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What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

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Terminology

As my paper will hopefully be read by many interested Swedish readers, but is written in the English Language, I have decided to include an explanation of my English translation of certain Swedish judicial expressions and words. That may assist the reader.

- I am using “Acquirer” for ”Förvärvare”
- I am using “Bankruptcy Trustee” for “Konkursförvaltare”
- I am using “Business in Bankruptcy as a Going Concern” for “I drift varande verksamhet”
- I am using “Cancel” for “Häva”
- I am using “Change of Possession” for “Tradition”
- I am using “Chattels” for ”Lösöre”
- I am using “Chose” for “Löst föremål”
- I am using “Contracted Law” for “Obligationsrätt”
- I am using “Copy” for “Exemplar”
- I am using “Distribution Right” for “Spridningsrätt”
- I am using “Grantee” for “Nyttjare”
- I am using “Grantor” for “Upplåtare”
- I am using “Hire-Purchase” for Avbetalningsköp”
- I am using “Information” for “Denuntiation”
- I am using “Legal Seizure” or “Distrain” for “Utmätning”
- I am using “Loss of Right to Use through Acquisition” for “Köp bryter Legostämman”
- I am using “Movable Property” for “Lös egendom”
- I am using “Perfected Property Rights” for “Sakrättsligt skydd”
- I am using “Perfection” for “Sakrättsmoment”
- I am using “Possession” for “Besittning”
- I am using “Prohibited Transfer” for “Överlåtelseförbud”
- I am using “Proprietor Rights” for ”Äganderätt”
- I am using “Protection of Turn-over” for “Omsättningskydd”
- I am using “Reservation to Cancel” for “Hävningsförbehåll”
- I am using “Reservation of Title” for “Ägarförbehåll”
- I am using “Right of Detachment” for “Lösenrätt”
- I am using “Right of Disposition” for “Förfoganderätt”
- I am using “Right to Pre-Use” for “Föranvändarrätt”
- I am using “Right to Resume” for “Återtaganderätt”
- I am using “Stock in Hand” for “Lagerexemplar”

The types of different claims from the creditors for payment from a bankrupt estate can be divided into three main categories, namely:

- a. A claim that has arisen before a bankruptcy is entered into. The Swedish term used is “konkursfordran”, which I have translated to, “A claim against the debtor in bankruptcy.”
- b. A claim against a Bankruptcy Estate, The Swedish term is “massafordran,” which I have translated to “A claim against the bankruptcy estate”. Consequently the term, “massansvar” I have translated to, “Responsibility of the bankruptcy estate”, and the term, “massaskuld” to “A debt of the bankruptcy estate”.
- c. A claim against a bankrupt debtor that arises after the bankruptcy decree has become final. This is quite unusual and rare.

Abbreviations

Here is a list of the abbreviations that I have used, and that are to be found in this paper:

Debtor-In-Possession is abbreviated to “DIP”.

Intellectual Property is abbreviated to “IP”.

Intellectual Property Rights is abbreviated to “IPRs”.

Swedish Aktiebolag is abbreviated “AB” and is translated to “Limited Company”.

The Swedish Kronofogdemyndigheten is abbreviated to “KFM”.

The Swedish Patent och Registreringsverket is abbreviated to “PRV”.

The Swedish Bankruptcy Act (1987:672) is abbreviated to “BA”.

The Swedish Copyright Act (1960:729) is abbreviated to “CA”.

The Swedish Code of Execution (1981:774) is abbreviated to “CE”.

The Swedish Patents Act (1967:837) is abbreviated to “PA”.

The Swedish Sales Act (1990:931) is abbreviated to “SA”.

The Swedish Trademarks Act (1960:644) is abbreviated to “TA”.

The United States Code is abbreviated to “USC”.

What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

Summary

The vast and complex field of technological discoveries and inventions require more and more protection mainly towards the rights of their owners. IPRs such as a patent, trademark or copyright, play a major role in the global development of economics and high finance. The primary reason for my paper concerns the question and thereby the title, “What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?”

The paper is divided into five separate parts. The first part describes the problem and purpose as I see it. It also looks at Licence Agreements, Perfected Property Rights, and to what extent a Bankruptcy Estate can claim an IPR, and whether or not an IPR and the licence right to an IPR can be transferred.

The second part is the heart of the paper where I discuss the Perfected Property Rights of a Licensee in the bankruptcy estate of a Licensor. I have highlighted the perfected property rights of a licensee primarily concerning patents. I have discussed the rights and protection available to a licensee against a new owner. I arrived at the fact that there is two ways of dealing with the problems. Firstly there is the traditional principle known in Sweden as “Loss of right to use through acquisition”, i.e., a right to the use of a movable property will be made null and void as a new owner takes president over the right to use. Secondly, there is the principle of priority or agreement. This principle of priority means that the first legal act has precedent. To emphasise this principle of priority I have made analogies within the area of the pledging of a patent. I have also compared the theories of whether or not the traditional principle “Loss of right to use through acquisition” or the principle of priority should apply. This was for me, the most important and actual question, and I see it as a problem in Sweden that needs attention. As there is no available legislation in Sweden I compared our way of dealing with these problems to the legislative way of dealing with the same problems in the USA. As the technical development emerged in the US it follows that they have attained the most experience concerning legal questions in the field of IPRs.

The third part concerns the perfected property rights of a licensor in a bankruptcy of a licensee and I have even described perfected property rights with regard to the purchase of IPRs. I have made an analogy with the Swedish Sales Act. I have taken part of the conclusions available from literature and the ideas and theories concerning perfected property rights with regard to the right of publishing, and that it should be considered valid also for patent licence agreements. I also found it relevant to discuss the Swedish case NJA 1966 p241 concerning the right of publishing within a bankruptcy estate and the sale of the stock in hand.

The fourth part looks at the US Bankruptcy Act, focusing on the New Intellectual Property Bankruptcy Protection Act. The US has enacted legislation on behalf of IPR licensing to protect a licensee so that a licensee can continue to use a licence after the bankruptcy of a licensor. The fifth and final part is the analysis, where I have brought together Swedish judicial preparatory works, US legislation, Swedish principles and discussions. The result will hopefully support my theory that we have a problem in this area in Sweden today that need to be solved. I believe that we should follow the example of USA and legislate.

What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

PART I

1 Background

1.1 An Introduction

In the today's growing world in economics and high finance IPRs such as patented technology, copyrighted media, and product specification based on trademark brand names, are playing a major role. IPRs such as patents and trademarks often compose an integral part of the total balance sheet of a company. Continued explosive technological discoveries and inventions require more and more IPR protection to protect the rights of the owners.¹

There is still a large uncertainty surrounding the legislation provided today to protect IPRs especially when an IPR is perfected. Legislation will only provide protection under normal contract law. The intense globalisation of the last decade has led to multi national deals being signed on a daily basis. This even furthers the problem for the legislator by needing to understand the different partners countries of origin and the protection provided by their judicial system. There is, as one can see, an area in great need of protective legislation on a world-wide basis.²

1.2 European Legislation

EU legislation has been addressing the concerns of several different IPRs. However, even here the new legislation does not tackle the questions surrounding perfected property rights. The available law within this area is still looking at perfected property rights through the laws of the individual nation or authority in question. This is either carried out by "lex rei sitae"³ or "lex concursus"⁴. As I have said, the development within this area is rather slow, so as of this time no Communal Patent Protection System has been evolved or implemented by the EU-Member States.⁵

1.3 The Important Roll played by Developing Technique

Technique has and does play a very important roll in the rapid development of IPRs. As early as the middle of the fifteenth century, printers made an important contribution to help protect the rights of authors, poets, artists and publishers. Then, in the eighteenth century, the need was seen to protect patterns and designs in the Textile Industry. Following the industrial revolution to the latter part of the nineteenth century, other developing technological industries really saw the acute need to regulate and protect their inventions and methods of construction.⁶

¹ Michelson, Randy, Bankruptcy and Licensing, p1.

² Persson, Annina H, Levin Marianne, Wolk Sanna, Immaterialrätt & Sakrätt, p40.

³ The law of the local authority governs the matter where an object, immovable or movable is situated.

⁴ The law of the country, where a party has been declared bankrupt, either by Court or other public authority decision.

⁵ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p40.

⁶ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p29f.

1.4 A New Sphere of Understanding

Since the middle of the nineteen eighties, IPRs have grown more and more, and the latest years of technical development have directly resulted in IPRs entering a new sphere of understanding. This relative short period of change has in fact included more changes and refinements than were included in the whole one hundred years that have past since the original draft was made at the Paris Convention. The developments of IPRs have shown a clear movement from specific areas into more centrally defined areas. The main factors influencing this change of movement are financial, technical and, not least of all, political. As said the protection of IPRs has also become more interesting as a political attitude.⁷

As IPRs increase in number and in complication, so of course the number of court processes also has increased significantly. Lawyers around the world who are working in these areas are keeping themselves well informed on all important judicial processes as well as any changes, revisions and updates in the field of IPRs.⁸

1.5 Awareness of the Potential Value of an IPR

In today's IT world IPRs can comprise a significant value. One can see that there has become another economical awareness with regard to the potential value of an IPR. This awareness is important when considering the extent that the exploitation of IPRs and their assets has come into focus. The high values that can be included in IPR interests make them very attractive as assets and for use as security or guarantees during bankruptcy proceedings.⁹

1.6 The Informative Internet

Internet has become an important factor in the spreading, development and awareness of intellectual property throughout the world! The rapid development of Internet provides mountains of useful and necessary information, but all the information is not always considered positive. Certain amount of this free information is in fact patented computer programs, and copyrighted music and films that can be downloaded from different sites on the Internet. Here we can see a need for extended international co-operation to create a global minimum acceptable level of IPR protection.¹⁰

2 Problem

The main problem I wish to address, highlight and question in this paper is included in the title, "What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?"

I intend to focus on the Perfected Property Rights of a Licensee in the Bankruptcy Estate of a Licensor. I will discuss the rights and protection available to a licensee against a new owner. There are two ways of dealing with the problem. Firstly there is the traditional principle known in Sweden as, "Loss of right to use through acquisition", i.e., a right to the use of a movable property will be made null and void as a new owner takes president over the right to use. Secondly, there is the principle of priority or agreement.

⁷ Persson, Levin, Wolk, Immaterialrätt & sakrätt, p32.

⁸ Persson, Levin, Wolk, Immaterialrätt & sakrätt, p32.

⁹ Persson, Levin, Wolk, Immaterialrätt & sakrätt, p33.

¹⁰ Persson, Levin, Wolk, Immaterialrätt & sakrätt, p33.

This principle of priority means that the first legal act has precedent. The question is thereby, whether or not the principle, “Loss of right to use through acquisition”, should still apply or if this principle should be considered obsolete today, and that the principle of priority or agreement should apply instead?

I am also going to briefly discuss and consider the problem of protection from the angle of a Licensor and thereby ask the question: ”What Protection is afforded a Licensor with regard to Perfected Property Rights in Bankruptcy?”

The question of protection, or lack of protection, that is afforded a licensee, and even a licensor, through the bankruptcy of the other party, is of particular interest to me. The uncertainties surrounding this protection, coupled to the absence of legislation in Sweden, is becoming a pressing problem that needs to be addressed in the near future with consideration of the large growth of the IPR market.

3 Limitations and Disposition

I will focus on the perfected property rights of a licensee in the bankruptcy or insolvency of a licensor, and whilst discussing a licensee I will concentrate on licence agreements and compare it with patent licence protection. However, I will also discuss trademark and copyright protection, where I find it relevant or necessary.

I will touch on the field of pledge, because I need to make analogies to the field of pledge when discussing the perfected property rights of a licensee. I will even discuss the rights of a licensee and compare theory and doctrine to reality in a fairly recent Swedish bankruptcy case.

When discussing the perfected property rights of a licensor, I will not only discuss the licensing of an IPR, but will first discuss the purchase of IPRs and the perfected property rights to form a natural sequence in the paper. When discussing the purchase of IPRs, I will focus on the area regarding the cancellation of an agreement due to lack of payment, and only touch on the area regarding the breach of contract.

With regard to a right of a licensor, I will discuss and relate to some of the theories regarding perfected property rights in the area of publishing, because the theories regarding publishing are considered to even apply to patent licence agreements.

I have decided to not go into the field of competition law, because this paper would then turn into a book. This could be covered at another time, as it is a very interesting area as IP perfected property rights often meet in the field of competition law.

4 Purpose and Method

The purpose of my paper is to ask the question of how do we protect the perfected property rights of a licensee or a licensor in bankruptcy in Sweden today? As there is no legislation governing this area available it is also my purpose to recommend the passing of such a law in the near future.

My method is to provide the reader with details of the problem, look at the practical application today in Sweden and compare with the legislation and judgements available for the same problems

in the Courts of the United States of America. When comparing to the US, I will focus on a licensee's perfected property right in a bankruptcy or the insolvency of a licensor, because I have found that in the US, the relatively new legislation protects even a licensee to a certain extent, in a bankruptcy of a licensor.

Why USA? The US has experienced an even greater explosion of IPR than Sweden over the last decade. This is quite understandable when one looks at the leading role that the US has played in patented computer technology etc. It also means that they have had more bankruptcies in this area which therefore means more case study material, and hopefully more experience in the area of perfected property rights in bankruptcy primarily especially concerning licence agreements.

More precedent means more experience, and I feel that it is very important to look at available authorities from the United States Justice System. This method will allow me to compare their findings, discussions and rulings to comparable conflicts in Sweden. Unfortunately the material available in Sweden is rather thin nevertheless the problems are exactly the same!

5 Licence Agreement

5.1 What is a Licence Agreement?

A licence agreement is a contract governing the transfer of a right to use an Intellectual Property. A transfer will normally require the consent of the grantor. IPRs such as copyright, patent right, trademark, technological know how, pattern right, and computer chip design protections can all be subject to licensing.¹¹ A licence agreement means that the licensor must give up his sole legal right in favour of the licensee. Compensation to the licensor is normally made payable in a monetary form but can even take on a variety of forms. A licence agreement is the legal instruments that shall be used to control development of technical and economical ideas and solutions and not least of all harness experience.¹²

5.2 Why do IPRs need a Licence?

Why do IPRs need a licence? It could be for example, the small company that does not have the financial resources to invest and fully exploit a certain idea or technique. It could also be the large company that is dependent on the smaller companies' innovations and ideas since they can not exploit all the necessary research and development programs alone.¹³ Another factor that speaks strongly in favour of licensing are the restrictions to be found in certain countries that have built currency restrictions in the form of trade barriers against the export of goods. Licensing will even alleviate the quantitative limitation problems on import and export of goods, and the problems that certain Customs authorities can create. A final factor that I thought to mention is that a licence could provide economical relief due to the differences that can be found from country to country regarding the availability and cost of intellectual manpower resources, the levels of salaries; and the levels of taxes etc.¹⁴

¹¹ Tuula Marie, IT-bolagen och de immateriella tillgångarna, p162.

¹² Sandgren Claes, Patentlicenser, p80.

¹³ Tuula, IT-bolagen och de immateriella tillgångarna, p162.

¹⁴ Sandgren, Patentlicenser, p99f.

5.3 Validity of a Patent Licence

A Patent Licence may not be granted for a longer period of time than the validity of an actual patent in question. The maximum time limit that can be granted for a patent is twenty years from the initial application for the patent. A Patent Licence agreement can be granted for a shorter period of time, which is often the praxis.¹⁵

5.4 The Advantages and Disadvantages of Licensing

Apart from the general description given in chapter 5.2 above, there are several advantages as well as disadvantages to licensing. Let us look at them from both sides, namely, the licensor and the licensee.

5.4.1 The Advantages and Disadvantages of Licensing as a Licensor

A licensor can be assured a regular and stable income from the income and royalties that the licence will guarantee. A guaranteed income from the licence can be far more attractive to the licensor than the risks and costs of own production, marketing and sales.¹⁶ Another advantage is that a licensor does not need to engage in marketing programs as the licensor can use the local knowledge of a licensee in their own environment.¹⁷ The main disadvantage, that I can see, is the risk to the licensor that, in time, the licensee may in fact develop into a competitor instead of a partner.¹⁸

5.4.2 The Advantages and Disadvantages of Licensing as a Licensee

The main advantage of a licence for a licensee is the availability of a larger, wider and better product range with higher technological solutions. This will allow a licensee to reach a wider market resulting in higher sales figures and turnover. This can be the perfect solution when there is not the finance, time or technological resources available to develop an own range of products.¹⁹ A licensee can also benefit from the larger contact network that the licence should provide.²⁰

A disadvantage for a licensee can be seen in the long-term aspect, where licensing could in fact become a hindrance. Ready made technology and products arriving on a regular basis can lead to the licensee's own technological development slowing down and perhaps even ceasing to exist.²¹ Another disadvantage is that a licensee nearly always has to shoulder the total risk and investment needed for production, marketing and sales. A licensee has also the capital risk associated with the valuation made of the invention or product and the factor of uncertainty associated with any new venture.²²

¹⁵ Kockvedgaard Mogens, Levin Marianne, Lärobok i Immaterialrätt, p440.

¹⁶ Sandgren, Patentlicenser, p99.

¹⁷ Sandgren, Patentlicenser, p99f.

¹⁸ Karnell, Inledning till den internationella licensavtalsrätten, p40.

¹⁹ Karnell, Inledning till den internationella licensavtalsrätten, p41f.

²⁰ Sandgren, Patentlicenser, p107.

²¹ Karnell, Inledning till den internationella licensavtalsrätten, p41f.

²² Sandgren, Patentlicenser, p107.

6 Perfected Property Rights

6.1 What is a Perfected Property Right?²³

A perfect property right can only be considered as a right to a definite object, and not as the right to any form of monetary claim. The concept and expression, perfect property right, originates from the ancient Roman and Germanic Courts of Law.²⁴ A Perfected Property Right is a right that must be respected not only by the contracting parties to an agreement, but even by a third party. This can be the case when a Purchaser receives protection against any Creditor of a Seller. The protection can be in the form of Proprietor Rights, rights of pledge and rights of retention.

A third party on the opponent's side can face the perfected property rights through two problems, namely:²⁵

- a. A discussion regarding certified claims to ownership of competing acquirers that has to be decided on whom would receive the perfected property rights.
- b. The opponent's creditors may try to secure the assets of the opponent through legal seizure or bankruptcy to prioritise their own demands.

In the case of the first problem it concerns the right to protection of the turnover (see also under 6.2 hereunder). By protection of the turnover, means that the protection of a former buyer should be seen in relationship to the same claim of a newer buyer. It can even be seen visa-versa, and the protection of the newer buyer can be weighed against the claims of the former buyer.

6.2 Protection of Turnover

I believe that a good definition of the expression, Protection of Turnover, is the balance between the protection of an existing right to a certain property, as seen in relationship to a newly acquired right to the same property, where the property was acquired from a partner who did not have the property at their disposal at the time of transfer. In other words, the main issue is which criteria should apply for an acquisition made in good faith concerning the type of property in question, and what criteria should apply for the type of right in question.

6.2.1 Extinctive Acquisition in Good Faith

If an acquirer, is considered to have acted in good faith, the rights of a new acquirer will be protected from the earlier owner. This is known as an extinctive acquisition in good faith.²⁶ IPRs cannot be the subject of an acquisition in good faith.²⁷ Claims for acquisition in good faith are regulated by the Swedish Good Faith Acquisition of Chattels Act, section 2, which clearly states that, the legislation shall only apply to chattels, i.e. only physical objects such as goods; commodities, and articles. In addition, an acquirer cannot obtain a better right compared to a transferor²⁸.

²³ Håstad Torgny, Sakätt avseende lös egendom, p16f.

²⁴ Millvist Göran, Sakrättens grunder, p13f.

²⁵ Håstad Torgny, Sakätt avseende lös egendom, p16f.

²⁶ Millqvist, Sakrättens grunder, p38f.

²⁷ Millqvist, Sakrättens grunder, p 53f.

²⁸ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p23.

6.2.2 Important Factors to be considered regarding Protection of Turnover

Factors that should be considered relevant in the area of the rules concerning Protection of Turnover are:²⁹

- a. That proprietary rights are respected and protected by the legal system, so that an individual can receive confirmation of their right of ownership to a property.
- b. That a normal procedural transaction, that has been made in good faith, can be upheld even if the transferor is found to be at fault and does not fulfil the legal part of the assignment.
- c. That the all agreements and purchases that are made in good faith should be respected, in order to hinder any disruption of individual global markets. Such disruptions will eventually increase the costs of transactions and at the same time have a deferential effect on the global market economy.³⁰

6.3 The Protection of a Creditor through Perfection

The conflict can be seen here to be the competition between on the one hand the partner that has acquired a proprietary right to a moveable property, and on the other hand any Creditor of the transferor of the property. The conflict can also be seen, as an issue of how an acquirer of a movable property, can obtain a definite proprietor right of such credibility that it can supersede the rights of any creditor of the former owner to any demands on the earlier owners estate. Pursuant to Swedish law, it is not normally legally binding to a third party with only a normal agreement covering the transfer of a proprietor right, even if this agreement is lawfully binding between the parties in question.³¹ In addition to all of the above, it is also required that the said agreement will be assigned and considered as a perfection, which will provide protection for the creditor. The type of perfection that can be obtained will depend on the type of property that has been acquired. There are several ways of obtaining a perfected property rights, namely:

- a. Change of Possession;
- b. Registration of the property in an Official Lawful Register;
- c. Information to any concerned third party;
- d. The Contract in itself, or
- e. In Swedish (upplagt virke), which I can only translate as, “Marking of Stacked Wood.”³²

The most used form of obtaining a perfection to provide protection for a creditor is by Change of Possession. This is also the simplest form of proof of perfection. The change of possession is attained by the physical proof of delivery when a sold moveable property is handed over into the possession of the acquirer. If it becomes lawfully required in dispute, to use change of possession to provide proof that perfection has taken place, it is considered relatively easy to prove that the transaction has in fact taken place.³³

6.4 Completely Obtained Perfected Property Rights³⁴

Rohde states that an acquirer has completely obtained perfected property rights to a certain object after the following three conditions have been achieved:

²⁹ Millqvist, Sakrättens grunder, p14f.

³⁰ Millqvist, Sakrättens grunder, p14f.

³¹ Millqvist, Sakrättens grunder, p83-90.

³² Millqvist, Sakrättens grunder, p83-90.

³³ Millqvist, Sakrättens grunder, p83-90.

³⁴ Rohde, Knut, Handbok i Sakrätt, p174.

- a. An acquirer has made an extinctive acquisition, which provides protection from the possible absence of proprietor rights from the transferor;
- b. An acquirer is protected against another party making an extinctive acquisition of the same object, and
- c. An acquirer has obtained protection against any creditors of a transferor.

6.5 Perfected Property Rights as IPRs

6.5.1 Contracted Rights

The legislation available today governing IPRs, often take only into consideration the contractual rights of the agreement. Therefore one can say that IPRs have an uncertain legal standing within the field of perfected property rights.

6.5.2 Legislation of IPRs as Perfected Property Rights

As stated under chapter 1.1 herein, the majority of IPRs have, as the result of globalisation, the entire international community as a market place. This of course can complicate any attempt to generalise the rules and regulations governing IPRs as perfected property rights due to the many cultural and judicial differences that respective countries can provide. As I have also commented in chapter 1.2, herein, EU does not at the present time have any legislation over perfected property rights. One can say that today, the international legal status of IPRs are controlled by the jurisdiction of the respective nation concerned.³⁵

6.5.3 Creditor Protection by Agreement Alone

There is no legislation and no modern case law available to be used as authority. Therefore in general it is accepted that a detached perfection is required to obtain creditor protection. It is almost impossible to use and apply the rules of “change of possession” or the rules regarding “information” when dealing with IPRs. Registration could be a viable alternative but would require legislation before it could be applied.³⁶ Judicial Preparatory work states that a transfer of a patent or a licence is protected against any creditor of the transferor through the agreement alone. Even a granted licence should obtain protection against any creditor of the grantor.³⁷ (See chapter 11.1 hereunder.) All authors I have read on this subject do agree on one point, that a contract or agreement alone should be enough for an acquirer to obtain protection against the creditors of the seller. This is mainly because none of the other existing perfections, (see chapter 6.3. herein), can be seen to be applicable, and there is still no precedent that state otherwise.

7 To what Extent can a Bankruptcy Estate claim IPRs?

7.1 Can an IPR be Subject to Legal Seizure?

In bankruptcy, it is important to be able to decide if an IPR can be subject to legal seizure or not. One can also say that an object that is not approved for legal seizure can not either be included as a

³⁵ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p40.

³⁶ Millqvist, Sakrättens grunder, p117f.

³⁷ Prop. 1987/88:4, p18 f.

part of a bankruptcy estate.³⁸ Thus, when one discusses whether or not various IPRs are subject to perfected property rights or not, it must first be determined whether an IPR is the question of a creditors claim.³⁹ The Swedish Bankruptcy Act, (1987:672), (BA), chapter 3, section 3 legislates the question of whether various IPRs may or may not be included as part of a bankruptcy estate. Further, the law states that a bankruptcy estate shall include all the properties of a debtor when the bankruptcy decision was made or that accrues to him during the bankruptcy and “*that are such that they may be attached*”. In addition the Swedish Code of Execution (1981:774), (CE), chapter 5, section 5 legislates that property because of its nature may not be assigned, cannot either be attached, if not otherwise legislated. (See chapter 7.2 hereunder.)

7.1.1 Can a Copyright be Subject to Legal Seizure?

A copyright shall not be subject to legal seizure pursuant to the Copyright Act, (CA), section 42, providing it remains the property of the author or any other person or persons who has acquired the copyright by virtue of division of property between spouses, inheritance or will. CA, sections 2 and 3 contain the rights that cannot be attached. However, if a third party has acquired a copyright, then an attachment may be carried out.

7.1.2 Can a Trademark be Subject to Legal Seizure?

The right to a trademark that has been established on the market shall not be the subject of legal seizure.⁴⁰ However, it can be transferred either separately or as a part of a business to a third party, and it could even be included in a bankruptcy estate. A bankruptcy estate may even transfer the right to a trademark either separately or as part of a business.⁴¹

7.1.3 Can a Registered IPR be Subject to Legal Seizure?

A registered IPR is not compatible with CA, section 42. (See chapter 7.1.1 herein.) A registered IPR could as a whole be subject to legal seizure as well as being a part of a bankruptcy estate.⁴²

Patent rights through the Patents Act, (PA), section 54, paragraph 2, indirectly state that a patent may be subject to legal seizure and may also be transferred. This means that a patent could be included in the bankruptcy of a possessor.

An unregistered invention may also be seized for debt and thereby be included in a bankruptcy. Even an application that is under registration such a patent or a trademark may also be seized for debt and is thereby also included in a bankruptcy estate.⁴³ However, remember as I have stated above, a trademark that is established on the market cannot be seized for debt, and can only be included in the bankruptcy of a possessor. This is in accordance with the Swedish Trademarks Act (1960:644), (TA), section 34, paragraph 5, p2.

³⁸ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p48.

³⁹ Möller Mikael, Konkurs och Kontrakt, p653.

⁴⁰ The Trademarks Act (1960:644), (TA), section 34, paragraph 5, and section 2, paragraphs 1-2.

⁴¹ Möller, Konkurs och kontrakt, p655.

⁴² Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p50.

⁴³ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p50.

7.1.4 The Swedish Supreme Court Case NJA 1974 p376

Case number NJA 1974 p376 from the Swedish Supreme Court has authority with regard to chattels and clearly shows that a prohibited transfer that is provided in a sales agreement shall not hinder legal seizure. This is even in spite that a prohibition has been made in favour of a seller.⁴⁴

Millqvist comments this case and points towards a common ruling whereby the limitations of a purchasers freedom of action do not include the perfected property rights, and therefore do not include the effects of a prohibition of distraint. He also points out, however, that it could probably be questionable if an inventor is not interested in controlling the development of the patent in question then the prohibited transfer within the agreement should be considered valid. This can be seen in comparison to CA, whereby an originator of a literary or artistic work is deemed to be able to keep an interest in the control of the work. The intellectual achievement behind a patent can be seen to motivate a legitimate interest in keeping control of the invention. PA, section 43, states that a licensee may assign the rights to a third party only if an agreement has been made to that effect.⁴⁵

7.2 The Swedish Code of Execution (1981:774)

7.2.1 Common Rules

The Code of Execution has common rules of distraint that dictate to what extent a certain patent or patent application may be subject to legal seizure. Pursuant to CE, chapter 4, section 17, the asset in question must belong to a debtor in distraint. The asset must further be considered sellable, in accordance with the same Code, chapter 5, section 5. The asset must have a capital value that can be realised with a value that is considered high enough to warrant the execution of the sale pursuant to CE, chapter 4, section 3. This can often be seen as an obstacle when considering distraint, since the Swedish Executive Authorities (KFM) must consider and approve the value of the planned transfer.⁴⁶

7.2.2 Can a Patent or Trademark Licence be Subject to Legal Seizure?

If a licensee is allowed to assign a right of a proprietor of a patent in question to a third party will decide legal seizure. I.e. a licensee may assign the right to a third party only if an agreement has been made to that effect. In other words, consent is required from the proprietor in accordance with PA, section 43.⁴⁷ There is neither any specific existing right to assign a patent licence nor a trademark licence together with the business.⁴⁸ However, in the case of copyright, CA, section 28 states that *“If a copyright forms part of a business, it may be transferred together with the business or as a part thereof...”*

Millqvist is of the opinion that it is doubtful whether a granted licence right as a patent can be reserved and respected upon any distraint towards a proprietor of a patent.⁴⁹ It appears to me that Millqvist is in favour of the Swedish principle of “Loss of right to use through acquisition”. (See

⁴⁴ Millqvist, Immaterialrätt & Sakrätt, p55f.

⁴⁵ Millqvist, Immaterialrätt & Sakrätt, p55f.

⁴⁶ Millqvist, Immaterialrätt & Sakrätt, p54.

⁴⁷ The concept is in accordance with CE, chapter 5, section 5, that legislates a property as a result of its character, **can not be assigned, can not be attached**, if not legislated otherwise. The second paragraph legislates a property, which the debtor has acquired on credit under the reservation of the right to resume given to the grantor of credit, may be subject to legal seizure irrespective of the restrictions stating that the property could not be transferred.

⁴⁸ Persson, Levin, Wolk, Immaterialrätt & Sakrätt, p51.

⁴⁹ Millqvist, Immaterialrätt & Sakrätt, p54.

chapter 11.3 hereunder.) Millqvist states that a licence right probably has no perfected property right against any creditor. He bases this statement on the old rule that concerns the lack of perfection in regard to a right to use a movable property. Millqvist further states that assuming that there can be no perfected property right for a licensee, this could result in the executive authorities (KFM) not needing to take into consideration existing licence rights upon distraint. The right to the licence will instead cease to exist from the date of the executive auction. However, there is no legislation that can hinder a licensee from purchasing the patent in question.⁵⁰

In a normal patent licence contract, there is sometimes a clause prohibiting a licensor from transferring a patent and contract without the express consent of the licensee. This form of prohibition does not necessarily pose an obstacle to a creditor requiring the patent and rights to a licensor according to the actual agreement.⁵¹

There should be occasions where a licensee, who cannot validate the right against a new owner, can try to reach agreement regarding a guarantee from a grantor. The guarantee validation should follow the length of the licence agreement and it should state that the grantor should not transfer the property in question during the duration of the guarantee. Even if the guarantee most certainly will prove to be valid, it still probably will not hinder a third party from applying for distraint.⁵²

8 Can an IPR and the Licence Rights to an IPR be transferred?

8.1 Compulsory and Cross Licensing

Besides the rules we have discussed relating to the transfer of a licence, there are also rules to be considered that relate to a compulsory licence, namely:

- a. Firstly, in accordance with PA, section 45, if three years have passed since a patent was granted, four years have passed since the patent application was filed, and the invention has not been used within normal or reasonable capacity in this country. Then, a party who desires to use the said invention in this country may apply and obtain a compulsory licence providing that an acceptable excuse for the failure to use the invention is not forthcoming.
- b. Secondly, PA, section 46 states that Cross-Licensing, i.e., a proprietor of a patent for an invention, the exploitation of which is prevented by a patent owned by another party, may obtain a compulsory licence to exploit the invention protected thereby if this is reasonable in view of the importance of the first-named invention or for other particular reasons.
- c. Thirdly, a “Right to Pre-use” means that anyone who, at the time when an application for a patent was filed, was already using the invention commercially in this country. The person may, notwithstanding the patent, continue such use while retaining its general character, provided the use did not constitute evident abuse in relation to the applicant or his predecessor in title. The said right shall also be due on corresponding conditions to anyone who had made substantial preparations for commercial use of the invention in this country. This is to be found in PA, section 4.

⁵⁰ Millqvist, Immaterialrätt & Sakrätt, p54f.

⁵¹ Möller, Konkurs och Kontrakt, p655.

⁵² Rohde, Handbok i Sakrätt, p120.

8.2 Transfer of IPRs

8.2.1 The Unwritten Rule and the Exception to the Rule

The basic and unwritten rule is that all IPRs can be transferred, analogous to tangible assets of a proprietor right. The exception to the rule is the right of disposition of a copyright, which is to be found in CA, section 2.⁵³ Consequently, consideration should also be taken to CA, section 28, that states: *“In the absence of an agreement to the contrary, the person to whom a copyright has been transferred may not alter the work or transfer the copyright to other...”*⁵⁴

It is clear that the purpose at the time the legislation took place was that a prohibited transfer was meant to create a guarantee for the originator. This would provide the originator with a right of disposition that could only be valid for a person or party that the originator has appointed and approved to exploit and use the copyright.⁵⁵

De lege ferenda, the presumption should be the complete opposite of the law of today with regard to CA, section 28 stated above. Pursuant to CA, section 2, the right of disposition should be freely transferable providing nothing else is stated. This idea should result in a bankruptcy estate of an acquirer not being prevented from transferring the rights of a copyright. However, by using available legislation, which is not mandatory, it should be seen to be binding to the same extent for a creditor as for a debtor.⁵⁶

8.2.2 NJA 1993 p468

In NJA 1993 p468, which has generally authority, the Swedish Supreme Court clarified that a prohibited transfer does not bind a creditor of a purchaser even if the said prohibition is established in the interest of a seller. Möller says correspondingly, that a prohibited transfer that has been established during an IPR purchase and exchange cannot bind a bankruptcy estate of an acquirer. However, there is an exception in CA, section 28.⁵⁷ (See chapter 8.2.1 herein.)

9 The Right to Cancel and the Right to Reserve the Right to Cancel

Can an IPR be considered under the right to cancel or as the right to reserve the right to cancel a contract?

9.1 The Right to Cancel and the Right to Reserve the Right to Cancel in Bankruptcy

9.1.1 “Ipso Facto” Clauses

Here we ask the question whether a contractual clause stating that a right to cancel a contract exists if the other part becomes insolvent or is placed in bankruptcy, shall be binding in a debtors bankruptcy estate or not. This is as of today, not legislated or authorised by the Swedish Supreme Court.⁵⁸

⁵³ Möller Mikael, *Insolvensrättsligt Forum*, p18.

⁵⁴ See even Prop. 1992/93:48, p118.

⁵⁵ Rosén Jan, *Förlagsrätt*, p499.

⁵⁶ Möller, *insolvensrättsligt Forum*, p20.

⁵⁷ Möller, *Insolvensrättsligt Forum*, p22.

⁵⁸ Möller, *Insolvensrättsligt Forum*, p24.

In this question, Möller is of the opinion that clauses giving a seller an unconditional right to cancel at the time of a purchaser's bankruptcy should be deemed null and void.⁵⁹ To compare with the United States, these types of clauses are called "Ipso Facto Clauses". (See chapter 26.1 hereunder.)

9.1.2 The Right of a Bankruptcy Estate to enter into an Agreement

Håstad states that the rules concerning a bankruptcy estate wishing to enter into an agreement most probably will be binding for a non-debtor irrespective of what a bankrupt debtor has agreed. He further states that in German, Danish and Norwegian law, a bankruptcy estate has a mandatory right to enter into an agreement. The same standpoint is now also legislated by the Swedish Enterprise Reconstruction Act of (1996:764).⁶⁰ (See chapter 9.2 hereunder.)

Möller is of the opinion that the right of a bankruptcy estate to enter into a mutual unfulfilled agreement should be in principle mandatory. This means that any conditions that have been agreed upon by agreement between contracting parties, cannot be claimed to be valid against a bankruptcy estate if the actual agreement provides the bankruptcy estate with poorer conditions of entrance.⁶¹

9.2 Reconstruction of a Non Bankrupt Company

Reconstruction of a non-bankrupt company is pursuant to the Swedish Enterprise Reconstruction Act of (1996:764), chapter 2, section 20, that contains the rules governing all agreements that may be entered into by a debtor. In accordance with these new rules, a debtor shall have a mandatory right to demand that all signed agreements shall be fulfilled upon the approval of the person or persons responsible for the reconstruction of the company.⁶² However, this legislation can only apply when a right to cancel because of delay has arisen prior to the reconstruction procedure being initiated.

There are no applicable rules that apply to the situation whereby a non-debtor, through the decision for reconstruction itself, can obtain a right to cancel a contract using the existing contracted clause. The contracted clause turns the actual decision for reconstruction into a proviso that provides the grounds that are required to cancel the contract.⁶³

Therefore, the type of clause mentioned above, concerning a right to cancel, should be seen as valid and honoured.⁶⁴

⁵⁹ Möller, Konkurs och kontrakt, p94.

⁶⁰ Håstad, Sakrätt avseende lös egendom, p404.

⁶¹ Möller, Konkurs och kontrakt, p92-94.

⁶² Möller, Insolvensrättsligt forum, p24.

⁶³ Möller, Insolvensrättsligt forum, p24.

⁶⁴ Möller, Insolvensrättsligt forum, p24.

What Protection is afforded a Licensor or Licensee with regard to Perfected Property Rights in Bankruptcy?

PART II

The Rights of a Licensee's Perfected Property in a Licensor's Bankruptcy

10 Transfer of IPRs

A prohibited transfer concerning an IPR such as a patent is probably not binding to the bankruptcy estate of a licensor.⁶⁵ This prohibited transfer might not prevent a creditor of a licensor to claim the right to use the patent and rights of a licensor pursuant to the actual contract in question.⁶⁶ However, the contractual rights of a licensor in a bankruptcy estate might be binding. If the claim has been realised, through a licensor fulfilling the licensor's contractual obligations, then the prohibited transfer might not prevent an execution. In conclusion it should be noted that the legal position in this case is quite unclear.⁶⁷

11 A Question, A Problem!

Can a right to a patent licence of a licensee obtain perfected property rights in a bankruptcy estate of a licensor or not?

11.1 Creditor Protection

As I have said before, in Sweden we still do not have any legislation to rule to the question concerning if, and how, a transfer of an IPR can be perfected or not.

In regard to the question of Creditor Protection, the authors I have read on this subject all agree on one specific point: That a contractual agreement alone, should be sufficient for a licensee to obtain protection against any creditor of a licensor⁶⁸. Therefore I believe that, the principle of priority (also known as the principle of agreement) should apply in all those cases.⁶⁹ (See chapter 6.5.3 and chapter 11.4 herein.) We can say that the agreement should be enough because an IPR does not constitute an object, and therefore the concept, change of possession, cannot apply! The same applies because there is, no relevant person to "inform", or any registration registered with the Swedish Authorities (PRV).⁷⁰

11.2 Protection against a New Owner

There are two ways of dealing with problems concerning the protection of a licensee's rights against a new owner, each of which is a concept in its own right. Let us now look at them one at a time:

- a. A right to a licence can never obtain protection. This is part of the principal that of tradition has always been considered applicable in Sweden, and has always steered the right to the use of a tangible movable property. We can therefore say, that this traditional principle known in

⁶⁵ Möller, *Insolvensrättsligt Forum*, p23.

⁶⁶ Möller, *Konkurs och kontrakt*, p655.

⁶⁷ Möller, *Insolvensrättsligt Forum*, p23.

⁶⁸ Hessler Henrik, *Allmän Sakrätt*, p255, and Walin, *Separationsrätt*, p46.

⁶⁹ Prop.1987/88:4, p18 f.

⁷⁰ Möller *Insolvensrättsligt Forum*, p28.

Sweden as, “Loss of right to use through acquisition”, will almost certainly apply in many cases.⁷¹

- b. The principle of priority or agreement. This principle of priority means that the first legal act has precedent. This is the case when considering the protection of a creditor. (See chapter 11.1.herein.) If the principle of priority is allowed to be the sole principle and valid concept; then the same rule for transfer of an IPR will also apply to licensing of an IPR⁷².

11.3 The Swedish Traditional Principle “Loss of Right to Use through Acquisition”

11.3.1 What is this Traditional Swedish Principle known as, “Loss of Right to Use through Acquisition”?

“Loss of right to use through acquisition”, means that a right to use of movable property will be made null and void as a new owner has president over the right to use. As one can see by reading the case history of NJA 1917 A 429, the Swedish Supreme Court showed a slight support for this old principle.

As the reader can imagine, this principle has been one of the most widely discussed and controversial subjects in the world of perfected property rights in Sweden during the twentieth century. In the beginning of the last century perfected property, constituted more a contractual obligation than a perfected property right. The numbers of perfected property agreements were few and therefore a perfect property right could only originate through some form of legislation. This small market did not generate any great financial interests and the risks at stake were rather small. The periods of rental were relatively short and the objects in question often easy to rent from a third party.⁷³

Judicial preparatory work states that in Sweden, it has always been proclaimed that, a right to use concerning a movable property cannot obtain a perfected property right. This is the same for both a creditor of a grantor and a former or new owner of a proprietor right, a right of pledge or any other perfected property right regarding a movable property.⁷⁴ Without going into great detail, certain types of movable property can receive a certain protection through legislation.

11.3.2 Is the Principle to be considered Obsolete today?

Möller states that considering the increased development and significance of the many different forms of right to use, such as financial leasing of shipping, make the arguments given in chapter 11.3.1 herein obsolete. This is mainly due to the huge financial interests that can be involved in modern shipping and leasing contracts. He further states that in later literature, authors have become more open minded regarding approval for both creditor protection and the protection of turn-over for certain significant forms of a right to use concerning movable property. What is not agreed upon is whether or not legislation is required or if the Swedish Courts can instead directly apply rules governing and concerning perfected property rights.⁷⁵

⁷¹ Möller, Konkurs och kontrakt, p657.

⁷² Möller, Konkurs och kontrakt, p657.

⁷³ Möller, Konkurs och kontrakt, p519 f.

⁷⁴ SOU 1994:120, p188.

⁷⁵ Möller, Konkurs och kontrakt, p520.

Walín also agrees that, as he calls it, the convincing force of the principle “Loss of right to use through acquisition” can be questioned. He suggests that the possession of a movable property should be seen as having the same importance towards a third party as a purchase has, when considering both protection for a creditor and the protection of turnover. In principle, if there is any discussion or doubts regarding this generalisation, his recommendation is to rule upon the rights to protection in cases where the granting of a right to use can be seen to be very close to a transfer of proprietor rights. The same should apply for cases where it is important and reliant on the granting of rights to use after taking into consideration the economical situation.⁷⁶

11.4 The Principle of Priority

As I mentioned in Chapter 2 herein, using the principle of priority or agreement means that the first legal act will have precedent. This can be evident when reading the most relevant authors in this field, whereby they all agree that a licence agreement alone should provide the necessary protection for a licensee against any creditor of a grantor. (See chapter 6.5.3 and 11.1 herein.) Preparatory judicial work states that when competition arises between two separate granting of licences, or between a grant of licence and a transfer of an IPR, the problem should be resolved by prioritising by the date of the agreements. One can say on a, “first come first served”, basis!⁷⁷

Rodhe is of the same opinion and he states that since there is no other appropriate legislation, the situation should, as previously said, be resolved by prioritising of the date of the agreements. This should be seen to imply that a grant of a licence should remain against the future transfer of an IPR, irrespective of whether the acquirer in question acted in good faith or not.⁷⁸ Bernitz and Karnell also agree on these points.⁷⁹

During the judicial preparatory work before PA of 1967, there were many discussions with regard to protection of licensees who had registered a grant with a register of patents respective a register of trademarks. These registrations should have formed the grounds for protection for a licensee against any new owner of an patent or trademark, and even against any other acquirer of a licence. Hessler takes up an example whereby a patent owner A grants a licence to B, and B thereafter registers the acquisition. B should be protected if A later transfers the patent to any other party or should grant a new licence. In the judicial preparatory work before PA of 1967, the licensee should therefore be protected by the registration of the acquisition. This proposed legislation did not intend to regulate the relationship to a creditor of a grantor.⁸⁰ However, these proposals aimed at the protection of a licensee unfortunately did not reach legislation.

⁷⁶ Walín, Separationsrätt, p46 and p49.

⁷⁷ Prop. 1987/88:4, p18 f, and SOU 1994:120, p189.

⁷⁸ Rodhe, Handbok i Sakrätt, p580.

⁷⁹ Bernitz, Karnell m fl, Immaterialrätt, p215.

⁸⁰ Hessler, Allmän Sakrätt, p343.

12 Analogy of Pledging of a Patent to the Licensing of a Patent

12.1 The Birth of a Pledge

A pledge of a patent or a patent application arises first after registration of a written contract or agreement that involves the pledging of a property, according to PA, section 95.⁸¹

Pursuant to the same act, section 101, the pledging of an application is deemed effective from the date of application for registration under PA, section 95, and provides protection against anyone subsequently acquiring ownership of or any other rights to the said property.⁸² Before registration has been completed, a pledge agreement is only binding for partners seen through contractual law.

12.2 Perfected Property Rights and the Pledging of a Patent

Perfected property rights of a licence with the right to use a patent and registered trademark are partly legislated and connected to the rules concerning the registered right of pledge⁸³. PA, section 101, second paragraph reads as follows: *“A licensing agreement is valid against the pledgee if the agreement was concluded prior to the application for registration of the pledge contract.”*

PA, section 102, second paragraph reads as follows: *“If a pledged patent or patent application is sold upon distraint or bankruptcy, such licensing agreements as are referred to in Section 101, second paragraph, shall remain in force.”*

PA, section 103, second paragraph reads as follows: *“After sale of the pledge..., such licensing agreements as are referred to in Section 101, second paragraph, shall remain in force.”*

12.3 A Reasonable Solution?⁸⁴

Judicial preparatory work carried out in this area, has strongly recommended that if a licence right through agreement alone shall be given precedent over a later completed right of pledge, and the said licence right shall remain in force against an acquirer when the pledge is sold, then it should be deemed that the licence right is perfected against any acquirer of the property even where no right of pledge has been granted.

It would be contrary to all logical and systematically perfected property if a licence right should obtain perfected property rights against a future completed grant of pledge, but not against a future completed acquisition of proprietor right. This especially since a grant of pledge has precedent over an acquisition of a proprietor right.

In the system of perfected property one can generalise and say that a completed grant of pledge, and a completed acquisition of a proprietor right, both give the same corresponding protection in any third party conflict. All licence rights named in chapter 12 above should not only apply to patents and registered trademarks but even to all IPRs.

⁸¹ A pledge arises in the same way for a trademark or a trademark application pursuant to TA, sections 34 a and b.

⁸² The same applies for a trademark application, pursuant to TA, sections 34 b and h.

⁸³ PA, article 101-103, second paragraphs, and TA, article 34 h-j, second paragraphs.

⁸⁴ SOU 1994:120, Finansiell leasing av lös egendom, p189 f.

12.4 Perfected Property Rights in a Bankruptcy Estate⁸⁵

Generally, if a licence right remains valid against a future creditor of a pledge at the time of sale through bankruptcy, then it should also obtain perfected property rights against the bankruptcy estate. If this is not the case, then the system of preferential rights will be reversed between a pledgee and a common creditor of a bankruptcy estate. Möller concludes from the legislation that:

- a. A licence agreement that is concluded prior to a transfer of an IPR is valid and thereby protected against an acquirer of the IPR.
- b. A licence agreement that is concluded prior to a bankruptcy is valid and protected from being included in the bankruptcy estate.⁸⁶

13 Obligations and Rights in the Bankruptcy Estate of a Licensor

13.1 Contractual Sole Rights and Time Limits⁸⁷

The significance of an IPR when perfected in a bankruptcy of a licensor is that the bankruptcy estate is obligated to allow an acquirer respective a licensee, to exploit the sole rights provided by the agreement and use of the licence during the period provided by the contract or agreement.

If a licence pursuant to a contract is prolonged because a licensor has not given fair notice of termination within the required time limit, then a bankruptcy estate should also be required to give fair notice to avoid any prolonged commitments. An option of a licensee regarding a continuous licence agreement or an option to purchase an IPR should obtain perfected property rights through the agreement. However, if there is no proviso in the contract regarding any time limit, then a bankruptcy estate can pursuant to common rules give notice to terminate a licence agreement within a reasonable period of time.

13.2 Are there Obligations for a Bankruptcy Estate in regard to Service Agreements?

Even though a licence agreement has been perfected and a bankruptcy estate must respect the protection of the use of a licence, a bankruptcy estate has no obligations in regard to, “a responsibility of the bankruptcy estate,” concerning service agreements, such as e.g. training, consulting, support, service, and maintenance programs. This is similar to the US rules. (See chapter 25.3 hereunder.)

However, pursuant to common contractual principles, a bankruptcy estate may enter into an agreement as a party providing that it is shown to honour all contractual service agreements and obligations to the satisfaction of a licensee thus giving reason to believe that the bankruptcy estate has indeed honoured its commitments.⁸⁸ One can wonder over the actual value of licence protection when complex licence agreements involving service agreements and obligations are stopped and the much-needed knowledge, backup and technology are no longer at the disposal of a licensee. If a licensor is well remunerated in consideration of a licence agreement that includes a service package then one can fully understand that a bankruptcy estate has every good reason to maintain any such

⁸⁵ Möller, *Insolvensrättsligt Forum*, p29.

⁸⁶ Möller, *Insolvensrättsligt Forum*, p29.

⁸⁷ Möller, *Insolvensrättsligt Forum*, p29 f.

⁸⁸ Möller, *Insolvensrättsligt Forum*, p29 f.

contract or agreement instead of forcing a cancellation on a licensee. In this case even a licensee has nothing to gain from a cancellation of a licence agreement.⁸⁹

14 Perfected Property Rights in the Bankruptcy Estate of OmninoVA Vehicles AB

This is a recent example of a bankruptcy case, where the principle “Loss of right to use through acquisition” still seems to apply. (See chapter 11.3 herein.)

14.1 Background

OmninoVA Vehicles AB is 100% owned subsidiary company to OmninoVA AB. Their place of business has been from rented premises in the town of Bengtsfors in Sweden. OmninoVA Vehicles worked within the field of development and sales of motor vehicles and their components. The major product was the development of buses called “Max and Multirider.” In August 2002 OmninoVA Vehicles AB was declared bankrupt, subsequently even the Parent Company entered into bankruptcy.

In September 1999 OmninoVA AB, then known as TWR Sweden AB (TWR), and OmninoVA Technologies AB, entered into a mutual agreement with Nisch Produkter KB (Nisch). Nisch thereby acquired patents, licences, trademarks, know-how, technological methods of construction and several other intellectual properties relating to the production of certain minibuses.

In June 2000, Nisch entered into a licence agreement with the company TWR Group Ltd, whereby TWR Group was granted the sole and exclusive right to a Licence, to use and exploit certain specified production and process methods that was valid in several different countries. The licence agreement also gave TWR Group the right to utilise certain patents, patent applications and technological know-how.

This said licence agreement between Nisch and TWR Group was still in force at the time of OmninoVA Vehicles AB’s bankruptcy in August 2002.

In November 2000, OmninoVA Vehicles AB acquired the intellectual properties from Nisch thereby becoming the sole and exclusive owner of all assets and liabilities in Nisch.

14.2 The Purchase and Transfer of IPRs from OmninoVA Vehicles AB in Bankruptcy

OmninoVA Vehicles AB were declared bankrupt in August 2002. By the end of 2002, OmninoVA Vehicles AB in bankruptcy transferred and assigned IPRs and intangible property relating to certain specific vehicle construction projects, to a British company. These IPRs were in the form of patents, trade secrets, technology know-how, registered and unregistered trademarks, trade and business names, domain names and registered designs all relating to the specific construction projects.

14.3. The Application of “Loss of Right to Use through Acquisition”

When the bankruptcy trustee of OmninoVA Vehicles AB approved the transfer and assignment of the said IPRs to the British Company, the original licence agreement between OmninoVA Vehicles AB and the Licensee automatically became null and void.

⁸⁹ Möller, *Insolvensrättsligt Forum*, p30.

In this case we must now ask ourselves if “Loss of right to use through acquisition” can still be considered as a viable alternative in this case? The general feeling was that this principle would have been used if the licence agreement between TWR Group and OmninoVA Vehicles AB, where TWR Group finally relinquished their rights to the said Intellectual Property in November 2002, had still been valid.

This is an example of not using the principle of the right to prioritisation to protect the rights of a Licensee. TWR Group loses their intellectual Property Rights and must face the resulting economic consequences. This must be considered to be unfair when a company in a valid licence agreement can lose their IPRs, entirely because of the insolvency of another party, in this case the bankrupt Licensor.

What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

PART III

The Rights of a Licensor's Perfected Property in a Licensee's Bankruptcy

15 Transfer of an IPR and Transfer of an IPR Licence

15.1 Transfer of an IPR

An established prohibited transfer of an IPR regarding a licensee is binding in the bankruptcy estate of a licensee. The prohibited transfer confirms the natural rule that a licensee can only be the user of a proprietary right. Consequently, the licensee does not have a right of disposition over a proprietor right of the licensor.⁹⁰

15.2 Transfer of an IPR Licence

15.2.1 Does the Transfer of an IPR Licence Require Consent?

The general rule regarding a transfer of an IPR in the form of a licence is that it requires the consent of the licensor.⁹¹ There are exceptions to the rule, for instance, if a copyright forms part of a business, it may be transferred together with the business or of part thereof. (See chapter 8.2.1 herein.) However regarding the licensing of patents and trademarks, there are no exceptions to the rule. This has been widely criticised; especially in regard to patents. Möller questions why a right to exploit a patent or a trademark, if transferred together with the business or of part thereof, should be treated differently than other IPRs, such as copyrights. He further states that it might be possible, in the protection and interest of secrecy, to regard patents and trademarks as more important than other forms of IPRs. This would explain why there is a comprehensive prohibition of transfer involved with regard to the licensing of patents and trademarks. There is a need for legislation to regulate the general prohibition of transfer. This would allow the patent to be regarded in the same light as a copyright, and have the right to be transferred together with the business or as part thereof without the consent of the licensor. This would fall into line with the legislation that rules over the right to pre-use and compulsory licence that allows both to be transferred together with the business or as part thereof and without the consent of the licensor.⁹² (See chapter 8.1 herein.)

15.2.2 Does the Transfer of an IPR Licence in the Bankruptcy Estate of a Licensee Require Consent?

The rules governing the restriction that apply to a licensee from assigning a right to a licence can be found in, PA, section 43, and is therefore binding to a bankruptcy estate of a licensee to the same extent as to a debtor. The responsibility of a transferring licensee to follow and honour a licence agreement remains, unless the licensee has been released from this responsibility by agreement. Responsibility to follow and honour a licence agreement shall begin at the time and date of the official transfer of the licence. A transfer that is made during bankruptcy can be a difficult project

⁹⁰ Möller, *Insolvensrättsligt Forum*, p22.

⁹¹ Möller, *Insolvensrättsligt Forum*, p21.

⁹² Möller, *Konkurs och kontrakt*, p648 and Möller, *Insolvensrättsligt Forum*, p21.

even though it does not constitute “a responsibility of the bankruptcy estate”, other than if a bankruptcy estate has entered into an agreement before the transfer.⁹³

What can be even more doubtful is the question of what rules that are to apply when a prohibition is involved in cases where a licensee pursuant to not mandatory legislation is allowed to transfer a right together with the business or as a part thereof, without consent. This type of prohibition corresponds to a common principal. The responsibility remaining with a transferring licensee, according to the licence contract, does not constitute “a responsibility of the bankruptcy estate”. Therefore the bankruptcy estate of a licensee should be bound to honour the principle stating that an agreement that does not discriminate towards a creditor should be binding to a bankruptcy estate. However, in this situation, an agreement can then prevent a bankruptcy estate from realising the business in bankruptcy as a going concern that is the most preferable alternative for realisation.⁹⁴

16 The Right to Separation or Cancel with regard to the Purchase of an IPR

While discussing the rights of a licensor in the bankruptcy of a licensee, we must first discuss the rights with regard to the purchase of an IPR. This will keep a natural sequence in this paper.

16.1 The Right to Separation when a Reservation to Cancel has been made

Let us start by looking at someone who has sold an IPR with a reservation to cancel, he has therefore the right to cancel, and the right to separate the IPR being included in the bankruptcy of a purchaser. This is under the provision that the agreed purchase price has not been paid, and that a bankruptcy estate will not enter into the agreement or provide any security. In regard to the purchase price, it must be paid in full, normally at the time of the signing of the purchase agreement, to allow the right to separate an IPR. Royalties are not included and considered as acceptable payment in the right to separation.⁹⁵

16.2 The Swedish Sales Act (1990:931) (SA) with regard to an IPR

Since IP constitutes movable property, then SA is applicable.⁹⁶

16.2.1 SA, Section 54, Cancellation due to Default in Payment, the Basic Rule

SA, section 54, first paragraph consists of a main basic rule. The rule states that a seller is allowed to cancel a purchase agreement, due to delay of payment from a purchaser, if the delay of payment is substantial. This said rule applies within contractual law.⁹⁷

Håstad states that concerning an IPR, a right to cancel within contractual law is probably perfected even if there is no reservation to cancel. (See chapter 16.3 hereunder.) If it is considered to have obtained perfection, this would create conditions for a right to separate at time for delay of payment, irrespective of the IPR has been transferred or only has been granted.⁹⁸

⁹³ Möller, *Insolvensrättsligt Forum*, p21-23.

⁹⁴ Möller, *Insolvensrättsligt Forum*, p22f.

⁹⁵ Möller, *Insolvensrättsligt Forum*, p30 f.

⁹⁶ Håstad, *Insolvensrättsligt Forum*, p48.

⁹⁷ Håstad, *Sakrätt avseende lös egendom*, p199 f.

⁹⁸ Håstad, *Sakrätt avseende lös egendom*, p199 f.

Rohde has a conflicting opinion when he states that: when a transfer of an IPR is in question there is no third party to “inform”. Therefore, a transferor will most probably be unprotected against any creditor of an acquirer through an agreement.⁹⁹

16.2.2 Exception to the Main Rule in SA, Section 54

There is an exception in SA to the main rule in section 54. SA, section 54, paragraph 4 states that if an object has come into the possession of a purchaser, then a seller is allowed to cancel the purchase agreement only if a seller has made reservation to cancel.

However, as I have said before, an IP cannot be in the possession of a person or persons. Therefore the request for a reservation of title by SA for a seller to be allowed to cancel an IPR is not directly applicable.¹⁰⁰ In principle, a seller could instead always keep a right to cancel in case of a delay of payment or a bankruptcy of an acquirer, irrespective of a reservation to cancel has been made or not. Consequently in the case of bankruptcy, a bankruptcy estate of an acquirer has to enter into an agreement and fulfil the obligations of a debtor to avoid cancellation and separation.¹⁰¹

There is however, an alternative to the above stated: whereby a right to cancel is analogous to section 54, paragraph 4 and can only exist until such time that a purchaser has obtained the possibility to use a purchased IPR with the consent of a seller.¹⁰² E.g. when a purchaser has begun to produce material products or books. The right to cancel is to be seen in relation to perfected property rights, i.e. in relation to a creditor of a purchaser.¹⁰³

16.3 The Situation where no Reservation to Cancel has been made

16.3.1 An IPR seen in Context where there is no Reservation to Cancel

An IPR where no reservation to cancel has been made can be seen in two different contexts, namely:

- a) As an object that has come into the possession of a purchaser. Thus, the right to cancel could be analogous to SA, section 54, paragraph 4 and can only remain until that such time as a the purchaser has obtained the actual possibility to use a purchased IPR with the approval of the seller. (See chapter 16.2.2 herein.)
- b) As a seller who has a right to cancel when a purchaser is in substantial delay of payment in accordance with SA, section 54, first paragraph. Thus, a reservation to cancel is not necessary.

Håstad states that it is probably an open question whether or not a reservation to cancel is actually necessary for a seller to be allowed to cancel from a purchaser. He also states that irrespective of whether a reservation to cancel has been requested or not, a seller of an IP can probably not obtain a right to cancel against a third party if the said party has purchased the said IP from the original purchaser, and providing that the original purchaser owned the right to sell the IP despite the fact

⁹⁹ Rohde, Handbok i sakrätt, p192.

¹⁰⁰ Håstad, Sakrätts avseende lös egendom, p199.

¹⁰¹ Möller, Konkurs och kontrakt, p743, and Möller, Insolvensrättsligt Forum, p31.

¹⁰² Möller, Insolvensrättsligt Forum, p31.

¹⁰³ Håstad, Insolvensrättsligt Forum, p48.

that the purchase price had not been paid. In this situation, it is of no assistance to a seller that the IP cannot be acquired in good faith.¹⁰⁴

16.3.2 Arguments for applying an Analogy towards SA, section 54, paragraph 4

Möller suggests that SA, section 54, paragraph 4 should be applied by analogy also towards IPRs. (See chapter 16.2.2 herein.) The reason being that there should be protection for the investment costs of a purchaser, and the deterioration of the value can thereby be avoided. A purchaser and even any creditor of a purchaser will also avoid concealed and unpleasant surprises!¹⁰⁵ Another fact that speaks for an analogy is that the purchase of IPRs can provide security, and protect turnover of the business. This will mean that a purchaser who has acquired an IPR, and has been using it for many years, may during this time have resold the IPR amassing several different users thereby increasing the potential value, and should therefore not be affected by a right to cancel or separation. The right to cancel must eventually be terminated!¹⁰⁶

However, I would like to point out that in 1988, Möller stated, that a seller should be considered to have a right to cancel if a purchaser was in substantial delay of payment or had been declared bankrupt, irrespective of whether or not a reservation to cancel had been agreed.¹⁰⁷

16.4 The Right of a Bankruptcy Estate to Enter into an Agreement¹⁰⁸

As stated in chapter 16.2 herein, SA is applicable within the concept of a purchase of an IPR. Providing that a purchaser, on the day of bankruptcy, has not paid the purchase price, and either the date of possession has not occurred or the seller has retained a right to cancel (pursuant to what above is stated), then SA, section 63, paragraphs 1-3 will be applicable. If this situation should arise, a bankruptcy estate will then have the right to enter into an agreement with “a responsibility of the bankruptcy estate”, concerning the remaining obligations of the purchaser. Upon request, a bankruptcy estate will be obligated to provide security where a purchaser has obtained credit.

If a bankruptcy estate has, within a reasonable time, and upon request, failed to provide a positive response concerning their intention to enter an agreement or not, or have failed to provide the required security, then a seller will automatically have the right to withdraw from the said purchase agreement, and further have the right to claim damages as a creditor of the bankruptcy estate. However, if a seller does not have a right to cancel on the day of bankruptcy, then the bankruptcy estate can use the IPR in question, without the purchase agreement.

17 The Right to Separation with regard to an IPR Licence

17.1 The Initial Position towards the Right to Separation of an IPR

We can begin by saying that a licensor has a right to separate an IPR that will be in analogous to the granting of a right to use, concerning moveable tangible property.¹⁰⁹

¹⁰⁴ Håstad, *Insolvensrättsligt Forum*, p49.

¹⁰⁵ Möller, *Insolvensrättsligt Forum*, p31.

¹⁰⁶ Möller, *Insolvensrättsligt Forum*, p51.

¹⁰⁷ Möller, *Konkurs och kontrakt*, p743.

¹⁰⁸ Möller, *Insolvensrättsligt Forum*, p32.

17.2 Analogy to Case NJA 1988 p257

This case takes up the question of the transfer of a licence right to a new licensee, there is a probable need for “information” to a licensor. In this case the principle of “information” was upheld concerning a right of transfer of a tenancy.¹¹⁰

17.3 The Right of a Bankruptcy Estate to Enter into an Agreement¹¹¹

In a granting of a licence, we can also find a similarity to the situation regarding a purchase of an IPR in the question of whether or not a bankruptcy estate has a right to enter into an agreement or in any other way use the said licence. (See chapter 16.4 herein.) There is no legislation for this situation available in Sweden today. However, one could to a certain extent make an analogy of the legislation regarding purchasing in SA, section 63, paragraphs 1-3, (see chapter 16.4 herein), and the renting of premises as in the Swedish Land Code (1971:1209), chapter 12, section 31.

Möller states that it is fairly certain that a bankruptcy estate of a licensee or a publisher has the right to fulfil the agreement together with, “a responsibility of the bankruptcy estate”, where another part is requesting compensation, and an IPR, “has been entered into”. This could be the case were multitudes of works have begun, or the commercial use of a patent is up and running.

In addition, security for future royalties might be possible to claim in analogous to SA, section 63, paragraph 2. If a bankruptcy estate enters into an agreement, then it is proviso to the terms of the agreement. E.g. a bankruptcy estate does not have the right to enter into an agreement if a debtor before bankruptcy is in delay that in its turn will provide a grantor with the right to cancel.¹¹² A bankruptcy estate has exactly the same right to transfer a licence as a debtor. If a bankruptcy estate does not upon request enter into an agreement or provide the necessary security (see chapter 16.4 herein), the other party is allowed the right to cancel and to claim for damages from the bankruptcy estate.

18 No Bankruptcy Legislation concerning Publisher- and Licence Agreement

We still do not have any rules and legislation in Sweden regarding publisher and licence agreements in bankruptcy, neither for the legislation of a debtor’s agreement in general.¹¹³ It can also be said that there is very little literature available on this problem. However, there is one case from 1966 that has aroused a large interest and nearly all the literature available is based on this case. The case concerns the right of publishing.

Möller states that all ideas and theories regarding perfected property in the right of publishing should be considered as valid even for patent licence agreements.¹¹⁴ In the case of 1966, the right of licensing has been considered to be the same or at least the equal of the right of publishing. I have therefore decided to discuss this relevant case further, hereunder.

¹⁰⁹ Möller, *Insolvensrättsligt Forum*, p31.

¹¹⁰ Möller, *Insolvensrättsligt Forum*, p28.

¹¹¹ Möller, *Insolvensrättsligt Forum*, p32.

¹¹² See also case NJA 1989 p206, *Piccolo Mondo*.

¹¹³ Möller, *Insolvensrättsligt Forum*, p34.

¹¹⁴ Möller, *Konkurs och kontrakt*, p624.

18.1 NJA 1966 p241

The main issue in this case from the Swedish Supreme Court concerns the sale of stock in hand in a bankruptcy estate of a publishing house.

18.1.1 A Summary of Case NJA 1966 p241¹¹⁵

Two separate authors granted a right to a publishing house (publishers) to publish their books. The publishers were then declared bankrupt! At the time of the bankruptcy, the first editions were printed and produced, and several copies had already been sold into the market. Neither of the authors nor the bankruptcy estate had terminated the agreement, because of the bankruptcy. The bankruptcy estate thereafter sold further copies of the work into the market and they were sold through the bookshops.

The authors therefore claimed royalties as “a claim against the bankruptcy estate”. The authors stated that the bankruptcy estate had used the granted publishing right to continue publishing and should therefore be liable for the payment of royalties. However, on the other side, the bankruptcy estate of the publishers claimed that after the publishers were declared bankrupt, the sole distribution right of the authors was consumed. The bankruptcy estate also stated that the publisher agreement did not commit the bankruptcy estate.

The majority of the Swedish Supreme Court were in agreement and stated that:

- a. There were no changes made to the original agreement when the publishers entered into bankruptcy.
- b. There was no legislation available protecting the rights of the authors in the bankruptcy estate of the publishers.
- c. The basis for CA did not indicate that the right of the authors to royalties should be judged differently to claims based on other contractual agreements in general.
- d. The bankruptcy estate’s sale of copies was not to be seen as an infringement of the authors distribution right, because the sale of the books was an integral part of the distribution right pursuant to the publishing contract.
- e. The claims for compensation of royalty were deemed to have arisen through the publishing contract before bankruptcy and therefore could not be considered as “a claim against the bankruptcy estate”.

The Swedish Supreme Court thereby dismissed the case against the authors in favour of the publisher’s bankruptcy estate.

¹¹⁵ Möller, *Insolvensrättsligt Forum*, p34 f.

18.1.2 The Rights and Interests at Stake in NJA 1966 p241

There are four main interests to be decided upon in this case. They are as follows:

- a. The right to the Copyright,
- b. The judicial rights of the Publishing Contract,
- c. The effect of the agreement with regard to contractual law because of the bankruptcy of the publishers,
- d. The perfected property rights.¹¹⁶

Of these four I will now discuss the latter in more detail.

18.1.3 Focusing on Perfected Property Rights

If we focus just on the perfected property rights in this case we can see what Möller says. He states that the relevant question was whether or not the authors could obtain “a claim against the bankruptcy estate” with regard to demand for outstanding royalties and that the bankruptcy estate had used the right to sell copies of their work. This right had been granted to the publishers through the publishing contract before the bankruptcy. The contract was still in force when the bankruptcy estate sold the stock in hand.¹¹⁷

Now we consider a right to publish as a right to use an IPR to which an author or grantor can retain a type of proprietor right too. In this case it is quite normal to suppose that an author or originator should have a right to separate an IPR in any bankruptcy of a grantee. This right to separate is of course under the proviso that the bankruptcy estate of a grantee does not enter into the agreement and thereby fulfil all obligations required of the agreement. Möller further states that this should be seen to be valid in the same way as a right to separate a rented movable property, i.e., irrespective of whether there has been a reservation of title made or not. (See chapter 16.2 and 16.3 herein.) This right to separate should also be valid irrespective of any reservation to cancel a contract because of lack of payment has been made or not.¹¹⁸

Let us now see what would happen if a publisher has been allowed to sell an IPR that is based on the work of an author, to an interested third party. The consent of the sale would most probably extinguish the author’s right to separation. This would apply even when a disposition to any third party from a publisher had not yet taken place at the time of execution. Möller states that the initial point of the perfected property rights in NJA 1966 p241 should have been to the authors favour and the authors should have been allowed to cancel and separate their IPR to both works. This under the proviso that the bankruptcy estate had not entered into the agreement as a party, or had provided any form of security. This speaks for that the case of 1966 would have been judged in the favour of the authors and not the bankruptcy estate.¹¹⁹

He further states that all the previous arguments should also be considered valid in all patent licence agreements when seen from the view of perfected property.¹²⁰

¹¹⁶ Möller, Konkurs och kontrakt, p600 f.

¹¹⁷ Möller, Konkurs och kontrakt, p622.

¹¹⁸ Möller, Konkurs och kontrakt, p624.

¹¹⁹ Möller, Konkurs och kontrakt, p624.

¹²⁰ Möller, Konkurs och kontrakt, p624.

18.1.4 Analysis of Case NJA 1966 p241 by Lindskog

Lindskog states that it must be understood that if the bankruptcy estate prints new copies of the books, then they should be seen as having entered into the agreement.¹²¹ It is important to point out that, a bankruptcy estate does not have any partial rights to enter into any agreement. This is a predicate made by case NJA 1989 p206 of the Swedish Supreme Court (Piccolo Mondo). Following this we can say that it implies that the bankruptcy estate should have taken complete responsibility for the agreement.

Regarding the stock in hand, which comprised the already printed copies of the books, Lindskog states that the bankruptcy estate has not consumed any right pursuant to the agreement with the authors, and therefore neither has entered into the agreement. In other words, he believes that an author does not have the right to separate the books or any right to hinder the distribution of them.¹²²

18.1.5 Analysis of NJA 1966 p241 by Håstad¹²³

Håstad states that the case concerns a right to use a copyright. The initial point is then that a bankruptcy estate cannot use the granted copyright if the bankruptcy estate does not pay for it. If the bankruptcy estate is in a severance delay of payment, then the grantor should be allowed to cancel the agreement. In addition, and as stated in chapter 18.1.4 herein, for avoiding a cancellation, the bankruptcy estate should honour the agreement in its entirety.¹²⁴ This means that concerning bankruptcies in publishing and licensing, that the initial point should be that if a bankruptcy estate does not fulfil the obligations of payment as specified in an agreement for the right to use, then a grantor should have the right to cancel a contract.

18.1.6 Licensing and Publishing in Comparison with Tenants of Rented Premises¹²⁵

Håstad illustrates this comparison with his example of a tenant who has established his business in rented premises. He has no security from a grantors right to cancel if payment of rent is not made in time. However, it must be said that there is a significant difference between a contract to the right of use of real estate and other agreements concerning the granting of an IPR. A payment related to a real estate contract is normally payable in advance, whilst payment related to an IPR licence agreement is normally payable in arrears.

In a situation where it is clear that the bankruptcy estate cannot complete full payment, “from the bankruptcy estate”, then the initial point is that a grantor of an IPR should be able to cancel the licence agreement by using the rules of, “anticipated delay of payment”. When the licence agreement has been cancelled, the problems that could have arisen with real estate will not apply in this case. In the case of real estate, it can take a very long time to receive a legal execution. During this time it can be very uncertain if the owner of the real estate only has the right to a preferential claim pursuant to the Swedish Preferential Act, (1970:979) section 5, or “a claim against the bankruptcy estate”.

¹²¹ Lindskog, *Insolvensrättsligt Forum*, p53.

¹²² Lindskog, *Insolvensrättsligt Forum*, p53.

¹²³ Håstad, *Insolvensrättsligt forum*, p47.

¹²⁴ NJA 1989 p206 (Piccolo Mondo).

¹²⁵ Håstad, *Insolvensrättsligt Forum*, p47.

If a bankruptcy estate should violate a copyright protection, despite the fact that the agreement has been cancelled, the bankruptcy estate is seen to be infringing on the copyright, and will therefore be responsible to pay compensation.

18.1.7 Sales of Stock in Hand compared to Production of New Stock.

Hägglund states that for a bankruptcy estate to be able to claim a distribution right it is necessary for a bankruptcy trustee not to terminate the publishing- or licence agreement.¹²⁶ Håstad states that it would appear that as long as a contract for publishing is valid, a bankruptcy estate might use the contract without having to pay royalties “from the bankruptcy estate”. However, if this is correct, what then is the difference between selling already produced stock in hand, compared to the production and sale of newly printed copies? A Publishing Contract will provide rights to cover both copies! Håstad thereby proposes that a general rule should be that the copies that a bankruptcy estate have used but should not have had the right to use due to an approved cancellation by the other part, should be accountable by payment as “a responsibility of the bankruptcy estate”.¹²⁷

18.1.8 A Bankruptcy Trustee in General

Hägglund is of the opinion that, in practice bankruptcy trustees of publishers bankruptcy estates, use case NJA 1966 p241, and generally believe that they have the right to sell any books (copies) that are stock in hand and in the possession of a debtor. The sale of such copies as stock in hand should take place without, “a responsibility of the bankruptcy estate”.¹²⁸

18.2 Cancellation of a Patent Licence Agreement due to Breach of Contract

It is difficult to establish what applies for patent licence agreements according to non-mandatory contractual legislation regarding stock in hand of a licensed product at the time of a cancellation of a licence agreement by the licensor because of a breach of contract.¹²⁹ Möller states that the only reference to be found in the Nordic Countries is from the Dane Jorgen Hansen.¹³⁰ He also refers to Hansen and states that at the time for a cancellation of a licensor, a licensee will probably lose any right to sell stock in hand, if the breach of contract by a licensee is because of failure to meet the requirements of the licence agreement regarding product design and quality problems. The breach of contract can even consist of a licensee who has violated the trademark of a licensor or has shown a marketing concept that is not consistent with the praxis laid out in the licence agreement. The same applies if the licensee is shown to be negligent in regard to the provision of economic information and payment stipulated by the licence agreement.¹³¹

The forgoing paragraph is important to the following statement. If there is stock in hand of ready printed copies of a work in the hands of a publisher, the said stock is pursuant to CA, section 2 detailing an author’s sole distribution right with regard to stock in hands. This means that a normal distribution of ready printed copies that shall be sold in the normal way, from a publisher to a retailer, i.e. distribution of the copies, will require the consent of the author.

¹²⁶ Hägglund, *Insolvensrättsligt Forum*, p44.

¹²⁷ Håstad, *Insolvensrättsligt Forum*, p47 f.

¹²⁸ Hägglund, *Insolvensrättsligt Forum*, p42.

¹²⁹ Möller, *Konkurs och kontrakt*, p613.

¹³⁰ Hansen Jorgen, *Licensaftalen*, p157-163.

¹³¹ Möller, *Konkurs och kontrakt*, p613

As the publisher agreement includes a general consent clause, the authors right to the copies can not be realised until such time as the publisher agreement should, by any reason, be cancelled, and that the cancellation implies that the general consent clause to the sale of copies should be made null and void. If the cancellation has this effect, and the author does not give consent, and the stock in hand is sold after the cancellation, then this will constitute an infringement of the copyright. This rule will apply irrespective of whether the work has been published or not.

This discussion only applies to stock in hand that are in the possession of the publisher. Copies of the work that have already been sold to the retailers are therefore not protected by the rules and rights of disposition in CA. When stock in hand in the form of ready printed copies are in the possession of a retailer, in this case a bookshop, then the general principle that shall apply is that the stock may be sold without the consent of the author.¹³²

19 The Distribution of Rights with Regard to Stock in Hand

The Distribution Right of Copies CA, section 19 reads as follows: *”When a copy of a literary or musical work of fine art has been transferred with the consent of the author, that copy may be further distributed.”*

19.1 The Distribution Right and the Extent of Protection

Möller states that a separating party’s perfected property rights towards copies should not extend beyond the consumption point¹³³. If a publishing or transfer licence or agreement provides further rights which allow a stop of the distribution of copies due to a cancellation, then the said provision would probably not be accepted as a perfected property right.

However, if the consumption point regarding the produced copies has not been reached at the time for bankruptcy, then a transferor or a grantor, who has a right to separate an IPR, may request the bankruptcy estate to undertake “a responsibility of the bankruptcy estate” concerning claims for royalty. This will result in a higher risk for cancellation by a transferor or a grantor, which in turn would result in the cessation of the right to further production and marketing. Möller states that this solution will not guarantee any financial deficits or losses to a bankruptcy estate, and it is also praxis when resolving the same types of conflicts in other cases of contractual law disputes.¹³⁴

19.2 The Distribution Right and its Extent of Protection under Norwegian Law¹³⁵

The Norwegians is of the opinion that at the time of a bankruptcy, if production has begun and large investment have been made, then a bankruptcy estate should have the right to complete production and market what is produced.¹³⁶ An originator can thereby obtain “a claim against the debtor in bankruptcy” against compensation. However, new production after the registered day for bankruptcy would result in, “a claim against the bankruptcy estate”.

¹³² Möller, Konkurs och kontrakt, p613 f.

¹³³ That a right is “consumed”, means that a separate right to an object that has been lawfully released on the market by the rightholder or consent of the same, ceases to be valid. Thereafter the object may circulate, be used or sold, outside of the control of the rightholder.

¹³⁴ Möller, Insolvensrättsligt Forum, p35 f.

¹³⁵ Möller, Insolvensrättsligt Forum, p33.

¹³⁶ The Norwegian “Lov om fordringshavernes dekningsrett” (dekningsloven), chapter 7, section 7-12.

Möller states that using Norwegian Law a bankruptcy estate should be allowed to market and sell the stock in hand at the time of bankruptcy, without “a responsibility of the bankruptcy estate”. This should be irrespective of the rules concerning sole rights of IPR, even when an agreement is cancelled before a bankruptcy.¹³⁷

19.3 The Distribution Right and its Extent of Protection Under German Law

The Germans believe that there is another possible solution. They have for a considerable length of time solved the problem by connecting the consumption point to the initial transfer of copy. This solution is now also widely accepted in Sweden.¹³⁸

Pursuant to Konkursordnung section 17 and Verlagsgesetz, section 36, regarding common copyrighted principles: for a bankruptcy estate to continue production, marketing and sales, it shall be presumed that the bankruptcy estate has entered into an agreement together with “a responsibility of the bankruptcy estate”. If however, a bankruptcy estate decides not to enter into the agreement, the rights to publish shall cease and return to the originator. In this case a bankruptcy estate is not allowed to sell any stock in hand, without infringing the copyright.¹³⁹

Möller states that in the Nordic Countries, the question is whether or not the initial transfer of copy is the deciding issue of perfection. Perhaps the situation of today is that if an initial transfer of copy has not taken place, then the distribution right should remain with the originator, even in bankruptcy.¹⁴⁰

19.4 A Bankruptcy Estate Infringing on a Sole Right

If a bankruptcy estate continues marketing and sales of stock in hand, after cancellation of an agreement, then this action could constitute an infringement of the sole right of the other party. This will provide the other party with a right to “a claim against the bankruptcy estate” for reasonable compensation.¹⁴¹ Pursuant to PA, section 58; anyone who commits a patent infringement that is not deliberate or due to negligence shall pay compensation for the use of the invention insofar as this is found reasonable. In the event of a bankruptcy estate continuing to sell copies using the initial agreement that they have not entered into, then the estate may be liable to pay reasonable compensation to the originator.¹⁴²

19.5 When does Consumption take place with regard to a Distribution Right?

An important issue to discuss is at what stage does consumption take place with regard to a sole distribution right of a separating party? Pursuant to traditional Swedish law of copyright; the copies of a work could be freely distributed to the public, providing that the said work was already published and the copies were part of the publishing. Here it was a publishing criterion that thereby determined the consumption point of a distribution right.¹⁴³ The Swedish consumption point was, however, not compatible with EEC Directive 92/100 Article 9, regarding the rental right and

¹³⁷ Möller, *Insolvensrättsligt Forum*, p33.

¹³⁸ Möller, *Insolvensrättsligt Forum*, p51.

¹³⁹ Möller, *Insolvensrättsligt Forum*, p34.

¹⁴⁰ Möller, *Insolvensrättsligt Forum*, p51.

¹⁴¹ Möller, *Insolvensrättsligt Forum*, p36.

¹⁴² Möller, *Insolvensrättsligt Forum*, p36.

¹⁴³ Möller, *Insolvensrättsligt Forum*, p36.

lending right and on certain rights related to copyright in the field of intellectual property. Sweden adopted the directive into CA, section 19, paragraph 1 and thereby the consumption is directly coupled to the initial transfer of copy.¹⁴⁴ CA, section 19, paragraph 1 legislates: “*When a copy of a literary or musical work has been transferred with the consent of the author, that copy may be further distributed.*”¹⁴⁵ Taking this into consideration it is apparent that it does not matter whether or not the work is published. The most important consideration here is whether or not the copy has been transferred! Furthermore, it is now clear that consumption shall only apply to those copies that have already been transferred. Möller exemplifies this with the following example: even if a large number of copies of a work have been sold on the market, the remaining stock in hand of a publishing house are still governed by an originator’s distribution right.¹⁴⁶ This is in accordance with CA, section 2.

19.6 Lindskog on the new Consumption Point as in NJA 1966 p241

Lindskog’s opinion regarding the change in legislation of the consumption point relating to bankruptcy is as follows: He believes that because the consumption point concerning contractual law has been changed, it does not automatically follow that there is a change in perfected property. He finds it remarkable that a bankruptcy estate can suddenly by selling copies that were already printed at the time of bankruptcy be seen as having entered into the agreement and thereby shall shoulder full responsibility for the agreement. If this were the case, and as in the case of Piccolo Mondo, it would mean that the authors could claim compensation for royalties in arrears. There have been a few changes within contractual law between the authors and publishers that he feels should not result in a judicial change in position regarding any perfected property.¹⁴⁷ On the other side, Möller points out that copyright protection is judicially penalty binding, which is a sign that it is perceived as perfected property rights.¹⁴⁸

19.7 The Resulting Change in Interpretation of Case NJA 1966 p241

This new legislation regarding where consumption takes place, has led to a new analysis of case study NJA 1966 p241.¹⁴⁹ (See chapter 18.1 herein.)

What is there in the new legislation that can influence a bankruptcy trustee in realising stock in hand remaining in the possession of a debtor at the time of bankruptcy? We now generally accept that the consumption point has not been reached at the time of a bankruptcy. This because, the initial transfer of copy has not taken place and this is due to the publishing house and their responsibility for production.¹⁵⁰ According to Möller, the authors in NJA 1966 p241 would today have been able to stop the bankruptcy estate of the publishing house from distributing and marketing unsold stock in hand. This would have been done by cancelling the agreement with the publishing house under

¹⁴⁴ Hägglund, *Insolvensrättsligt Forum*, p43.

¹⁴⁵ Compare to PA, section 3, paragraph 3 that states that the exclusive right even implies that no one, without the consent of the proprietor of the patent exploit the invention by offering or supplying a person who is not entitled to exploit the invention with such means for carrying out the invention here in Sweden which relates to an essential element of the invention.

¹⁴⁶ Möller, *Insolvensrättsligt Forum*, p36.

¹⁴⁷ Lindskog, *Insolvensrättsligt Forum*, p53.

¹⁴⁸ Möller, *Insolvensrättsligt Forum*, p55.

¹⁴⁹ Möller, *Insolvensrättsligt Forum*, p36.

¹⁵⁰ Hägglund, *Insolvensrättsligt Forum*, p43 f.

the provision that the bankruptcy estate does not undertake “a responsibility of the bankruptcy estate”.¹⁵¹

19.8 De Lege Ferenda

If the change in legislation regarding the consumption point should also gain power and apply in the law of bankruptcy, it would greatly improve the protection for an originator in the bankruptcy estate of a publisher. Then the bankruptcy estate should not be able to transfer stock in hand without the consent of an originator. An originator could even be merited a considerable better position in comparison to other creditors in the form of a special and specific preferential right. The purpose and goal of the legislation was not primarily aimed at bankruptcy questions.¹⁵²

19.9 If a Bankruptcy Estate uses a Distribution Right

If a bankruptcy estate decides to claim for a distribution right, then the bankruptcy trustee should not terminate any publishing agreements of a debtor. With the publishing agreement intact, the bankruptcy trustee should be able to claim for a distribution right pursuant to the agreement, and also be authorised to market and sell those copies that were in stock at the time of bankruptcy. Of course the bankruptcy trustee then risks a claim for liability and compensation to the originator as defined in the agreement.¹⁵³

19.10 What an Originator should bear in mind

An originator, who requires compensation for stock in hand in the possession of a publisher, should first cancel the agreement and then claim that a bankruptcy trustee does not have any distribution right of the said copies that have not been transferred. Taking into consideration the new legislation, there is always a risk that a bankruptcy trustee will realise the stock in hand. If this is the case then the originator can claim compensation from the bankruptcy estate as “a responsibility of the bankruptcy estate”.¹⁵⁴

19.11 Stop a Distribution Right by Granting

Möller states that when an originator has decided to sell an IPR instead of granting it in accordance with a licence or publisher agreement, then an originator must take the same risks and responsibilities as other grantors. In general terms, we can say that an originator will receive less revenue for granting than by selling. However, this could be the only way for an originator to stop any further distribution of a right.¹⁵⁵

¹⁵¹ Möller, *Insolvensrättsligt Forum*, p36.

¹⁵² Hägglund, *Insolvensrättsligt Forum*, p44 .

¹⁵³ Hägglund, *Insolvensrättsligt Forum*, p44.

¹⁵⁴ Hägglund, *Insolvensrättsligt Forum*, p44.

¹⁵⁵ Möller, *Insolvensrättsligt Forum*, p50.

What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

PART IV

The United States of America

20 The Importance of Intellectual Property Rights

The recognition of the importance of IPRs is growing globally not least in the USA. Patents and trademarks often comprise a significant part of the substance of a company or organisation and are therefore extremely important to their business.¹⁵⁶

These rights normally depend on contractual licences, and the filing of a petition for bankruptcy by any contractual party, can result in very negative effects.¹⁵⁷ However, it should be said that IPRs often prove to be the most precious asset in a bankruptcy estate, and therefore the restriction of a bankrupt estate to use an IPR, can thwart the objectives of the Bankruptcy Code.¹⁵⁸

21 English Common Law in the United States

The United States comprises 52 states, and all with the notable exception of Louisiana, use American Law to legislate matters concerning Perfected Property Rights and Contractual Law based on English Common Law. This, as the name suggests, has its roots in, and contains many similarities to the English judicial system.¹⁵⁹

There are however, significant differences that take their origin from the Constitution of the United States, and the resulting form of governmental practice that has created a Federal Republic. This means that USA has Federal Law and State Law.¹⁶⁰

Each and every State of the United States has its own legal system comprising its own common law and its own constitution. One can say that the right of legislation lies with each Individual State of America. In America, perfected property rights and contractual right's are legislated by State Law, whilst the bankruptcy procedures are controlled by Federal Law.¹⁶¹

22 The United States Code (USC) Title 11, Bankruptcy

22.1 General Description

The United States Congress passed the Bankruptcy Code under the Constitutional Grant of Authority. The purpose of the Bankruptcy Code is, and I quote:

*"To establish a uniform rule of naturalization, and uniform laws on the subject of bankruptcies throughout the United States;"*¹⁶²

¹⁵⁶ Klee, Fidler, Kurth, and others, Recent Developments Concerning Intellectual Property and Bankruptcy, p1.

¹⁵⁷ Klee, Fidler, Kurth, and others, Recent Developments Concerning Intellectual Property and Bankruptcy, p1.

¹⁵⁸ Michelson Randy, Bankruptcy and Licensing, p1.

¹⁵⁹ Bogdan Michael, Komparativ rättskunskap, p148f.

¹⁶⁰ Persson Annina H, Förbehållsklausuler i vissa främmande rättssystem, p27.

¹⁶¹ Persson, Förbehållsklausuler i vissa främmande rättssystem, p27.

¹⁶² US Constitution, Article 1, Section 8.

One of the main aims of the Bankruptcy Code is to productively realise the assets of the debtor to maximise the possible return for the Creditors; and also to assist in the rehabilitation of the Debtor.¹⁶³ The Bankruptcy Code is governed by Federal Statutory Law and is contained in Title 11 of the USC.

Title 11 of the USC, Bankruptcy, is subdivided into eight separate chapters namely:

Chapter 1 : General Provision

Chapter 3 : Case Administration

Chapter 5 : Creditors, The Debtor, and the Estate

Chapter 7 : Liquidation

Chapter 9 : Adjustment of Debts of a Municipality

Chapter 11: Reorganisation

Chapter 12: Adjustment of Debts of a Family Farmer with Regular Annual Income

Chapter 13: Adjustment of debts of an individual with regular income.

22.2 Concerning Debtor and Creditor Law

The Individual States is not allowed to legislate bankruptcy since the States have the individual power to legislate laws governing other aspects that might concern the debtor and creditor relationship.¹⁶⁴ Debtor and creditor law is the law that regulates the circumstances and situation, where one party is unable to pay a monetary debt to another. There are three sorts of creditors:

- Creditors who have a specific pledge against a specific property.
- Creditors who have a priority claim through statutory law.
- Creditors who do not have either a specific pledge against a specific property, or do not have a priority claim through statutory law.¹⁶⁵

A normal debtor and creditor relationship that has not reached the stage of bankruptcy proceedings is normally regulated by State statutory and common law, which even governs the right of collection of the said debt. For this purpose the US Congress has enacted the Fair Debt Collection Practices Act. As the Bankruptcy Code is a Federal Statutory Law it supersedes the Debtor and Creditor Law.¹⁶⁶

Some of the sections of Title 11 of the USC incorporate the debtor and creditor law of each Individual State. Bankruptcy proceedings are supervised and litigated through the US Bankruptcy Courts, which are a part of the District Court of the United States.¹⁶⁷

US Bankruptcy Trustees were established and appointed by the US Congress to officiate over the supervisory and organisational duties of normal bankruptcy proceedings. These said proceedings are, in their turn, governed by the Bankruptcy rules that are promulgated by the Supreme Court under the power of the Congress of the United States.¹⁶⁸

¹⁶³ Michelson, Bankruptcy and Licensing, p1

¹⁶⁴ The Legal Information Institute, Law about Bankruptcy: An Overview - <http://www.law.cornell.edu/topics/bankruptcy.html>

¹⁶⁵ The Legal Information Institute, Law about Debtor and Creditor: An Overview - http://www.law.cornell.edu/topics/debtor_creditor.html

¹⁶⁶ The Legal Information Institute, Law about Debtor and Creditor: An Overview - http://www.law.cornell.edu/topics/debtor_creditor.html

¹⁶⁷ The Legal Information Institute, Law about Bankruptcy: An Overview - <http://www.law.cornell.edu/topics/bankruptcy.html>

¹⁶⁸ The Legal Information Institute, Law about Bankruptcy: An Overview - <http://www.law.cornell.edu/topics/bankruptcy.html>

22.3 US Bankruptcy Proceedings - an Overview

Corresponding to the Swedish Bankruptcy Act, a US bankruptcy case begins when either a debtor files for petition of bankruptcy i.e. a voluntary case, or when a creditor files for petition of bankruptcy i.e. an involuntary case, as described in chapter 19.3.3 hereunder.¹⁶⁹ A “Petition for Relief” (as described in chapter 24.3.3 hereunder) is effective immediately after filing. Thereafter a debtor has an exclusive right for up to 120 days, subject to extension to allow for submission of a plan for reconstruction of the organisation or company. If the plan for reorganisation is accepted, and a debtor does not want to continue the claim for liquidation then the claim for bankruptcy will be discharged.¹⁷⁰ A Petition for Relief, has to follow the guidelines in the relevant chapters of the Bankruptcy Code, Chapter 7, 9, 11, 12, or 13. Chapter 11 of the Bankruptcy Code states that a debtor is allowed to continue normal business practices under the title of DIP, “Debtor in Possession”. This is described in chapter 24.3.1 and 24.3.4 hereunder.

A commencement of a bankruptcy case invokes an “Automatic Stay,” that will be immediately granted under section 362 (a) of the US Bankruptcy Code. An automatic stay can involve an immediate stop of all normal business practice and ongoing proceedings of a debtor, in effect freezing the ability of all non-debtors to realise assets outside the official bankruptcy proceedings. This includes the foreclosure of IPRs.¹⁷¹

However, pursuant to title 11 of the USC, section 362(b), a bankruptcy trustee may sell, use or transfer any debtor property, after notice and hearing.

A party may apply to the Court for relief from an automatic stay under section 362(d)(1) citing “*for cause, including a lack of adequate protection of an interest in property of such party*”, and under section 362 (d)(2), if a debtor does not have any equity in the property and it is not a requirement of a successful reorganisation. There are even further exceptions but I do not find it necessary to discuss here.¹⁷²

22.4 Two Types of Bankruptcy Proceedings¹⁷³

There are two fundamental types of Bankruptcy proceedings. The most common being Liquidation or “Filing under Chapter 7.” Liquidation comprises the appointment of a trustee who seizes the debtor’s non-exempt property, evaluates the said property, sells the said property, and finally distributes the proceedings from the sale of the said property to the creditors. Pursuant to Chapter 7,12,13 and part of Chapter 11 proceedings, a bankruptcy trustee is appointed to supervise the acquisition and realisation of the assets of the debtor.

A US bankruptcy proceeding can either be entered into voluntarily by a debtor or can be initiated by a creditor. Once the bankruptcy proceedings are initiated, the creditors automatically waive their right to any form of debt collection outside the bankruptcy proceedings. A debtor in the US is not allowed to transfer ownership of property that has been declared as a legal part of the bankrupt estate. The said three proceedings in the United States can be said to correspond to the Swedish Bankruptcy Act (1987:672). The Bankruptcy Code will also establish the provisions and priority of

¹⁶⁹ Brozman Tina L, Seamon Scott K, Bankruptcy and Intellectual Property, p1 f.

¹⁷⁰ Brozman, Seamon, Bankruptcy and Intellectual Property, p2.

¹⁷¹ Brozman, Seamon, Bankruptcy and Intellectual Property, p2.

¹⁷² Brozman, Seamon, Bankruptcy and Intellectual Property, p2.

¹⁷³ The Legal Information Institute, Law about Bankruptcy: An Overview - <http://www.law.cornell.edu/topics/bankruptcy.html>

the different creditors and their interests. These proceedings in the United States can be said to correspond to the Swedish Preferential Rights Act (1970:979).

22.5 Concerning Official Bankruptcy Forms and Procedural Forms¹⁷⁴

The Bankruptcy Rules and Forms govern the procedures to be followed in cases under title 11 of the USC. The rules shall be cited as the Federal Rules of Bankruptcy Procedure and the forms as the Official Bankruptcy Forms. The rules are primarily designed for use in procuring a fast and economic resolution of all cases and proceedings.

22.6 Intellectual Property as defined by section 101 (35A) of the Bankruptcy Code¹⁷⁵

The Bankruptcy Code defines IP as Trade Secrets. It even includes Inventions; Processes; Design and Plant as IP, under the provision that they are protected by the Patent Law. A Patent Licence Agreement is subject to section 365(n) of the Bankruptcy Code. (See chapter 25 hereunder)

The definition also includes Patent Applications; Plant Variations and Work of Authorship providing that they are protected by Copyright Law - Title 17 of the USC. Semiconductor Chip Designs known as Mask Works are also considered to be IP providing that they are protected under chapter 9, title 17 of the Copyright Law. The definition of IP as specified in section 101 (35A) of the Bankruptcy Code only applies to Patents and Copyrights protected in the United States. However, here is a warning, protection for the Licensee under section 365 (n) of the Bankruptcy Code does not apply to the rights that are based on foreign patents and copyrights.¹⁷⁶

Trademarks and Trade Names are normally thought of and defined as IP, however this is not the case under the Bankruptcy Code.

23 Property of the Bankruptcy Estate

23.1 Section 541 of the Bankruptcy Code

Filing a petition for bankruptcy will create an estate in bankruptcy. Section 541 of the Bankruptcy Code concerns the properties of the bankrupt estate that may be subject to the jurisdiction of the Bankruptcy Court, section 541 (a)(1). The creation of the bankrupt estate will include all the legal and equitable interests of the debtor in property. An estate in bankruptcy becomes a new legal entity and will take possession of the total property owned by the debtor at the time that the petition is filed. The properties will then become a part of the new estate in bankruptcy. This is comparable to the Swedish Bankruptcy Act.

23.2 Intellectual Property Rights

IP agreements, as other contractual rights, are considered to be the property of an estate in bankruptcy of both a licensor and a licensee under section 541(a)(1) of the Bankruptcy Code.¹⁷⁷ In

¹⁷⁴ Federal Rules of Bankruptcy Procedure, Rule 1001. Scope of Rules and Forms; Short Title
http://www2.law.cornell.edu/cgi-bin/fofiocgi.exe/frb/query=*/doc/{t1}?

¹⁷⁵ Bankruptcy Code, Section 101(35A)

¹⁷⁶ Horton, Richard W.A., Play that funky music; The impact of difficult times and bankruptcy on IP related Transactions-Fraudulent Transfers and §365(n) of the Bankruptcy Code, p8.

¹⁷⁷ Michelson, Bankruptcy and Licensing, p1f, and Brozman, Seamon Bankruptcy and Intellectual Property, p2.

addition to the property which is owned by an estate at the time of petition, any properties that are acquired after the creation of the bankrupt estate, that includes proceeds; products: rents and/or profits, shall also become the property of the new estate. This is comparable to the Swedish Bankruptcy Act. In the United States, as in Sweden, it is always the duty and responsibility of the appointed Bankruptcy Trustee or DIP, to use all available assets and property to realise the maximum value of the bankrupt estate to the benefit of any creditor.

24 A Licensee's Perfected Property Right's in a Licensors Bankruptcy.

24.1 Bankruptcy Trustee Rejects Executory Contracts

Let us now look at United States Code, title 11, section 365, The Bankruptcy Code. Pursuant to this section, a bankruptcy trustee is with the Court's approval, authorised to reject an executory contract if the termination of the said contract can be seen to favour a bankruptcy estate of a debtor (in the opinion of the bankruptcy trustee).¹⁷⁸

24.2 The Definition of Executory Contract

The definition for, "An Executory Contract", cannot be found in the US Bankruptcy Code. The Courts have traditionally used the so called "Countryman" test to define executory contracts as: *"a contract is executory if there remain sufficient performance obligations on each side that failure by one party to perform would entitle the other to withhold performance."*¹⁷⁹

In other words, the general definition of an "executory" contract is a contract where both parties have considerable obligations that remain to be performed.¹⁸⁰ The Ninth Circuit of the US Court has indicated that the responsibility to fulfil the unperformed obligations should apply equally to both parties, irrespective of the parties' role as debtor or creditor. However, many practitioners' disagree and believe that the Court in fact does not always take an objective and impartial view of the debtor, and instead can follow a changeable model that can be based on a subjective view of a debtor.¹⁸¹

24.3 Executory Contracts¹⁸²

The decision of whether a particular licence agreement is an executory agreement or not, will have a direct bearing on which rights a licensor or licensee may be entitled to, when the said licence agreement is held in a bankruptcy case. If an agreement is deemed to be an executory contract, the provisions of section 365 will apply. However, if an agreement is not deemed to be an executory contract, the licence agreement will pass through a bankruptcy.¹⁸³ To assist in the realisation of the maximum value of a bankrupt estate, a Bankruptcy Trustee has always a right to reject burdensome, and assume beneficial, executory contracts.¹⁸⁴ A bankruptcy trustee of a bankrupt estate will almost certainly argue for that a licence agreement is an executory contract so that he/she can retain the

¹⁷⁸ Amendment to Bankruptcy Act reduces Licensee's risks in technology license arrangements, p1, <http://www.lgu.com/publications/softlicense/1.shtml>, and Shpizner Michale J, Congress passes new legislation protecting licensees of intellectual property, p1.

¹⁷⁹ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p2.

¹⁸⁰ Amendment to Bankruptcy Act reduces Licensee's risks in Technology License Arrangement, p1.

¹⁸¹ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p2.

¹⁸² Michelson, Bankruptcy and Licensing, p2f.

¹⁸³ Michelson, Bankruptcy and Licensing, p2 f.

¹⁸⁴ Brozman, Seamon, Bankruptcy and Intellectual Property, p3.

right to reject, assume or assign the said licence. An executory licence agreement can be treated in three ways:¹⁸⁵

1. **Rejection** (pursuant to section 365) – This means that a bankruptcy trustee is allowed to reject an unfavourable licence agreement from the bankruptcy estate.¹⁸⁶ However, rejection does open the rights that are pursuant in section 365 (n). (See chapter 25, the Intellectual Property Protection Act of 1988 hereunder) An executory contract is binding on a non-debtor party unless it is rejected, this is even binding on a debtor in possession who has not yet assumed the contract. In this case a non-debtor has a responsibility to insure the continuation of the contract irrespective of the petition filed for bankruptcy. Rejection can result in a breach of contract by a debtor, a pre-petition can therefore result in a claim for damages and the resulting damages will be treated as a general unsecured claim.¹⁸⁷
2. **Assumption** (pursuant to section 365) – This means that a bankruptcy trustee is allowed to keep a favourable licence agreement in a bankruptcy estate. This is usually because the conditions and terms of the said licence agreement are of value to the bankruptcy estate. However, in some US Circuit Courts it has been ruled that a debtor licensee may not automatically assume a licence agreement without the express consent of the licensor. Firstly, the main conclusions of assumption can be said to be the creation of a binding agreement by the licensor to honour the conditions of the agreement without any major changes. Secondly, a licensor can benefit from assumption when a licensor intends to reorganise the bankrupt business or organisation. This will allow a licensor to continue operations, and retain all beneficial licence agreements.¹⁸⁸ A licensor will however, be required to honour any and all monetary defaults as required under the said licence agreement, and also compensate any monetary losses that have directly resulted from the effects of the default.¹⁸⁹ Executory contracts can not be rejected or assumed partly; a bankruptcy trustee or the debtor-in-possession has to accept the agreement as a whole.¹⁹⁰ (Can be compared to the Swedish case of Piccolo Mondo in chapter 18.1.5 herein)
3. **Assignment** (pursuant to section 365) – This means that a bankruptcy trustee is generally allowed to assume and assign an executory licence agreement to a third party for economical gain. An agreement has to be assumed before it can be assigned. If it is not possible for the contract to be assumed then it may not either be assigned. However, a licence may even have a higher value on a stand-alone basis or by staying together with the business as a going concern rather than assigning to a third party!¹⁹¹ In an executive contract, any provisions restricting a right of assignment or any “Ipso Facto” clauses providing a right to rejection, based upon the weak financial strength of the other part; these clauses will all be made null and void. (See chapter 26.1 hereunder) After assignment, a debtor will be free from any liability concerning the said executive contract. If an assignment is made to a third party, a debtor must provide adequate assurance and guarantees for the said third party.¹⁹²

¹⁸⁵ Michelson, Bankruptcy and Licensing, p2f.

¹⁸⁶ Michelson, Bankruptcy and Licensing, p2f.

¹⁸⁷ Brozman, Seamon, Bankruptcy and Intellectual Property, p3.

¹⁸⁸ Michelson, Bankruptcy and Licensing, p2 f.

¹⁸⁹ Kennedy David H, Moyer David B, Structuring Deals involving significant Intellectual Property Assets, p5.

¹⁹⁰ Kennedy, Moyer, Structuring Deals involving Significant Intellectual Property Assets, p5.

¹⁹¹ Michelson, Bankruptcy and Licensing, p2f.

¹⁹² Brozman, Seamon, Bankruptcy and Intellectual Property, p4 f.

24.3.1 Conditions for continuance of an Executory Contract

To be able to assume or assign an executory contract, a debtor in possession (see chapter 24.3.4 hereunder) must first honour all outstanding defaults appertaining to and contained in the licence agreement, or provide an adequate and acceptable monetary guarantees. A debtor shall further provide an acceptable plan that will assure future compliance to the licence agreement can be continued without hinder. A debtor can assume or reject an executory contract at any time during the procedures prior to the acceptance of any plan for reorganisation.¹⁹³

24.3.2 Continuing Normal Business Transactions

Pursuant to Chapter 11, a debtor/licensor in possession of a licence agreement (see chapter 24.3.4 hereunder) is deemed to be an executory contract will be allowed to continue normal business transactions with a licensee. This may continue until such time as a licensor decides whether or not to assume or reject the licence agreement. If a licensee is in breach of a licence agreement, a licensor may bring suit to collect defaulted licence fees or royalties.¹⁹⁴

24.3.3 An Order for Relief¹⁹⁵

Before a debtor is allowed to continue normal business transactions and manage their property, an order for Relief under chapter 11 shall be issued. An order for Relief will be granted as soon a debtor has filed a petition for bankruptcy. In this case this petition is called a “Voluntary Case”.

In the case of an involuntary petition for bankruptcy being filed, an order for relief can be granted only if the bankruptcy court decide that there are sufficient grounds for the involuntary bankruptcy claim or if a debtor fails to controvert in reasonable period of time.¹⁹⁶

24.3.4 Rights, Powers, and Duties of Debtor in Possession¹⁹⁷

After an order for relief has been issued, a debtor may continue normal business practice under the title of “Debtor-In-Possession” or DIP.”¹⁹⁸ (See also chapters 22.3 and 23.2 herein.)

A DIP may continue to operate normal business practice unless a bankruptcy trustee appointed by a Bankruptcy Court under chapter 11 can show reasonable cause for objection. For example, proof of fraud, dishonest or incompetent practices, or proof of gross negligence or mismanagement of the business before or even after the commencement of the bankruptcy case”.

A DIP has a right:

- a) To use, sell or lease property of the estate, except collateral in pant, during the normal business practices and transactions of the debtor. If such use, sale or lease is not part of the normal business practice, the DIP shall seek approval from the Bankruptcy Court and thereafter give notice to all interested parties.¹⁹⁹

¹⁹³ Brozman, Seamon, Bankruptcy and Intellectual Property, p4 f.

¹⁹⁴ Michelson, Bankruptcy and Licensing, p3.

¹⁹⁵ Goldman William M, The Treatment of Intellectual Property in Bankruptcy, p3f.

¹⁹⁶ See also Chapter 11, section 303(h).

¹⁹⁷ Goldman William M, The Treatment of Intellectual Property in Bankruptcy, p3f.

¹⁹⁸ USC, Title 11, Chapter 11, Section 1101(1).

¹⁹⁹ USC, Title 11, Chapter 3, Section 363(b)(1).

- b) To be allowed to use “Post -Petition Credit”. This is generally known as “DIP-Financing”.²⁰⁰
- c) To assume or reject any executory contract of the debtor pursuant to section 365.
- d) To exercise “Avoiding-Powers”, which include the power to recover preferences, to recover fraudulent conveyances, and to avoid unperfected security interest.²⁰¹

24.3.5 Termination of an Executory Contract²⁰²

If an executory contract is terminated, the contract may no longer be considered as to be an executory contract under section 365. This is mainly because the obligations contained in the contract governing both parties cease to be valid on termination. This will include any clauses specifically regulating bankruptcy protection. All such clauses will also become null and void on termination. (See chapter 26.1 hereunder.) For a termination of an executive contract to be accepted, a termination shall be considered to be complete and final.

24.3.6 Exception to the Rule

Under the Bankruptcy Code, a debtor is not allowed to assign an executory contract to a third party if an “Applicable Law” applies. An applicable law can excuse a non-debtor from acceptance of contractual responsibilities towards a debtor or DIP.²⁰³ (See chapter 26.3 hereunder.)

24.4 The Lubrizol Enterprises, Inc. versus Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Circuit, 1985).(Lubrizol)²⁰⁴

Lubrizol from 1986, is certainly the most notably case on file. It concerns the rejection of an executive IPRs licence. The case started when an officially appointed Bankruptcy Trustee rejected an executory IPR licence and the US Supreme Court refused to review the case. This decision lead to great consternation throughout the High Technology Industry in the US, also causing widespread anxiety within the IP community. Licensees’, who were highly dependent on specific technology, predicted and expected licensors in bankruptcy would, in the future, exercise the right to rejection under section 365. Even escrow agreements could have been the subject to rejection, and as these are in common use in the computer industry, they could also loose the right to the technology in the event of a bankruptcy.

In the Lubrizol case, Richmond Metal were the owners of a unique metal coating process, that had granted Lubrizol a non-exclusive licence to use their industrial trade secret process. One-year after the licence had been granted, Richmond filed for bankruptcy. The bankruptcy trustee applied to the court for authorisation to reject the licence contract. The bankruptcy trustee’s argument was that the agreement in question was in fact an executory contract, as it required Lubrizol to pay royalties. The contract also contained an indemnification clause that favoured the licensee. The bankruptcy trustee concluded by arguing that the technology covered by the agreement could be more profitably exploited by appointing other licensees.

²⁰⁰ USC, Title 11, Chapter 3, Section 364.

²⁰¹ USC, Title 11, Chapter 5, Sections 547, 544(b), 548, 544(a).

²⁰² Brozman, Seamon, Bankruptcy and Intellectual Property, p3f.

²⁰³ Brozman, Seamon, Bankruptcy and Intellectual Property, p5.

²⁰⁴ Shpizner “Congress passes New Legislation protecting Licensees of Intellectual Property”, p1f, and “Amendment to Bankruptcy Act reduces Licensee’s risks in Technology License Arrangements, p1f.

As stated in chapter 24.3 herein, pursuant to the Bankruptcy Code 11 US Code, section 365, a bankruptcy trustee is authorised to (with court approval) to reject an executory contract if termination of the contract could favour the debtor's bankruptcy estate (in the bankruptcy estate's opinion). Firstly, the court stated that the licence contract was executory since both parties had continuing obligations due to the agreement. Concerning Lubrizol, the court stated that the contract was executory since Lubrizol was required to pay royalties and to give sales reports among other things. Concerning Richmond since that party had obligations to honour a most favoured licensee clause and to secure/indemnify Lubrizol against infringement claims. Secondly, the court approved rejection of the licence contract, since the rejection would benefit the debtor according to the bankruptcy trustee's judgement, there were no reason to believe otherwise and there were neither any bad faith by the bankruptcy trustee. Thus, Lubrizol was left with no rights to the technology and instead Lubrizol only had an unsecured request against Richmond for breach of the licence contract.

24.5 Structures for avoiding the Concept of Executory Contracts

When several potential licensees realised that they were not protected against a possible bankruptcy of a licensor, they started to request that the actual transactions should instead be structured as sales or assignments, for avoiding falling under the concept of executory contract. This especially in the nowadays common situation where a licensee is a large company not willing to take the risk of entering into a licence agreement with a more financially insecure licensor. What is important is that licensing is often much more advantageous to an originator of technology than a sale.²⁰⁵

24.6 Result of Congress Action

Considering the above-mentioned Lubrizol Case let us look at the changes that came after through Congress. Congress quickly provided special protection on behalf of IPR licensing, by enacting the New Intellectual Bankruptcy Protection Act of 1988 through adding section 365(n) of the Bankruptcy Code. It has had the effect of encouraging protection for technology licensing, and even in leaning support to the whole technology industry in the US.²⁰⁶

The changes to the law only apply to the terms of agreements classified as executory. (See chapter 24.3 herein) These new requirements are applicable to agreement of any bankrupt debtor under US law, and thereby even apply to international companies and individuals where the licence agreements are governed by foreign law.²⁰⁷

The purpose of the law can be said to have reached its goal by providing an adequate protection for a licensee so that a licensee can continue to protect and use the rights of the licence agreement even through and after the bankruptcy of a licensor.²⁰⁸ All that glitters is not gold, and there are some negative effects attributable and deriving from this law. I will return and discuss these further on in the paper.

²⁰⁵ Amendment to Bankruptcy Act reduces Licensee's Risks in Technology License Arrangements, p2.

²⁰⁶ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p2.

²⁰⁷ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p4f.

²⁰⁸ Shpizner, Congress passes New Legislation Protecting licensees of Intellectual Property, p2.

25 The Intellectual Property Bankruptcy Protection Act of 1988 Public Law No. 100-506. (IPBPA), i.e., The Bankruptcy Code 365 (n)(The Act)

25.1 In General

In October 1988, President Ronald Reagan signed the Intellectual Property Bankruptcy Protection Act, Public Law No.100-506, (the Act), that took immediate effect upon signing. The Act amended the Bankruptcy Code 11 USC, section 101 et seq., and added a new subsection no. 365(n) to regulate licensing of intellectual property that included patents, copyrights, trade secrets and mask works^{209 210}.

The act had even an important impact on licensing transactions that include IPRs. The act was primarily designed to regulate the effects of bankruptcy law cases by providing a bankrupt licensor or a bankruptcy trustee, the possibility of rejecting an executory licence of an IPR. The act was a direct response to the controversial judicial interpretation of Section 365 of the Bankruptcy Act.²¹¹

We can also say that a licensee is now allowed to continue to use the contracted licensed property, despite a rejection by a bankrupt debtor.²¹² The Intellectual Property Bankruptcy Protection Act has reversed the balance of power between a licensor in bankruptcy and a licensee. However, the Act only addresses the judicial situation of a bankrupt licensor, not a bankrupt licensee.²¹³

25.2 The Act²¹⁴

25.2.1 A Summary of the Act

Pursuant to section 365(n) an IP licensee cannot be dispossessed of the rights and advantages of the agreement following the bankruptcy of a licensor. If a debtor in possession or a bankruptcy trustee should reject an IPR licence, then a debtor licensor is forthwith released from any performance or future obligations.

In the event that a debtor or a bankruptcy trustee rejects an IPR licence, then a licensee can proceed as follows:

- a. Use the right to terminate the licence in question forthwith after rejection, and thereafter pursue an unsecured claim for compensation for breach of contract, (this was even possible before the act),²¹⁵
- b. Decide to retain the rights pursuant to the licence agreement and continue to follow the conditions, provisions and obligations thereunder and thereby to keep the right to use the licence.²¹⁶

²⁰⁹ Semiconductor Chip Designs are defined as Mask Works.

²¹⁰ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p1f.

²¹¹ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p1ff and Amendment to Bankruptcy Act reduces Licensee's Risks in Technology License Arrangements, p1f.

²¹² Brozman, Seamon, Bankruptcy and Intellectual Property, p6.

²¹³ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p1ff and Amendment to Bankruptcy Act reduces Licensee's Risks in Technology License Arrangements, p1f.

²¹⁴ **The Act, Section 365 (n) can be found under the following internet address:**

www4.law.cornell.edu/uscode/11/365.html

²¹⁵ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p1ff, and Michelson, Bankruptcy and Licensing, p2.

²¹⁶ Michelson, Bankruptcy and Licensing, p2.

25.2.2 Advantages provided by the Act²¹⁷

The following points can be said to be the positive structure provided by the Act, namely:

- a. Section 365 (n) gives a structure and order before the law and encourages improvement and development of IPRs in the global marketplace,
- b. Section 365 (n) provides protection for a licensee to continue using contracted IPRs and continue normal business practises,
- c. Section 365 (n) provides technology licensees with added protection by allowing certain licensees to maintain their contract rights in a licensed IPR, regardless of a licensor's rejection of a licence agreement.

25.2.3 Limitations

However, as I mentioned before, all that glitters are not always gold, and there are certain limitations and disadvantages surrounding this Act. I will discuss the disadvantages in chapter 25.7 hereunder. A limitation is that a licensee can only keep the rights and licences that were contracted at the time of the filing for bankruptcy. As a result, licensees should be very careful to ensure that at signing of a licence agreement that all conditions relating to the usage of the licence are included within, and should cover all necessary issues, for example source codes and maintenance rights. This should apply even when the delivery of the IPR shall take place after bankruptcy proceedings have begun.²¹⁸

25.3 Practicalities

A licensor filing for bankruptcy can intentionally or unconsciously be in breach of a licence agreement before rejection. This usually occurs by the non-fulfilment of the agreed access to support or technology, and even by a re-licensing of an IPR to a third party without permission. Pursuant to section 365(n), of the Act, such actions are directly in violation of legislation and a licensor can be subject to a claim for damages that may involve considerable compensation.²¹⁹

We should keep in mind that whilst the Act primarily grants protection to IPR licensees, it also represents a compromise between competing interests, and does not wholly annul the rejection power of a bankruptcy trustee. A licensor is strictly forbidden from interfering with a licensee attempting to retain their rights. A licensor is also relieved of all the contractual service obligations pursuant to the licence agreement. That means that a licensor does not have to provide such services and obligations as maintenance, support, training, consultation, and technological improvements. Without the availability of these services the rights to use the technology may be of little economic value if there is no support from the licensor.²²⁰ (See also chapter 13.2 herein.)

25.4 Limbo Rights

The Act, section 365 (n)(4), even provides protection for a licensee during the period between the licensor filing a petition for bankruptcy and a bankruptcy trustee's decision to reject a licence agreement. This period is called the period of "Limbo", and may be a period of long duration.²²¹

²¹⁷ Michelson, Bankruptcy and Licensing, p8f.

²¹⁸ Michelson, Bankruptcy and Licensing, p2f.

²¹⁹ Michelson, Bankruptcy and Licensing, p3.

²²⁰ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p3.

²²¹ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p3, and Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p4.

25.5 Can a Licensor be exempted from section 365 (n)?

If a licence agreement can be deemed to be a non-executory contract then it may be exempted from section 365 (n). It must be said that is very unusual and seldom occurs. However, a licensor can make an agreement non-executory by restricting the obligations and responsibilities by the licensor pursuant to the contract. If the only obligation in the agreement should concern remuneration then the contract may also be considered to be non-executory. The restriction of obligations in an executory licence agreement can be performed by fulfilling all of the required obligations as stated in the agreement, or by the agreement itself ceasing to exist or by fulfilling all the required obligations except in regard to the payment of monies.

There are even instances of Court rulings stating that those contracts where one party does not have obligations after the signing of the agreement are not to be considered as executory. However, it is fair to say that the majority of licence agreements are to be considered executory, mainly because they usually contain several obligations, such as remuneration, indemnities, service, support, maintenance etc.²²²

25.6 Can a Licensee be exempted from section 365 (n)?

The licensee may try to avoid rejection of a licence agreement thereby achieving exemption. The Licensee could try to avoid rejection by demanding a transfer of an IPR. However, this is not easy and the main difficulty is that a licensee, if the licensor is in bankruptcy, may decide to continue using the IPR even though a debtor as licensor has already rejected the agreement. In this case the licensee will then have an obligation to pay royalties to the licensor. To avoid royalty payment for services that have not been used, a licensee can by defining the obligations and costs required in the agreement specify each cost against each service used, and thereafter separate them from the payment for the use of technology.²²³

25.7 Disadvantages of the Act

Whilst the Act is in my opinion a very positive step in the right direction to organise and provide protection in the areas most needed it does leave some small questions unanswered.

Trademarks and Trade Names are not included or defined as IPRs in the Act, as a result of the requirements laid down by the US Trademark Association. The absence of Trademarks creates several complicated questions related to dealing with the mixed licensing of trademarks and other IPRs.²²⁴ We can therefore come to the conclusion that the Act does not completely meet its goals in regard to structuring, organising and confidence in the new world of technological licensing.²²⁵

The Act also fails to effectively address the rights of licensors and licensees in many complicated but common business situations. For example where there are numerous levels of licensees cross-licensing or planning joint venture agreements.²²⁶ This can be a challenge for IP Lawyers!

²²² Michelson, Bankruptcy and Licensing, p5ff.

²²³ Michelson, Bankruptcy and Licensing, p9.

²²⁴ Amendments to Bankruptcy Act reduces Licensee's risk in Technology License Arrangement, p2.

²²⁵ Shpizner, Congress passes New Legislation protecting Licensees of Intellectual Property, p3.

²²⁶ Amendments to Bankruptcy Act reduces Licensee's risk in Technology License Arrangement, p2 f.

Finally, the Act does not deal with the unanswered question: What are the rights of a licensee under a distribution agreement regarding the granting of rights to sublicense?

26 A Licensor's Perfected Property Rights in a Licensee's Bankruptcy.

As mentioned in chapter 18.2 herein, generally speaking, an IPR under a licence agreement will become the property of the bankruptcy estate of a licensee.²²⁷ The Act is not applicable when it is the Licensee who is the debtor.

26.1 Ipso Facto Bankruptcy Clauses

26.1.1 What is an Ipso Facto Clause?

An “ipso facto” bankruptcy clause is a clause included in a licence agreement authorising a licensor to terminate the licence in the event of:

- a. A judgement from a Court confirming the insolvency of a licensee or upon a licensee filing a petition for bankruptcy, or
- b. A licensee failing to maintain a the specific financial payments specified in the agreement, or
- c. A realisation or execution of the assets of a licensee or if at any time the liabilities of a licensee exceed the assets.²²⁸

26.1.2 The Purpose of Ipso Facto Clauses Prior to the New Amendments

Prior to the new amendments, the main purpose served by including an ipso facto clause in the licence agreement was to hinder any future bankruptcy trustee of a licensee in bankruptcy from acquiring any interest in a licence. It was the further thought that the clause would prevent receivers and bankruptcy trustees from continuing to use a licensed patent or copyright during the period following the licensee filing a petition for bankruptcy. This could give a licensor a small chance of recovering the full amount of royalties which would become payable during the said period.²²⁹

26.1.3 Ipso Facto Clauses After the New Amendments

Under the new amendments of the Bankruptcy Act, any bankruptcy trustee of a licensee in bankruptcy is allowed to assign a licensor's licence to any third party, irrespective of whether or not a licensor agrees. The said third party could have been a competitor to the business of the licensor who could now gain unlimited accesses to the rival IPRs in question.

Specifically, the new amendments provide that when a party files a notice of a proposal, or files an actual proposal, no person or persons may thereafter terminate or amend the agreement even if the said party becomes insolvent. Pursuant to the new amendments in the US Bankruptcy Act, the ipso facto clause has become obsolete. A creditor can no longer retain any IPR that comprise part of the

²²⁷ Michelson, Bankruptcy and Licensing, p2.

²²⁸ Horne, D, Bankruptcy of a Licensee, A Licensor's Nightmare, p1 f, and Bierce & Kenerson, P.C. Ipso Facto Clauses in Contracts, Outsourcing Law, Insights on Effective Outsourcing.

²²⁹ Horne, Bankruptcy of a Licensee, A Licensor's Nightmare, p1 f.

bankruptcy estate of the debtor.²³⁰ Section 365(e) invalidates the bankruptcy ipso facto clause and a clause in an IPR licence will automatically become void and is therefore unenforceable.²³¹

However, pursuant to US Code, title 11, chapter 3, section 365(b), an ipso facto clause may under certain special circumstances that I will not go into here, allow a service provider, that is not a specified utility service provider, to terminate that part of the contract that is relevant.²³²

26.1.4 Section 541 (c) of Title 11 of the US Code – Property of the Estate

In section 541 (c) although the ipso facto clause is not mentioned by name, the legislation regarding property belonging to an estate will follow the same principle as above. I.e. an interest of a debtor will become the property of the bankruptcy estate irrespective of any clause or provision in the agreement or applicable non bankruptcy law that restricts or conditions any transfer of such interest by a debtor, or that is conditioned on the insolvency of the debtor.

26.1.5 How can a Licensor Receive Protection without an Ipso Facto Clause?

To prevent a bankruptcy clause from becoming void and unenforceable, a licensor must take great care and attention to assure that all termination clauses either detached or independent shall be separated within licence agreement. If anyone of these detached clauses should be deemed void and unenforceable, this should be independent of all other clauses contained within the agreement. Further, if a licensor wishes to retain some control of an IPR in the case of a licensee becoming insolvent, then great care and attention should be taken when drafting the termination clause. They should not be dependent solely upon insolvency, a filing of a proposal, or a filing of a notice of intention.²³³

26.2 Payment is the Primary Concern of a Licensor

In an event of a licensee filing for bankruptcy, the primary concern of a licensor is payment. If the licence agreement in question is classified as executory, and a licensee requests a continuation of the said agreement then it will force a licensee to assume the licence. Thereby the assumption will require a licensee to cure any monetary breach, until a licensor has been fully paid.

If a licence is rejected, then a licensee always has the right to terminate the agreement and thus give up the economical benefits of a licence or choose between foregoing the IPRs included within the conditions of the licence agreement. Following praxis, a licensee will normally delay any decision to assume or reject a licence and thereby can continue to use the IPR in question without having to pay a royalty or other compensation to a licensor.²³⁴

²³⁰ Bierce & Kenerson, P.C. Ipso Facto Clauses in Contracts. OUTSOURCING LAW Insights on Effective Outsourcing.

²³¹ Horne, Bankruptcy of a Licensee – A Licensor’s Nightmare, p1f.

²³² Bierce & Kenerson, P.C. Ipso Facto Clauses in Contracts. OUTSOURCING LAW Insights on Effective Outsourcing.

²³³ Horne, Bankruptcy of a Licensee – A Licensor’s Nightmare, p1f.

²³⁴ Agin, Warren E, Drafting the Intellectual Property License: Bankruptcy Considerations, p592f.

26.3 The Transfer of a Licence

A difficult and complicated question!

26.3.1 Is the Transfer of a Licence without Consent allowed?

The main concern of a licensor is usually concerned with the control of a licensed IPR. A licensee in bankruptcy may assign an IPR licence to a third party who may well be a competitor or potential customer of the licensor, this in spite of the restrictions imposed by the licence agreement.

However, this right is not to be seen as absolute.²³⁵ If a licence is classified as an executory contract, then the Bankruptcy Code, may allow a transfer of the licence without the direct consent of the licensor.²³⁶

26.3.2 Applicable Non-Bankruptcy Law

Section 365(c)(1)(A) provides an important exception to the rule regulating the transfer of a licence. Instead of defining specific instances where a licence may not be assigned, the Bankruptcy Code instead prohibits the assignment of a contract where applicable non-bankruptcy laws (not in contractual terms) excuse a non-debtor party of a licence agreement from accepting performance from an assignee.²³⁷ To simplify, the Bankruptcy Code²³⁸ even takes into consideration other judicial non-bankruptcy laws, both statutory and judicial, to help determine whether or not a compulsory assignment of contract rights should be allowed.²³⁹

The clearest example where the law will prohibit the assignment of a licence agreement is where the agreement can be defined as “a personal service contract”.²⁴⁰ (See chapter 26.3.3 hereunder.)

26.3.3 An Exception - A Personal Service Contract

A court will not allow assignment of a “personal service contract”. This is where a debtor cannot assign a licence agreement because the other party will not accept a service or performance from anyone else than the debtor.

Jones and Pantaleo provide the following example: “*Pavorotti may not assign to Smith his contract to sing even if the contract is silent.*”²⁴¹ When the court shall decide what constitutes a personal service contract, they have to determine whether or not the agreement requires special knowledge or skills, judgement, taste or ability.²⁴² Thus, such a personal service contract may not be assigned without consent from the non-debtor.²⁴³ Smith can of course not sing or perform as well as Pavorotti and therefore Pavorotti’s agreement as a licensor is a prerequisite to the signing of a personal service contract.

²³⁵ Agin, Drafting the Intellectual Property License: Bankruptcy Considerations, p594.

²³⁶ US Code, Title 11 (Section 365(f)(1)).

²³⁷ Agin, Drafting the Intellectual Property License: Bankruptcy Considerations, p594.

²³⁸ US Code, Title 11, section 365(c) 1 (A)

²³⁹ Agin, Drafting the Intellectual Property License: Bankruptcy Considerations, p594.

²⁴⁰ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p6.

²⁴¹ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p6.

²⁴² Brozman, Seamon., Bankruptcy and Intellectual Property, p5

²⁴³ Jones, Pantaleo, An Overview of Intellectual Property Licenses and Bankruptcy, p6.

26.3.4 Non-exclusive Patent Licence

Generally speaking we can consider non-exclusive patent licences as executory contracts. However, federal patent law overrides the policy of the Bankruptcy Code with regard to free assignability. Thus federal patent law is to be considered as the applicable law for the purpose of section 365; and under the said patent law, a licensee may not assign a licence without the direct consent of a licensor or the proprietor of the patent.²⁴⁴ The US Courts have almost uniformly upheld this and non-exclusive patent licences have not been allowed to be assignable in bankruptcy cases, without the consent of the licensors in question.²⁴⁵

It is interesting to see how the US Courts have dealt with just these problems. The following two cases and rulings were taken from Kennedy and Moyer:²⁴⁶

- a. In the Case *Everex Systems, Inc. v. Cadtrax Corp.*²⁴⁷ the Courts stated as follows: “*as a matter of federal law, a non-exclusive patent licence could not be assigned without the consent of the licensor, notwithstanding the general assignability of executory contracts in bankruptcy proceedings*”
- b. In the case *Perlman v. Catapult Entertainment*,²⁴⁸ the Courts went a step further than in the *Everex* case by stating: “*under section 365(c)(1), Catapult, a Chapter 11 debtor, could not assume the patent licences granted to it by a patent licensor because federal patent law makes nonexclusive patent licences personal and nondelegable and the patent licensor had not consented to an assignment.*”²⁴⁹

As we can see the applicable law is a Federal Common Law Principle mainly because a non-exclusive patent licence is of a personal character and includes a restriction to further assignment. Agin states that this even applies to copyright licences, which are also considered to be personal in nature as seen from the perspective of an IPR.²⁵⁰

Two recent decisions from the US Circuit Courts concluded that patent licences are non-assignable. The later of which is: *Institut Pasteur v. Cambridge Biotech Corp.*²⁵¹ However, the emphasis in the *Pasteur* case was centred on the limitations of this protection.²⁵² (See chapter 26.3.5 hereunder.)

26.3.5 Institut Pasteur versus Cambridge Biotech Corp.²⁵³

Pantaleo and Jones give a quick description of the case. The DIP assumed a patent licence and consequently tried to transfer the right to a competitor of the licensor, using a plan for reconstruction as a cover. This was unacceptable to the patent holder as no respect was shown for the terms of restriction in the licence agreement. The first Circuit Court rejected the claim of the patent holder, ruling that the agreement did not prohibit a transfer of the licence. They continued by saying that the debtor should be allowed to continue normal business operations unhindered and that the planned reorganisation was fair and just. The court took precedent from the *Alltech* case, and reversed the outcome. The *Alltech* case concerned a trustee who tried to sell stock owned by a

²⁴⁴ Brozman, Seamon, Bankruptcy and Intellectual Property, p5.

²⁴⁵ Agin, Drafting the Intellectual Property License: Bankruptcy Considerations, p594.

²⁴⁶ Kennedy, Moyer, Structuring Deals involving Significant Intellectual Property Assets, p8.

²⁴⁷ *Everex Systems, Inc. v. Cadtrax Corp. (Re CFLC, Inc.)*, 89 F.3d 673, the 9th Circuit Court 1996.

²⁴⁸ *Perlman v. Catapult Entertainment (In re Catapult Entertainment)*, 165 F.3d 747 (9th Circuit 1999).

²⁴⁹ Kennedy, Moyer, Structuring Deals involving Significant Intellectual Property Assets, p8.

²⁵⁰ Agin, Drafting the Intellectual Property License: Bankruptcy Considerations, p594.

²⁵¹ *Institut Pasteur v. Cambridge Biotech Corp. (Re CFLC, 89 F.3d 673 9th Cir. 1996)*.

²⁵² Pantaleo, Jones, An Overview of Intellectual Property Licenses and Bankruptcy, p6 f.

²⁵³ Pantaleo, Jones, An Overview of Intellectual Property Licenses and Bankruptcy, p6.

debtor corporation that had ceased operations and was just an empty shell holding on to the patent licence in question. The court ruled that this was a forbidden assignment.

26.3.6 Concerning Copyright Licensing²⁵⁴

I can only find one precedent under the Bankruptcy Code relating to Copyright Licensing and section 365(c)(1). It ruled that according to federal copyright law and section 365(c)(1), copyright licences cannot be assumed and assigned in bankruptcy proceedings without the consent of a licensor.

Kennedy and Moyer have made reference to this case, Patient Educ. Media Inc.²⁵⁵

They state that the ruling was as follows: *"A Chapter 11 debtor licensee could not assign under Bankruptcy Code Section 365 a non-exclusive licence of copyrighted photographs, finding that the general rule of assignability under Section 365 must give way to the countervailing considerations of the federal policy designed to protect the monopoly of copyrights owners."*²⁵⁶

²⁵⁴ Kennedy, Moyer, Structuring Deals involving Significant Intellectual Property Assets, p8.

²⁵⁵ Patient Educ. Media Inc., 210 B.R.237 (Bankr. S.D.N.Y.)

²⁵⁶ Kennedy, Moyer, Structuring Deals involving Significant Intellectual Property Assets, p8.

What Protection is afforded a Licensor or a Licensee with regard to Perfected Property Rights in Bankruptcy?

PART V

27 Analysis and De Lege Ferenda

The question of whether the principle, “Loss of right to use through acquisition,” or the principle of priority or agreement should apply, has been the main theme throughout this paper. It has been the tradition in Sweden to use the principle, “Loss of right to use through acquisition,” as soon as a bankrupt estate is seen to comprise one or more IPRs. As I have shown, an IPR can be sold to an unconcerned third party who can then immediately terminate a licence agreement that in turn can cause many problems to innocent third parties who are not directly concerned with the actual bankruptcy itself.

However, times are changing, and I am personally opposed to using the easy way out. I firmly believe that in the enlightened world of today, the Principle of Priority should be judicially accepted and legislated in Sweden. The rights of the licensee would be protected, and the licence agreement would remain as a working asset in the bankrupt estate of a licensor. If the licence agreement is subsequently realised as an asset to a third party, it should be the lawful duty of the third party to continue to honour the licence agreement towards the licensee.

The right of use has obtained a totally different financial and economic importance during the last decades. We should not try to hinder development, especially in the area of law and legislation. Instead we must follow exciting development, and be open to meet new problems with new ideas and new legislation. Today a licence agreement can represent enormous values to a business. It is often of great importance to maintain a licence agreement to be able to develop and exploit a new invention.

This theory finds support through an analogy of pledging of a patent to licensing of a patent. As I have discussed, perfected property rights of a licence with a right to use a patent and registered trademark are partly legislated and connected to the rules concerning the registered right of pledge. The meaning of the legislation regarding a registered right of pledge, is that a licence agreement that was concluded before the application for registration of a pledge contract is valid against the pledgee. The legislation also reads that a licence agreement that is valid against a pledgee shall remain in force after the pledged patent or patent application has been sold upon distraint or bankruptcy.

We have also looked at Judicial Preparatory work that strongly recommends that a licence right through agreement alone shall be given precedent over a later completed right of pledge, and the said licence right shall remain in force against an acquirer after the pledge has been sold. It should then be deemed that the licence right is perfected against any acquirer of the said property where a right of pledge has been granted.

Last but by no means least, the question remains, is it reasonable that a licence right should obtain perfected property rights against a future completed grant of pledge, but not against a future completed acquisition of proprietor right? I firmly believe that this should not be the case, especially as a grant of pledge has precedent over an acquisition of a proprietor right! These licence rights should not just apply to patents and registered trademarks, but even to all IPRs.

To summarise, my opinion, based on the above mentioned, is that the traditional principle, “Loss of right to use through acquisition”, should no longer gain precedence over the principle of priority as I believe this to be the most fair and just method. This solution would not only allow a bankruptcy trustee to maximise and realise the assets of an IPR in bankruptcy, but would even protect the rights of any or all third parties who are concerned and contracted partners to the purchased licence agreement.

As we have seen in Part IV, the US has had protective legislation in this field since 1988 that has provided technology licensees with added protection by allowing certain licensees to maintain their contract rights in a licensed IPR, regardless of a licensor’s rejection of a licence contract. There is still no legislation available in Sweden today and this must change within the near future. I believe that we should follow the example of USA and legislate.

After considering the above mentioned discussion and arguments, and also using feedback and experience taken from the legislation available through the US Act, I believe a law can be passed regarding the Principle of Priority. The law should be aimed specifically at the protection of the rights of a licensee and other affected third parties. Here is a suggestion of how the text could be formed to meet the requirements of Swedish legislation:

In a situation where a bankruptcy trustee rejects an active licence agreement of to which a debtor is the licensor of a right to an intellectual property, then the licensee is allowed to decide whether:

- a. To treat the licence agreement as terminated, under provision that the licensee has been authorised to terminate the contract through the terms of the said agreement, or
- b. To retain the rights specified under the licence agreement intact as they were prior to entrance into bankruptcy and this for the total duration of the said agreement, and for any period that the said agreement may be extended by a licensee.

My recommendation to legislation continues through the following sections:

If a licensee decides to retain the rights under the licence agreement, as provided in section (----) and pursuant to the said agreement, then:

- a. A bankruptcy trustee shall allow a licensee to exercise such rights;
- b. A licensee shall continue all royalty payments due under the time stipulated in the said agreement and even for any period that is described in section (----) or to which a licensee may extend the agreement.

However, I would like to emphasise that this suggestion to legislation should apply only to IPRs, not to other movable property that may be subject to agreements regarding the right to use.

With regard to the perfected property rights of a seller of an IPR, it is my opinion that one has to be cautious when interpreting SA and applying it to IPRs.

It appears to be clear that when a seller has sold an IPR and made a reservation to cancel, then the seller has the right to separate and the right to cancel in a bankruptcy estate of a purchaser. This is under the provision that the purchase price has not been paid, and that the bankruptcy estate does not enter into the agreement.

However, when a seller has not made any reservation to cancel, it is not clear whether or not the seller has the right to separate or cancel! There are arguments for those cases where a reservation to cancel has not been made, that we should consider and use an IP analogous to SA, section 54, paragraph 4, as an IPR cannot be in the possession of any person or persons. The consequence of this is that a seller of an IP can only retain a right to cancel until such time as a purchaser has obtained the possibility to use the IPR with the approval of the seller. Corresponding to what I have stated above concerning the rights of a licensee, that an IPR agreement today can represent a large investment and value. Therefore one of the main reasons for applying IPR analogous to SA, section 54, paragraph 4, is that there should be protection for the investment costs of a purchaser, and therefore any deterioration in value can be avoided.

Therefore it is my belief, that a seller of an IPR should not be able to obtain a right to separate and cancel just based on a delay in payment from a purchaser. Instead, I believe that analogous to SA, section 54, paragraph 4, a right to cancel should only remain until such time as a purchaser has taken the said IPR in possession with the approval of the seller. If we now presume that what I have stated will be accepted and approved in the future by concept or legislation, then any “Ipso Facto” clause will consequently be null and void as it is in the US.

In regard to the perfected property rights of a licensor, it appears clear that a licensor has a right to separate an IPR. However, it is also fairly clear that the bankruptcy estate of a licensee or a publisher has the right to fulfil the agreement together with, “a responsibility of the bankruptcy estate”, where the licensor is requesting compensation, and the IPR, “has been entered into”.

Regarding the rights of a licensor, there are theories regarding perfected property rights in publishing that are considered to be valid even for patent licence agreements.

A separating party’s perfected property rights regarding copies cannot be seen to extend further than to the consumption point. In Case NJA 1966 p241 the bankruptcy estate’s sale of copies was not considered to be an infringement of the authors distribution rights, because the sale was seen as part of the distribution rights in accordance with the publishing contract. In addition, the authors claim for compensation for royalties was deemed to have arisen through the publishing contract before bankruptcy and could therefore not be considered as “ a claim against the bankruptcy estate”. The Courts made this decision in 1966, when the consumption point was still determined by a publishing criterion. Today under the legislation of CA, section 19, the consumption point is determined instead by the initial transfer of a copy. This is the same in German Law, that further state that continued production of a bankruptcy estate and sale of copies should be allowed, providing that a bankruptcy estate has entered into the agreement with “ a responsibility of the bankruptcy estate”. However, authors generally do not tend to share the same opinion regarding the effects that the change in legislation determining the consumption point has on the possibility for a bankruptcy

trustee to sell stock in hand that at the time for a bankruptcy was in the possession of a debtor. The question is what will apply in regard to the perfected property rights?

I believe that even here we should closely follow the global development being made by other countries, especially in Europe. I agree completely with the statement made by Möller after the new legislation regarding the consumption point and concerning the case of 1966. He comments that the authors in the case of 1966 should now have been able to stop the bankruptcy trustee of the publishing house from using the distribution right to the unsold stock in hand by cancelling the publishing contract under the provision that the bankruptcy estate does not undertake “a responsibility of the bankruptcy estate”. I believe this to be the most fair and just solution, and this is also the solution chosen under German Law.

I am aware that if the recommended changes should have an effect on bankruptcy law then the position of an originator would considerably improve compared to other creditors. It would also have the effect that a bankruptcy estate would not be able to transfer stock in hand without the consent of an originator. For me it is a positive result if the protection of an originator or inventor should be improved. This would almost certainly stimulate the creation of inventions, works, art and music.

The consumer world of the 21st century is in constant need of new ideas, inventions and evolving technology. This unstoppable process will in turn result in the development of more licensing agreements and ownership constellations. Inevitably there will be a large part to play for the legal profession in both the construction of such agreements and the representation of clients in conflict. I personally believe that it is of the utmost importance that we in Sweden should be competent and endeavour to protect the rights of these most important originators and inventors. Another reason for the protection of inventors and originators is that they all are creators, meaning that it is not just an economical and financial factor involved. Instead there is also a non-commercial commitment or ideal right that we all must take responsibility for. It should therefore be acceptable for inventors and originators to attain a form of preferential right. This would happen automatically if the change of legislation concerning the consumption point would also be permitted within the law of bankruptcy.

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