NATIONAL BANKRUPTCY CONFERENCE
A Voluntary Organization Composed of Persons Interested in the Improvement of the Bankruptcy Code and Its Administration

March 5, 2014

Hon. Patrick J. Leahy
Chairman, Senate Judiciary Committee
United States Senate
Washington, DC 20510

Hon. Mike Lee
United States Senate
Washington, DC 20510

Hon. Sheldon Whitehouse
United States Senate
Washington, DC 20510

Hon. Amy Klobuchar
United States Senate
Washington, DC 20510

Re: S. 1720 – Patent Transparency and Improvements Act

Dear Senators:

The National Bankruptcy Conference (NBC) is a voluntary, non-partisan, not-for-profit organization composed of about 60 of the nation's leading bankruptcy judges, professors and practitioners. It has provided advice to Congress on bankruptcy legislation for over 75 years. The NBC takes substantive policy positions on bankruptcy law and creditors' rights issues. It also provides technical advice on bankruptcy legislation without regard to its policy positions so that, to the extent possible, legislation achieves its supporters' objectives. I enclose a Fact Sheet, which provides further information about the NBC.

The NBC has reviewed the "Patent Transparency and Improvements Act" (S. 1720), which you have co-sponsored. The bill focuses primarily on patent litigation reform. However, in section 8, it also addresses the bankruptcy treatment of two intellectual property issues.

We have previously written to the House Judiciary Committee concerning section 6(d) of H.R. 3309, the Innovation Act, which addresses the same issue as section 8(a) of S. 1720. I enclose a copy of our letter, which describes the problems that provision could create for cross-border cooperation in international insolvencies. The letter notes the then-pending appeal in *In re Qimonda*, 462 B.R. 165 (Bankr. E.D. Va. 2011). The Court of Appeals for the Fourth Circuit has since issued its decision in that case.[1] The decision provides patent licensees with protection similar to that proposed in section 8(a) of S. 1720 but on a case-by-case basis, without the likely damaging international consequences of proposed section 8(a).

We write now regarding section 8(b) of S. 1720, which provides trademark licensees additional protection in the bankruptcy of a trademark licensor. H.R. 3309 contained a similar provision in section 6(e), but it was added to the bill too late in the process for us to address. I enclose a copy of our report. While we agree that including

[1] *Jaffé v. Samsung Electronics Co.*, 737 F.3d 14 (4th Cir. 2013).

trademarks within the Bankruptcy Code's definition of "intellectual property" makes sense, section 8(b)(2) provides additional protections that could elevate a trademark licensee's rights above all other creditors and contract counterparties in a bankruptcy case. We believe this is an unwarranted, unfair and unworkable change in the law, as explained in our Report, and urge the deletion of section 8(b)(2) of the bill.

We hope these materials are helpful in your deliberations.

With best regards.

Sincerely,

Richard Levin
Chair
rlevin@cravath.com
(212) 474-1978

cc. Ted Schroeder (by email)
Noah Phillips (by email)

NATIONAL BANKRUPTCY CONFERENCE
A Voluntary Organization Composed of Persons Interested in the Improvement of the Bankruptcy Code and Its Administration

Delivered by Email to:
Ms. Susan Jensen, Minority Counsel

November 15, 2013

House Judiciary Committee
c/o The Honorable John Conyers, Jr., Ranking Member
United States House of Representatives
Washington, DC 20515

Re: H.R. 3309 (Innovation Act)

Dear Chairman, Ranking Member, and Members of the House Judiciary Committee:

I am writing to you in my capacity as Chair of the Committee on Legislation of the National Bankruptcy Conference (NBC or Conference). The NBC is a voluntary, non-partisan, not-for-profit organization composed of about 60 of the nation's leading bankruptcy judges, professors and practitioners; it has provided advice to Congress on bankruptcy-related legislation for over 75 years. The Conference takes substantive policy positions on issues. It also provides technical advice on bankruptcy legislation without regard to its policy positions so that, to the extent possible, such legislation will achieve the objectives intended by its supporters.

The Innovation Act, which is primarily focused on patent litigation reform, contains an amendment to section 1520 of chapter 15 of the Bankruptcy Code that the Conference opposes in its present form. The proposed amendment appears in **SEC. 6. PROCEDURES AND PRACTICES TO IMPLEMENT AND RECOMMENDATIONS TO THE JUDICIAL CONFERENCE** and provides as follows:

(d) PROTECTION OF INTELLECTUAL-PROPERTY LICENSES IN BANKRUPTCY.—

(1) IN GENERAL.—Section 1520(a) of title 11, United States Code, is amended—

(A) in paragraph (3), by striking "; and"and inserting a semicolon;

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(B) in paragraph (4), by striking the period at the end and inserting "; and"; and

(C) by inserting at the end the following new paragraph:

'(5) section 365(n) applies to intellectual property of which the debtor is a licensor or which the debtor has transferred."

(2) EFFECTIVE DATE.—The amendments made by this subsection shall take effect on the date of the enactment of this Act and shall apply to any action for which a complaint is pending on, or filed on or after, such date of enactment.

Chapter 15 of the Bankruptcy Code, included in the 2005 amendments to the Code with large bipartisan majorities, is designed to achieve worldwide cooperation in the liquidation or reorganization of a multinational company in order to preserve value for creditors and other stakeholders, especially employees. Its fundamental structure is "universalist" in that it requires that each country recognize a foreign *main* proceeding in the debtor's home country as the leader in the worldwide effort and that it cooperate with that jurisdiction to achieve the best results for all concerned. Among other advantages, this approach permits the sale of whole divisions with assets and operations in several nations as a single piece, which almost always will yield a higher price. It is also essential to reorganization of a global business.

Chapter 15 incorporated the UNCITRAL Model Law on Cross-Border Insolvency "to encourage cooperation between the United States and foreign countries with respect to transnational insolvency cases."[1] While the Model Law required modifications to fit into the existing judicial and legislative scheme, chapter 15 followed the exhortation of UNCITRAL: "Therefore, in order to achieve a satisfactory degree of harmonization and certainty, it is recommended that States [countries] make as few changes as possible in incorporating the model law into their legal systems."[2] The proposed amendment to section 1520 violates the purpose of chapter 15 to further

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[1] H.R. Rep. No. 109–31, pt. 1, 109th Cong., 1st Sess. 105 (2005) ("H.R. Rep.").

[2] UNCITRAL Model Law on Cross-Border Insolvency with Guide to Enactment, adopted on May 30, 1997 (the "Model Law," the "Guide."). The Guide repeats this admonition in ¶ 50: "In enacting the Model Law, it is advisable to adhere as much as possible to the uniform text in order to make the national law as transparent as possible for foreign users of the national law (see also paragraphs 11-12 and 21 above)."

international cooperation and, to that end, the guidance of UNCITRAL to minimize modifications to the Model Law.

Adding a provision to chapter 15 that deals with a special situation violates the principle of uniformity that makes the Model Law a valuable mechanism for greater legal certainty for trade and investment. This is true even if one believes that, as a matter of public policy, the special situation should always be decided applying U.S. law. By such a unilateral, non-uniform amendment, the United States invites other countries to modify their versions of the Model Law in ways that may be detrimental to United States parties in foreign proceedings. The situation addressed by the proposed amendment is already before the courts and the tools to address the situation are already within chapter 15. The courts can deal with the issue appropriately and predictably without opening the door to other countries to reciprocate with their own deviations from the Model Law.

Section 1520, *Effects of recognition of a foreign main proceeding*, provides automatic relief on recognition of a foreign main proceeding.[3] It implements Article 20 of the Model Law by incorporating sections of the Bankruptcy Code that are consistent with the purpose of Article 20.[4] Both Article 20 and section 1520 operate automatically upon recognition of a foreign main proceeding and impose "effects" that "are necessary to allow steps to be taken to organize an orderly and fair cross-border insolvency proceeding. . . ."[5] The fundamental effects necessary for an orderly and fair cross-border insolvency are (a) a stay of

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[3] Section 1520 provides, in pertinent part, as follows:

> **(a)** Upon recognition of a foreign proceeding that is a foreign main proceeding—
> **(1)** sections 361 and 362 apply with respect to the debtor and the property of the debtor that is within the territorial jurisdiction of the United States;
> **(2)** sections 363, 549, and 552 apply to a transfer of an interest of the debtor in property that is within the territorial jurisdiction of the United States to the same extent that the sections would apply to property of an estate;
> **(3)** unless the court orders otherwise, the foreign representative may operate the debtor's business and may exercise the rights and powers of a trustee under and to the extent provided by sections 363 and 552; and
> **(4)** section 552 applies to property of the debtor that is within the territorial jurisdiction of the United States.

[4] H.R. Rep. 114-115 (2005).

[5] Guide at ¶ 143. Reference to the Model Law and the Guide for interpretation of chapter 15 is encouraged by section 1508. *See also* H.R. Rep. 109-110.

actions against or concerning the debtor or its assets, rights, obligations or liabilities, including a stay of execution against the debtor's assets and (b) a stay of the debtor's transfer, encumbrance or disposition of assets.[6] Section 1520 imposes the stay by incorporating the automatic stay of section 362 (but limited to the debtor and its assets within the territorial jurisdiction of the United States) and the transfer restrictions of sections 549, 363 and 552.[7]

The Innovation Act would introduce into section 1520 a section of the Bankruptcy Code, section 365(n), that has nothing to do with allowing "steps to be taken to organize an orderly and fair cross-border insolvency proceeding." This would be a blow to the goals of uniformity and harmonization embodied in the Model Law and chapter 15. Instead of a provision that affects all parties with an interest in a foreign proceeding, that effectively preserves the status quo and (potentially) going concern value and that does not intrude on the foreign proceeding, section 365(n) is not concerned with preservation of the status quo and affects the rights of a subset of licensees of intellectual property in the event that their license agreement is rejected or otherwise subjected to nonperformance in a foreign main bankruptcy case of a debtor who is their licensor. It may impose U.S. law on the foreign proceeding whether or not U.S. law should apply to a particular license. If the legislation is adopted, it should, at the very least, be limited to licenses that are within the territorial jurisdiction of the United States.[8]

Automatically applying section 365(n) upon recognition of a foreign main proceeding would ignore the territorial limits of chapter 15 to property within the territorial jurisdiction of the United States, since license grants by the foreign debtor may not be governed by U.S. law or may not even involve U.S. intellectual property. There should be a choice of law analysis performed

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[6] Model Law § 20(1)(a).

[7] H.R. Rep. 114-115.

[8] Section 15102(8) provides that "within the territorial jurisdiction of the United States," when used with reference to property of a debtor, refers to tangible property located within the territory of the United States and intangible property deemed under applicable nonbankruptcy law to be located within that territory, including any property subject to attachment or garnishment that may properly be seized or garnished by an action in a Federal or State court in the United States."

before section 365(n) is applied in a chapter 15 case.[9] Section 365(n) would then be applied in appropriate situations on an appropriate showing under section 1522(a) and (b).[10] Applying it automatically, without considering whether U.S. law should apply to the license in question and without the safeguards of sections 1521 and 1522 would be detrimental to the goals of the Model Law and chapter 15.[11] Rather than enhancing a cross-border insolvency proceeding, automatic application of section 365(n) would likely deter foreign representatives from seeking recognition to obtain necessary assistance for the foreign proceeding if a condition to recognition were entanglement in the possible briar patch of licensee rights under U.S. bankruptcy law.

The genesis of section 6(d) of the Innovation Act is likely the case of *In re Qimonda AG*, 462 B.R. 165 (Bankr. E.D. Va. 2011). There, on the petition of the administrator appointed in Qimonda's German main proceeding, the bankruptcy court entered an order recognizing the foreign main proceeding and, on the same date, entered a Supplemental Order under section 1521 that applied several sections of the Bankruptcy Code, including section 365, to the chapter 15 case. Upon realizing that section 365(n) interfered with his rights under the German insolvency code to "elect non-performance" of contracts, the administrator sought modification of the Supplemental Order. Licensees of U.S. patents, who would lose the protection of section 365(n) if section 365 no longer applied, objected. The Bankruptcy Court, on remand from the district court, found, under the facts and circumstances of that case, that there was a fundamental U.S. policy favoring innovation and that eliminating section 365(n) protection would be manifestly contrary to that policy. The court also ruled that the requested relief should be denied on the alternative section 1522 ground that the interests of the licensees would not be "sufficiently protected" if the requested relief were granted. The *Qimonda* decision was certified for

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[9] *In re Maxwell Comm. Corp. plc*, 93 F.3d 1036 (2d Cir. 1996) (dealing with choice of law in an avoidance action brought in connection with a proceeding under former section 304, the predecessor to chapter 15).

[10] Section 1522(a) and (b) provide: "**(a)** The court may grant relief under section 1519 or 1521, or may modify or terminate relief under subsection (c), only if the interests of the creditors and other interested entities, including the debtor, are sufficiently protected. **(b)**The court may subject relief granted under section 1519 or 1521, or the operation of the debtor's business under section 1520(a)(3), to conditions it considers appropriate, including the giving of security or the filing of a bond."

[11] Relief under § 1521 must be "necessary to effectuate the purpose of this chapter and to protect the assets of the debtor or the interests of the creditors . . . ."

direct appeal to the Fourth Circuit.[12] The Fourth Circuit heard argument on September 17, 2013 but has not ruled.[13]

Rather than passing legislation that would pre-empt the ruling of the Fourth Circuit and conflict with the purpose of the Model Law and chapter 15, Congress should reject this amendment. As noted, relief is already available to licensees in appropriate circumstances under section 1522 if a foreign representative seeks to deprive them of their rights under U.S. law. Applying section 365(n) to all foreign main proceedings would implicate licenses that are not within the territorial jurisdiction of the United States and would be inconsistent with the ancillary nature of a chapter 15 case, to provide assistance to the main case in another country where the debtor has the center of its main interests.

If the debtor's property is sliced into national bits, the cooperative approach of chapter 15 and the Model Law is seriously handicapped. The proposed amendment does just that as to intellectual property. Intellectual property is itself subject to a worldwide system of recognition and enforcement, which will be shattered for companies emerging from reorganization, creating a host of difficult questions and serious uncertainty about these crucial property rights. We believe the United States would make a mistake by going it alone and by failing to let the courts develop the key issues under the existing statute.

Sincerely,

Sally S. Neely
Chair, Legislation Committee of the
National Bankruptcy Conference

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[12] *In re Qimonda AG,* 470 B.R. 374 (E.D. Vir. 2012).

[13] Case No. 12-1802.

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Report of the National Bankruptcy Conference on
Proposed Amendments to Bankruptcy Code Section 365(n) in
S. 1720 (Patent Transparency and Improvement Act of 2013)
March 5, 2014

I. INTRODUCTION

The National Bankruptcy Conference (NBC) has considered two aspects of the Patent Transparency and Improvement Act of 2013 (S. 1720):

1) Section 8(a)(1), which would include trademarks, service marks, and trade names in the definition of "intellectual property" in Bankruptcy Code section 101(35A),[1] so as to make Bankruptcy Code section 365(n) applicable to licensees of such intellectual property; and

2) Section 8(a)(2), which would add a new subparagraph (D) to Bankruptcy Code section 365(n)(2), which would provide that, in the case of the trustee's rejection of a license of a trademark, service mark, or trade name license under which the debtor is the licensor, "the trustee shall not be relieved of a contractual obligation to monitor and control the quality of a licensed product or service."

II. SUMMARY CONCLUSIONS

1) The NBC supports the inclusion of trademarks, service marks, and trade names in the definition of "intellectual property." The NBC is concerned, however, that the non-debtor licensee's continued use of the intellectual property must be consistent with the material terms of the license, in terms of use, quality, and the like. Otherwise, the licensee's continued use of the intellectual property may prejudice the other parties who also may be co-licensees of the debtor's intellectual property, the bankruptcy estate and the debtor. Thus, we recommend that the following, additional language be added to section 365(n)(2) (as a new subparagraph (C), such that existing subparagraph (C) would become subparagraph (D)):

> (C) such rights shall terminate if the licensee does not comply with all material provisions of such contract relating to the exercise of such rights;

Thus, following the trustee's rejection of an intellectual property license, the non-debtor licensee would have the option of either (i) accepting the trustee's rejection as a termination of the license (in which case the licensee would be entitled to assert a damages claim), or (ii) continuing to use the intellectual property, provided that the licensee pays the contractual royalties and (per the proposed new subparagraph (C)) complies with the license's other material terms.

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[1] References herein to the "Bankruptcy Code" and sections thereof are to 11 U.S.C. §§ 101-1532.

2) The NBC does not support the inclusion of the "monitor and control the quality" language in section 365(n)(2), or any other language that might impose upon the trustee or debtor any affirmative, post-rejection obligations. The inclusion of affirmative, post-rejection obligations would be unprecedented under bankruptcy law and would provide trademark licensees with special status above all of a debtor's other creditors, potentially at their expense. Although the NBC appreciates the policy reasons for permitting a trademark licensee to continue to use intellectual property (akin to the rights currently provided to copyright and patent licensees under section 365(n)), the NBC believes that it would be unfair and unworkable to impose continuing obligations of performance on the trustee or discharged debtor. Nor does the NBC support a "balancing test" exception to this rule; such a test would lead to additional cost, complexity, uncertainty, and litigation in bankruptcy cases.

III. DISCUSSION

A. The NBC Supports The Inclusion Of Trademarks, Service Marks, And Trade Names In The Definition Of "Intellectual Property," Provided That The Legislation Also Makes Clear That A Licensee Is Required To Comply With The Material Terms Of The License.

Bankruptcy Code section 365(n) was enacted in 1988, largely in response to the Fourth Circuit's decision in *Lubrizol Enters., Inc. v Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985) (holding that rejection of patent license deprived non-debtor licensee of right to use the technology). At that time, however, Congress made a conscious decision to exclude trademarks and similar rights from the scope of section 365(n), by excluding them from the definition of "intellectual property" in section 101(35A). This was not simply a preference of one class of intellectual property licensees over another; it was a reasoned Congressional decision in response to special concerns raised by trademarks and similar rights. In particular, Congress was concerned that a licensee's misuse of a trademark or similar right under a rejected license could threaten the value of the intellectual property itself. This, in turn, might not only harm the bankruptcy estate, but also other co-licensees (for example, multiple franchisees of a bankrupt restaurant chain).

As explained in the Senate Judiciary Committee Report:

> [T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others …, such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

S. Rep. No. 100–505, at 5 (1988), reprinted in 1998 U.S.C.C.A.N. at 3204.

We believe that Congress' concerns were valid in 1988 and remain so today. If a licensee uses a trademark in association with an inferior good or service, the value of the trademark itself may be diminished, and this will affect not only the bankruptcy estate or debtor, but also any other parties that are entitled to use that trademark.

Nevertheless, we also recognize that the exclusion of trademarks and similar rights from section 365(n) creates the potential for harm to non-debtor licensees on par with that which patent and copyright licensees faced before the enactment of section 365(n). We also recognize that, in an effort to protect trademark licensees, courts have at times treated trademark licenses as non-executory (and thus not subject to rejection),[2] or have provided that a licensee's rights to use the technology would survive notwithstanding rejection.[3] As a consequence, splits (or at least tensions) have developed among the Circuits, creating uncertainty and the potential for additional litigation.[4]

Accordingly, the NBC believes that it would be appropriate to include trademarks and similar rights within the definition of protected "intellectual property" under sections 101(35A) and 365(n). However, in recognition of Congress' valid concerns about the improper use of such property by the licensee of a trademark or similar right, the NBC also believes that a new subparagraph should be added to section 365(n)(2). This paragraph would provide:

> (C) such rights shall terminate if the licensee does not comply with all material provisions of such contract relating to the exercise of such rights;

This subparagraph would make clear that, if a licensee elects to use intellectual property following rejection (which is entirely within the licensee's discretion), the licensee must not only pay royalties that come due, but also must comply with the other material terms of the license (including with respect to use and quality). This will ensure that the value of the intellectual property is protected, not only for the bankruptcy estate and its creditors, but also for other parties who may be permitted to use the intellectual property. Of course, if the licensee does not wish to

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2 *In re Exide Techs.*, 607 F.3d 957 (3rd Cir. 2010).

3 *See Sunbeam Prods. v. Chi. Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012).

4 *See, e.g., Lewis Bros. Bakeries, Inc. v. Interstate Brands Corp. (In re Interstate Bakeries Corp.)*, 690 F.3d 1069 (8th Cir. 2012) (contrasting the *Exide* court's decision that a trademark license was not executory); *Sunbeam*, 686 F.3d at 377-78 (criticizing Fourth Circuit's holding in *Lubrizol* that rejection of an intellectual property license would preclude the non-debtor licensee from using the licensed intellectual property).

continue to comply with the license's terms, the licensee may elect to treat the license as terminated (as provided under existing section 365(n)) and assert a claim for damages.

Proposed subparagraph (C) would apply to all licenses of intellectual property under which the debtor is the licensor, including trademarks and similar rights. The NBC believes that uniformity in the law would be preferable, and it does not see any reason why licensees of other kinds of intellectual property should be treated differently from licensees of trademarks and similar rights.

Thus, in connection with amending the definition of "intellectual property" in section 101(35A) to include trademarks, trade names, and service marks, we propose that the additional language set forth above be added to section 365(n)(2) (as a new subparagraph (C), such that existing subparagraph (C) would become subparagraph (D)).

B. The NBC Opposes The Inclusion Of Any Post-Rejection Affirmative Obligations On The Trustee Or Debtor.

As drafted, section 8(b) of S. 1720 would impose the following affirmative, post-rejection obligations on a bankruptcy trustee:

> (D) in the case of a trademark, service mark, or trade name, the trustee shall not be relieved of a contractual obligation to monitor and control the quality of a licensed product or service.

The NBC believes that this proposed language is problematic for a number of reasons.

1. The Proposal Inexplicably Changes Sides On The Quality Control Issue.

As discussed above, the reason why Congress omitted trademarks and similar rights from the definition of intellectual property in 1988 was not because of concerns about the trustee or debtor maintaining the quality of the intellectual property. Rather, it was because of concerns about the non-debtor licensee maintaining that quality. After all, it is the non-debtor licensee that is actually using the trademark in association with a good or service, and thus it is the non-debtor licensee's quality that will most likely affect how the public perceives the mark.

The proposed legislation inexplicably reverses course and places the focus on the trustee. Although it is possible that the trustee (or debtor) will also be using the trademark in its own right, the focus of section 365(n) is on licenses to a non-debtor party and thus on situations in which the non-debtor licensee is using the trademark. That is why Congress focused on the non-debtor licensee in 1988 and excluded trademarks from the reach of section 365(n) altogether, and why that focus should not change in the current legislation.

Section 365(n) provides an option to the non-debtor licensee—it can either treat the rejected license as terminated, or choose to continue to accept the benefits of the license. If the non-debtor licensee is dissatisfied with the condition of intellectual property, the non-debtor licensee is free to stop paying royalties and to walk away from the license.

2. Imposing Post-Rejection Duties On The Trustee Would Create Significant Inequities In The Bankruptcy System.

When a trustee rejects an executory contract, both the trustee and the debtor are relieved of any further obligations of affirmative performance under the contract. Although the non-debtor counterparty to the rejected contract may have a claim for damages, the counterparty cannot compel further performance by the trustee or debtor. This is the case even with respect to patent and copyright licenses, which already are afforded special treatment under existing Bankruptcy Code section 365(n). Although a non-debtor licensee may, under section 365(n), continue to use the licensed intellectual property (as long as the licensee continues to pay royalties), the licensee cannot compel the trustee or debtor to undertake any further affirmative actions with respect to that intellectual property (such as further research and development, warranties, marketing, or quality control).

The proposal to require a trustee to maintain quality controls after rejection of a trademark license would create significant inequities in the bankruptcy system. By imposing additional post-rejection obligations on the trustee, trademark licensees will be granted a privilege that no other creditors in bankruptcy have. Debtors often have many contractual counterparties (many of whom may be greatly affected by the trustee's rejection of their contracts), but none of them has the right to compel any affirmative performance by the trustee or debtor after rejection. Indeed, the entire purpose of the rejection power is to relieve an overburdened estate from future obligations. The proposed legislation would grant that right to a single class of counterparties, to the exclusion of all others. Moreover, to the extent the trustee or debtor must incur any expense in complying with the legislation (which seems inevitable), that expense will be paid for by all of the debtor's other creditors (assuming there is any money to pay for it). Thus, not only will trademark licensees receive a unique and unprecedented benefit, but that benefit likely will be at the expense of other creditors.

Some have noted that despite the exclusion of trademarks from the definition of intellectual property within the meaning of section 365(n), some courts use their equitable powers to impose both a continuing right of the licensee to use the mark and an obligation for a licensor debtor to maintain the value of the mark, on the ground that the debtor is required to maintain the value of all assets in the estate. We agree with the observation that some courts are finding ways to protect the non-debtor licensee's **use** of intellectual property, either by finding licenses to be non-executory, *see, e.g.*, *Exide*, or by finding that rejection does not deprive the licensee of the right to use the intellectual property, *see, e.g.*, *Sunbeam*. We do not agree, however, that courts are imposing a continuing "obligation for a licensor debtor to maintain the value of the mark." To the contrary, neither *Sunbeam* nor *Exide* imposed any continuing, affirmative duties on the trustee or debtor-licensor; the sole remedy for the non-debtor licensee was continued use of the licensed intellectual property. Moreover, we are not aware of any case—in any context—in which affirmative duties of performance were imposed upon a debtor under the terms of a rejected executory contract.[5]

3. Imposing Post-Rejection Duties On The Trustee Will Often Be Impractical.

Section 365(n) applies not only in reorganizations but also in liquidating chapter 7 and 11 cases. In a liquidation case, a debtor's assets are supposed to be reduced to cash and distributed to creditors as soon as possible, and the trustee is generally not supposed to operate the debtor's business for any longer than is necessary to achieve those goals. Imposing continuing duties on the trustee to maintain intellectual property would be inconsistent with those goals. Instead of administering the estate as quickly as possible, the trustee may be obligated to keep the estate open during the remaining life of the license. This could delay distributions to creditors, and increase costs of administering the bankruptcy. Moreover, if a debtor's business is liquidating, the trustee may not have the skills necessary to continue to perform, and the debtor may no longer have employees who are able to perform either.

Although the proposed legislation does not refer to continued performance by the "debtor," that too would often be impractical. In a liquidation case (including many liquidating chapter 11 cases), a business debtor usually ceases to exist, and in any event will likely have little or no assets or employees to enable it to continue to perform under the license.

4. Imposing Post-Rejection Duties Is Inconsistent With The Fundamental Principle Of The Debtor's Discharge And "Fresh Start."

The fundamental principle underlying bankruptcy is that a debtor's pre-bankruptcy obligations are reduced to monetary claims against the estate, and the debtor is entitled to a fresh start. Although there are limited exceptions to the discharge,

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5 The provisions in Bankruptcy Code section 365 that provide post-rejection rights to non-debtor parties all involve situations in which the non-debtor party already is in possession of or using the property in question, and the only issue is whether the trustee's rejection can divest the non-debtor party of that possession or use. *See, e.g.*, 11 U.S.C. § 365(h) (permitting non-debtor tenant under rejected non-residential real property to elect to remain in possession); 11 U.S.C. § 365(i) (permitting non-debtor purchaser of real property or timeshare interest who is already in possession of the property to elect to remain in possession following rejection); existing 11 U.S.C. § 365(n) (permitting non-debtor licensee under rejected license of the debtor's copyrights or patents to elect to continue to exploit such intellectual property). No provision, however, requires the trustee or debtor to provide any affirmative performance after rejection.

the vast majority of them relate to misconduct by the debtor, and no exception imposes affirmative duties of performance (as opposed to simply the payment of money).

The proposal to impose continuing, affirmative duties on the trustee (or debtor) would be contrary to the principle of the discharge. Indeed, we are not aware of any other circumstance under current law in which a discharged debtor could be required to continue to render affirmative performance under a discharged contract.

5. Imposing A Balancing Test Would Increase Litigation, Costs, And Uncertainty.

The NBC has also reviewed additional language to the effect that:

> in the case of a trademark, servicemark, or trade name, the trustee shall not be relieved of a contractual obligation to monitor and control the quality of a licensed product or service, <u>unless after consideration of the hardship that would be caused to the non-debtor licensee in comparison to the benefit of the rejection to the debtor-licensor and its estate, it would be inequitable not to relieve the trustee of such obligations.</u>

Although such a balancing test might address some of the concerns noted above, the NBC believes that it will be an invitation for litigation. This, in turn, would further increase the costs of administering bankruptcy cases, and those costs will be shouldered by other creditors who do not receive the same benefits that the trademark licensees would receive.

Moreover, imposing a balancing test would likely result in inconsistent or conflicting results as bankruptcy courts struggle to apply this standard. Rather than simplifying the treatment of intellectual property licenses (which adding trademarks to the definition of "intellectual property" generally would do), the legislation would create a new area of uncertainty and litigation.

Finally, even if there may be specific instances in which imposing continuing obligations on the trustee or debtor might be perceived by some as "equitable," the same could be said for imposing continuing obligations under any type of rejected executory contract. There is no reason to single out trademark licenses while at the same time excluding other executory contracts, including supply contracts that might be essential to the non-debtor counterparty. One of the fundamental principles of bankruptcy is equality in the treatment of creditors. The proposal would undermine that principle by allowing a select group of contractual counterparties (and only that group) to argue as to why the trustee or debtor should be compelled to continue to perform after rejection.