the application of federal law here. The fundamental policy of the patent system is to 'encourag[e] the creation and disclosure of new, useful, and non-obvious advances in technology and design' by granting the inventor the reward of 'the exclusive right to practice the invention for a period of years.' [Citation.] Allowing free assignability--or, more accurately, allowing states to allow free assignability--of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder *or* seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents. And while the patent holder could presumably control the absolute *number* of licenses in existence under a free-assignability regime, it would lose the very important ability to control the *identity* of its licensees. Thus, any license a patent holder granted--even to the smallest firm in the product market most remote from its own--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. As a practical matter, free assignability of patent licenses might spell the end to paid-up licenses such as the one involved in this case. Few patent holders would be willing to grant a license in return for a one-time lump-sum payment, rather than for per-use royalties, ***399** if the license could be assigned to a completely different company, which might make far greater use of the patented invention than could the original licensee. [[illegible] assignability of patent licenses because of the conflict between federal patent policy and state laws, such as California's, that would allow assignability." (*Everex, supra*, 89 F.3d at p. 679.)

We question whether the *Everex* court's explanation is satisfactory. The *Everex* opinion prompted several scholars to examine the preemption holding. (Wilson, *Patent License Assignment: Preemption, Gap Filling, ad Default Rules* (1997) 77 B.U. L.Rev. 895; Quinn & Weide, ****412***Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability* (1999) 32 Creighton L.Rev. 1121; Fellmeth, *Control without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License* (2001) 6 Va. J.L. & Tech. 8.) These authors all found fault with the Ninth Circuit's analysis. We found their well-reasoned conclusions regarding the *Everex* case and other federal cases applying the *Hapgood* rule to be instructive and persuasive.

As aptly stated by one author, "The Ninth Circuit's decision ... is based upon a subtle misstatement of the issue before the court. That issue was not whether federal policy allowed a patent license to be freely assignable, but whether federal policy forbade the application of state law to a matter of contract relating to the transfer of a federal right. With the issue reframed in this manner, it is difficult to fathom why the Ninth Circuit felt free to ignore the silence of the Patent Act on this issue and preempt the normally applicable state contract law. The court, though able to cite ample precedent (not all of it strictly germane), appears oblivious to the licensor's ability to impose a contractual limitation on assignment, which renders a judicially created right against assignment superfluous. Moreover, in its solicitude for the licensor, the Ninth Circuit never seemed to consider the other side of its dire prediction. What if a nonexclusive licensee pays a lump sum and then finds his business paralyzed, or is an individual who dies two weeks after the license begins to run? In the absence of a contractual provision allowing assignment, the licensee's royalty and the benefit of the bargain are equally lost. Yet, this drastic possibility does not seem to have uniformly deterred licensees from accepting nonassignable, nonexclusive licenses." (Fellmeth, *Control without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License* (2001) 6 Va. J.L. & Tech. 8, 74-75, fns. omitted.)

In the Fellmeth law review article, the author carefully reviewed all facets of the federal preemption issue (including *Dopplmaier* and the contrary federal cases) and concluded, "Given the inherent protections to the copyright ***400** or patent licensor under state law, federal courts appear to have overreached themselves in continuing to invent federal common law to forbid the assignment of a license agreement. The protections granted by state law to the licensor are largely the same regardless of whether the license is exclusive or nonexclusive.... [ ][T]he current chain of logic supporting a 'federal public policy' contrary to the free assignability of licenses is broken at every link. The [federal] cases [applying the rule] first assume without support or thorough analysis that the free assignability of license agreements is inherently harmful to licensors and has no offsetting benefits. They then assume that the application of state common law would result in such harmful free assignability. They further assume that there is a federal public policy, under the Patent Act and the Copyright Act, that forbids the application of any state law that might in some circumstances be harmful to the patentee or copyright owner. Finally, they assume that such federal public policy mandates the creation of a uniform federal rule against assignability to protect the patentee or copyright owner against such harm. [ ]As discussed above, each of these assumptions is incorrect.... In the case of the assignment of a patent or copyright license, state law in no way undermines the federal public policy of giving adequate reward to authors and inventors, regardless of whether such license is exclusive or nonexclusive. Courts that strike down harmless or beneficial state laws so ****413** indiscriminately violate the Rules of Decision Act and principles of federalism." (Fellmeth, *Control without Interest: State Law of Assignment, Federal Preemption, and the Intellectual Property License* (2001) 6 Va. J.L. & Tech. 8, 81-83, fns omitted.)

Likewise, the authors of the Creighton Law Review article concluded "that those federal courts which have created and/or applied a 'federal rule' to resolve issues of a patent license transferability have violated the Erie doctrine." (Quinn & Weide, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability* (1999) 32 Creighton L.Rev. 1121, 1141, fns omitted.) They specifically found fault in the *Everex* court's failure to "examine[ ] what outcome would result if the law of the forum state were applied. Application of state law might have resulted in an outcome identical to that arising from application of the federal rule. Consequently, if no conflict were to exist, state law should have been applied." (*Id.* at p. 1143.) They explained, "Upon close scrutiny, it appears that the Ninth Circuit's justification for application of a federal rule is actually tailored to avoiding conflicts between the application of state law and federal bankruptcy law. If the Ninth Circuit had not decided the issue of patent license transferability as it did in *Everex,* the intent of the parties as expressed in the contract would likely have been thwarted and the license would have been assignable by the parties. This is because under section 365(c) of the Bankruptcy Code, the trustee is only prohibited from assuming or assigning the license if applicable law excuses performance, whether or ***401** not the contract prohibits or restricts assignment. [11 U.S.C. § 365(c)(1)(A).] If the Ninth Circuit interpreted California law on the issue to be as in *Dopplmaier,* in which the court declared that a contract is freely assignable unless the contract provides otherwise, then the California law would not be of the type to invoke the exception of section 365(c) [of the Bankruptcy Code]. In that instance the license would be assumable and assignable by the trustee in bankruptcy. This would be contrary to the result if only California law were being applied, and contrary to the intent of the original parties to the license. The Ninth Circuit's choice of federal law avoids this potential 'unfairness.' As the Ninth Circuit also noted, the choice of federal law also avoided the need for the court to resolve an apparent conflict between other circuit courts regarding the interpretation of 'applicable law' under [the Bankruptcy Code] sections 365(f)(1) and 365(c)(1)(A)." (*Id.* at p. 1142.)

In addition, these authors noted, "An examination of the Patent Statutes does not evidence the [Ninth Circuit's] recited policy.... [F]ederal law grants a patentee the exclusive right to make, use, sell and offer for sale a patented invention.... Federal patent law does not ensure that a patentee receives adequate compensation, whether in the form of royalties or other compensation, any more than it protects the patentee from making a bad decision involving a transfer of the patentee's rights. In effect, the law is neutral, simply permitting the patentee to dispose of his or her rights as he or she desires. [ ] the particular rights at issue are government granted 'exclusive' rights does not support a finding that there must be a federal policy which serves to always protect the rights. In addition, and as noted by the court in *Dopplmaier,* while Congress was aware of the various decisions regarding patent license transferability when it enacted 35 U.S.C. section 261 in the 1952 Patent Act, it did not amend this section to clarify the rights of a licensee. In addition, since *Dopplmaier,* Congress ****414** has not revised section 261 or enacted a new statute to overrule *Dopplmaier.* This is true even though Congress amended section 261 in 1975 and 1982." (Quinn & Weide, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability* (1999) 32 Creighton L.Rev. 1121, 1142-1143, fns. omitted.)

In light of the above well reasoned and compelling analysis, we choose to stand steadfastly by our Supreme Court's 1957 ruling in *Dopplmaier* that state law, not federal common law, is to be applied when determining whether a patent license is assignable.

APPLICATION OF STATE LAW.

"California law evidences a policy in favor of the free transferability of all types of property. (Civ.Code, §§ [illegible], 1044, 1458.)" ***402**(*Robert H. Jacobs, Inc. v. Westoaks Realtors, Inc.* (1984) 159 Cal.App.3d 637, 645, 205 Cal.Rptr. 620.) As articulated by the Supreme Court in *Dopplmaier,* " The terms and purpose of a contract may show however, that it was intended to be nonassignable. Thus the duties imposed upon one party may be of such a personal nature that their performance by someone else would in effect deprive the other party of that for which he bargained. The duties in such a situation cannot be delegated." (*Dopplmaier, supra,* 48 Cal.2d at p. 222, 308 P.2d 732.)

[3] The trial court held the rights acquired by the Gebauers "are not personal and are assignable." Tidwell argues the court was mistaken. He explains there was "overwhelming" evidence showing the existence of a "personal relationship" between the contracting parties. He discusses evidence showing the parties were neighbors, friends, and shared a common concern about the financial future of the Gebauers' disabled daughter. He suggests, "Nothing demonstrates the personal nature of this agreement more than Mr. Gebauer's acknowledgement that Tidwell was willing to enter the agreement without a contract, stating that for Tidwell 'a handshake was going to be fine.' "

In addition, Tidwell highlights the following undisputed facts: (1) After the agreement was signed, the Gebauers continued to work out of Tidwell's shop and relied on Tidwell's business experience to run the SuperBrace business; (2) The agreement has several personal components such as Tidwell's agreement to train the Gebauers for up to six weeks and to attend two motorcycle rallies with the Gebauers; and (3) the Gebauers agreed to continue using the same grade aluminum for the invention. He concludes the above evidence proves the agreement "was intended to be personal."

Finally, Tidwell argues the sale of the patent rights over a 10-year period "evidences an intent for a personal contract. If [the] Gebauers were to default on the payments, the patent rights revert to [Tidwell]. Due to the personal friendship between [Tidwell and the] Gebauers, [Tidwell] would have an increased expectation that [the] Gebauers would properly protect the patent from infringement by others. However, if [the] Gebauers were permitted to assign," the new assignee would likely be "someone who was not friends with [Tidwell], and therefore less inclined to protect the patent from infringements. If that assignee were then to default and the rights to practice the patent reverted to" Tidwell, the patent rights might be substantially diluted by the infringement.

Certainly, there were personal aspects of the agreement because it was made between friends. Tidwell did not have to help the Gebauers get their business up and running, but he did. The Gebauers ****415** could have hired an attorney to draft the agreement before spending $325,000, but they did not.

***403** However, these side arrangements have nothing to do with the nature of the actual licensing rights. Tidwell sold his patents to the Gebauers, retaining title to the patent as security for the unpaid debt. There was no personal aspect to this portion of the agreement. No one contends the patent was sold for less than its value. And, like any lender, Tidwell secured the debt and arranged to collect a reasonable rate of interest on the unpaid balance.

While payments were being made, Tidwell essentially granted the Gebauers an exclusive license to practice the patents. That the license is exclusive, can be inferred from other terms in the contract. The parties contemplated a complete sale of the patents and necessarily understood that only the Gebauers (as the future owners) would have the right to practice the patent as they made payments. Implicit from the sale agreement is Tidwell's promise not to license the patents that have already been sold. Moreover, the contract specified that Tidwell would "protect" the buyer's "exclusive" world sales rights on "all the products."

However, there is no provision in the contract limiting the Gebauers' rights to sublicense or assign the property they purchased. After selling the patents, Tidwell's interests lay solely in receiving timely payments on the debt and keeping the debt secured (by title in the patent and in the assets of SuperBrace, Inc.). Neither of these obligations were personal. The Gebauers did not personally guarantee the loan.

Tidwell maintains that in addition to being paid he also had the expectation that his friends would feel more obligated, than anyone else, to take action against patent infringers. But this wishful thinking was not memorialized in the contract. Rather, there is language to the contrary. It states, Tidwell "agree[s] to protect the Buyer's exclusive" interests. Placing this obligation on the patentee, as opposed to the licensee, is consistent with the general rules of patent law.

[4] As aptly noted by the Gebauers, a licensee does not have standing to sue infringers, and over the years they needed Tidwell (the owner of the patent title) to file two lawsuits against infringers. "An exclusive licensee that does not have all substantial rights to a patent has standing to sue third parties for patent infringement only as a co-plaintiff with the patentee." (2 Browne, Cal. Business Litigation (Cont. Ed. Bar 2002) § citing *Mentor H/S, Inc. v. Medical Device Alliance, Inc.* (Fed.Cir.2001) 244 F.3d 1365.) In light of these well-established rules, it would have been unreasonable for Tidwell to assume the Gebauers, as licensees, were personally responsible for filing actions against infringers. Tidwell had the duty and obligation to protect the patents (and keep the loan secure) while he still held title to the patents.

[5] ***404** We have reviewed cases prohibiting assignment of a contract right and found there always exists evidence that a personal skill, promise, or performance was expected by one of the contracting parties. As one court succinctly summarized long ago, "There are contracts for personal service or other personal performance which cannot be assigned so as to transfer the concurrent obligation without the consent of the person entitled to such performance. This is illustrated by the contract of an artist to paint a portrait; or a sale of land under agreement by the purchaser to execute his own promissory note for a part of the purchase price. [Citations.]" ****416**(*Gribling v. Bohan* (1915) 26 Cal.App. 771, 772, 148 P. 530 [contract right not personal where there was no special reliance upon the personal skill and responsibility of the contractor, and the plaintiff was satisfied to have the work done by another].)

In this case, no one suggests that only the Gebauers were capable of making and selling the patented inventions. Tidwell never claims he was relying on the personal manufacturing craftsmanship or motorcycle marketing experience of the Gebauers. To the contrary, it is apparent the Gebauers required extensive training and assistance from Tidwell when starting their business. They seemed to have little knowledge about the production of motorcycle parts and needed help making connections in the motorcycle community to sell the products.

Moreover, Tidwell was not relying on the receipt of royalties. He had no stake in how many patented inventions were sold. After selling the patents, Tidwell's only remaining interest was to receive the balance of the purchase price. (See *Dopplmaier, supra,* 48 Cal.2d at pp. 223-224, 308 P.2d 732 [license rights to sprinklers not personal because inventor was not assured any definite royalty, licensee was not bound to produce a certain quantity, and inventor could terminate agreement if royalties returns unsatisfactory].) In light of all of the above, we conclude, the contractually obtained right to mass-produce and sell aluminum motorcycle parts is not of a personal nature.

Tidwell theorizes that although the trial court ruled the contractual rights were not personal, it "implicitly recognized the personal nature of the patent license" by limiting assignment to one buyer (Edwards) and forbidding that buyer from reassigning the rights. Tidwell believes the Gebauers somehow persuaded the trial court to "try to do the right thing" and fashion an equitable remedy for both parties. Tidwell asserts the case sounded in law, not equity, and therefore if the rights were truly assignable it would be to anyone and not just one person. Tidwell misconstrues the court's ruling.

***405** The court clearly, unequivocally, and repeatedly, stated the contractual rights were not personal. Tidwell fails to appreciate that this issue is distinct and separate from the question of how and when a corporation can sell assets subject to a lien. The assets at issue here are held by a corporation (SuperBrace), not personally by the individual shareholders (the Gebauers).

The acquisition of a corporate business can be structured in many ways, such as: (1) a stock purchase where the acquiring corporation became the parent corporation and selling corporation becomes the subsidiary; (2) an asset purchase or sale-of-assets reorganization (if assets are exchanged for stock in acquiring corporation); or (3) a merger whereby one corporation is absorbed by another. (See generally Friedman, Cal. Practice Guide: Corporations (The Rutter Group 2004) -8:118.6, pp. 8-20.2-8-20.4.) Depending on the manner of acquisition, the buying corporation may be required to assume the seller's liabilities. (*Ibid.*)

Here, it is apparent the court was concerned about keeping Tidwell's loan adequately secured in the event of a sale. It fashioned a remedy to give Tidwell several levels of protection. By requiring the buyer to assume the liability, and to also keep the seller on the hook, the court determined the sale "does not diminish but instead enhances the security interest." In furtherance of this goal, the court limited Edward's acquisition methods to either: (1) a sale of SuperBrace's assets (including the license); or (2) a sale "of all of the issued and outstanding shares of capital stock of SuperBrace." It evaluated the motivation and ability of the purchaser, making the factual determination the assets ****417** subject to the lien would be in safe hands. Indeed, the court predicted the sale would actually boost Tidwell's security interest because the facts show Edwards has "the youth, energy and experience to make SuperBrace Inc. a success, and to keep the monthly payments to [Tidwell] current."

We conclude, applying ordinary contract law principles, the license to practice the patent in this case was assignable (but also subject to the lien). We are compelled to follow valid Supreme Court precedent, until we hear differently from our state or federal Supreme Courts, or Congress.

***406** III-VI. [FN**]

FN** See footnote *, ante.

The judgment is affirmed. Respondents shall recover their costs on appeal.

WE CONCUR: MOORE, J., and FYBEL, J.

124 Cal.App.4th 388, 21 Cal.Rptr.3d 404, 4 Cal. Daily Op. Serv. 10,388, 2004 Daily Journal D.A.R. 14,103

Briefs and Other Related Documents **(Back to top)**

. 2004 WL 2148638 (Appellate Brief) Appellants' Reply Brief (Jul. 07, 2004)Original Image of this Document (PDF)

. 2004 WL 1683288 (Appellate Brief) Respondents' Brief (Jun. 11, 2004)Original Image of this Document (PDF)

. 2004 WL 1284979 (Appellate Brief) Appellants' Opening Brief (Apr. 21, 2004)Original Image of this Document with Appendix (PDF)

END OF DOCUMENT

Westlaw Attached Printing Summary Report for NETSOLUTIONS, 4583293

Date/Time of Request:	Tuesday, February 22, 2005 20:14:00 Central
Client Identifier:	0003-000003/BRIAN DAUCHER
Database:	KEYCITE-HIST
Citation Text:	124 Cal.App.4th 388
Service:	KeyCite
Lines:	35
Documents:	1
Images:	0

Date of Printing: FEB 22,2005

KEYCITE

Superbrace, Inc. v. Tidwell, 124 Cal.App.4th 388, 21 Cal.Rptr.3d 404, 4 Cal. Daily Op. Serv. 10,388, 2004 Daily Journal D.A.R. 14,103 (Cal.App. 4 Dist., Nov 23, 2004) (NO. G033363)

History

=> 1 **Superbrace, Inc. v. Tidwell,** 124 Cal.App.4th 388, 21 Cal.Rptr.3d 404, 4 Cal. Daily Op. Serv. 10,388, 2004 Daily Journal D.A.R. 14,103 (Cal.App. 4 Dist. Nov 23, 2004) (NO. G033363)

Court Documents
Appellate Court Documents (U.S.A.)

Cal.App. 4 Dist. Appellate Briefs

2 SUPERBRACE, INC., Robert J. Gebauer, Barbara J. Gebauer, American Metal Engineering, LLC, and Scott Edwards, Respondents/Plaintiffs, v. Kelly TIDWELL, Fran Cyrus and Does 1 through 20, inclusive, Appellants/Defendants., 2004 WL 1284979 (Appellate Brief) (Cal.App. 4 Dist. Apr. 21, 2004) **Appellants' Opening Brief** (NO. G033363)
ORIGINAL IMAGE OF THIS DOCUMENT WITH APPENDIX (PDF)

3 SUPERBRACE, INC., et al., Plaintiffs and Respondents, v. Kelly TIDWELL, et al., Defendants and Appellants., 2004 WL 1683288 (Appellate Brief) (Cal.App. 4 Dist. Jun. 11, 2004) **Respondents' Brief** (NO. G033363)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

4 SUPERBRACE, INC., Robert J. Gebauer, Barbara J. Gebauer, American Metal Engineering, LLC, and Scott Edwards, Respondents/Plaintiffs, v. Kelly TIDWELL, Fran Cyrus and Does 1 through 20, inclusive, Appellants/Defendants., 2004 WL 2148638 (Appellate Brief) (Cal.App. 4 Dist. Jul. 07, 2004) **Appellants' Reply Brief** (NO. G033363)
ORIGINAL IMAGE OF THIS DOCUMENT (PDF)

Citing References

No references were found within the scope of KeyCite's citing case coverage.