

**WHY THE ASSIGNABILITY OF INTELLECTUAL PROPERTY  
LICENSES IN BANKRUPTCY MIGHT NOT BE SETTLED AFTER ALL**

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INTRODUCTION

By assuming, or assuming and assigning, executory contracts, debtors can preserve valuable agreements through a bankruptcy process, unlocking significant value for the estate.<sup>1</sup> The Bankruptcy Code, however, does not permit the debtor to assume or assign contracts that may not be assigned to a third party under "applicable" non-bankruptcy law.<sup>2</sup> Identifying whether contracts are non-assignable as a matter of statute, state or federal common law can be critical in modern bankruptcy cases.<sup>3</sup> Personal services contracts and, increasingly, nonexclusive intellectual property licenses are held up as quintessential examples of contracts that are not assignable under applicable law and therefore cannot be assumed or assigned in bankruptcy.<sup>4</sup>

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<sup>1</sup> See Offices of The United States Attorneys, *60. Executory Contracts in Bankruptcy -- Assumption and Rejection*, THE UNITED STATES DEPARTMENT OF JUSTICE (Feb. 21, 2009, 8:03 PM), <https://www.justice.gov/usam/civil-resource-manual-60-executory-contracts-bankruptcy> (stating that the decision to assume a contract allows that contract to operate without changing the obligations of the parties, unless as explicitly provided by the Bankruptcy Code).

<sup>2</sup> *Id.*

<sup>3</sup> See David M. Fournier & Anne Marie Aaronson, *'Unassumable' Executory Contracts — Surviving the Ride through Bankruptcy*, CORPORATE RESTRUCTURING AND BANKRUPTCY UPDATE 9 (Pepper Hamilton, LLP 2008) (stating that the ability to assume or reject executory contracts allows debtors flexibility in ensuring that their complement of such contracts satisfy their overall restructuring objectives).

<sup>4</sup> Sometimes, licenses are treated differently in this context depending on whether they are exclusive or nonexclusive. In particular, some courts have held that an exclusive copyright license is assignable under applicable law because it conveys an ownership interest to the licensee. See *In re Golden Books Family Ent'mt., Inc.*, 269 B.R. 311, 314 (Bankr. D. Del. 2001) ("Does copyright law preclude the free assignment of the Madeline Agreement? Courts have generally found that the answer to this question turns on whether the license is exclusive or nonexclusive.").

Early cases addressing the assignability of nonexclusive intellectual property licenses involved copyrights and patents and consistently held that the assignability of these licenses was a matter of federal common law, prohibiting assignment without the licensor's express consent.<sup>5</sup> Following these decisions, the bankruptcy bar waited expectantly to see if the courts would extend the same treatment to trademark licenses<sup>6</sup> as there was some reason to believe courts would not. For example, the Supreme Court of the United States recognized "fundamental differences" between patent and copyright law on the one hand, and trademark law on the other.<sup>7</sup> Unlike patents and copyrights, there is no Constitutional basis for federal common law in the area of trademarks.<sup>8</sup> However, this question was soon answered by a series of decisions extending non-assignability to trademarks, with federal courts consistently holding that "the policies underlying the sub-licensing rule in patent and copyright law apply with equal force to trademark law"<sup>9</sup> and justify the imposition of a federal common law rule of decision.<sup>10</sup>

Some have argued that it is well settled that nonexclusive patent, copyright and trademark licenses are non-assignable in bankruptcy,<sup>11</sup> however, the law may be less well settled than it appears. Several recent decisions have raised the possibility that a contractual choice of law provision in a license agreement could be interpreted to elect state instead of federal common law,<sup>12</sup> without resolving the issue. Questions about the ability to assume, or assume and assign, intellectual property licenses under state law have not been tested and, based on federal conflicts of law doctrine, could come out either way.

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<sup>5</sup> See *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333–34 (9th Cir. 1984) (stating that under federal copyright law, copyright licenses are not assignable); *Everex Sys., Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673, 680 (9th Cir. 1996) (reaching a similar conclusion regarding patents).

<sup>6</sup> See Neil S. Hirshman, Michael G. Fatall & Peter M. Spingola, *Assignability of Intellectual Property Licenses in Bankruptcy Navigating the Murky Waters of Section 365*, 21 THE AMERICAN BAR ASSOCIATION SECTION OF INTELLECTUAL PROPERTY LAW NEWSLETTER 11, 11 (2002) (stating that the law dealing with assignability of non-exclusive intellectual property licenses is unclear).

<sup>7</sup> See *Sony Corp. of Amer. v. Universal City Studios*, 464 U.S. 417, 439 n.19 (1984).

<sup>8</sup> See Jonathan August, *Collateral for a New Age: IP Security Financing*, LAW360 (May 15, 2014) <https://www.law360.com/articles/535173/collateral-for-a-new-age-ip-security-financing> ("Unlike patents or copyrights that have their origins in the United States Constitution, trademarks have their basis in common law and only exist by the use of that trademark in commerce.").

<sup>9</sup> See *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 993 (9th Cir. 2006).

<sup>10</sup> See *In re XMH Corp.*, 647 F.3d 690, 695–96 (7th Cir. 2011) (relying on *Miller v. Glenn Miller Prods., Inc.*, to state the universal rule that, without the existence of a clause expressly authorizing assignment, trademarks are non-assignable); see also *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 123 (Bankr. D. Del. 2015) (noting that "[s]ubstantial authority" supports that trademark licenses are not assignable under federal trademark law unless expressly authorized by the parties).

<sup>11</sup> See Peter Gillhuly, Kimberly A. Posin & Ted. A. Dillman, *Intellectually Bankrupt?: The Comprehensive Guide to Navigating IP Issues in Chapter 11*, 21 AM. BANKR. INST. L. REV. 1, 26 (2013) ("Courts have almost uniformly held that non-exclusive licenses are not assignable in bankruptcy without the express consent of the licensor.").

<sup>12</sup> *Id.* at 27–29 ("Certain bankruptcy courts have been somewhat liberal in permitting the assignment of exclusive licenses . . . [o]ther courts have interpreted a license that is silent on the issue as permitting assignment.").

## I. MECHANICS OF ASSUMPTION AND ASSIGNMENT IN BANKRUPTCY

The assumability and assignability of executory contracts by the bankruptcy trustee or debtor in possession is governed by section 365 of the Bankruptcy Code,<sup>13</sup> of which two subsections are of special note. Section 365(f) knocks out any anti-assignment provision in the relevant contract, providing that "notwithstanding a provision in an executory contract or unexpired lease" that "restricts or conditions the assignment of such contract or lease, the trustee may assign such contract or lease" if various conditions are met including that the trustee first assume the contract (which requires curing any default) and provide adequate assurance of its ability to perform in the future.<sup>14</sup> In this way, the Code grants significant power to assign contracts that by their own express terms, are designed to prevent assignment.<sup>15</sup>

There is, however, a crucial limitation on the trustee's powers. Recognizing that assumption and assignment of certain contracts would be unfair to counterparties and offend public policy, subsection 365(c) further provides:

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

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; . . . .<sup>16</sup>

In other words, the Bankruptcy Code provides that for the trustee to assume or assign a contract or lease, the contract or lease must be assignable under applicable law. There is currently a circuit split regarding the interpretation of section 365 so far as it pertains to the assumability of a contract or lease. Some courts have held that it establishes a "hypothetical test," so that a contract or lease may not be assumed (or assumed and assigned) if it could not hypothetically be assigned to a third party.<sup>17</sup> Other courts have regarded it as more reasonable to suppose that this section establishes an "actual test" so that a contract or lease may not be assumed

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<sup>13</sup> See 11 U.S.C. § 365 (2012).

<sup>14</sup> *Id.* at § 365(f).

<sup>15</sup> See *id.* at § 365(f)(1).

<sup>16</sup> *Id.* at § 365(c)(1)(A).

<sup>17</sup> See *Perlman v. Catapult Entm't, Inc. (In re Catapult Entm't, Inc.)*, 165 F.3d 747, 750 (9th Cir. 1999) ("The literal language of § 365(c)(1) is thus said to establish a 'hypothetical test': a debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor in possession has no intention of assigning the contract in question to any such third party.").

(or assumed and assigned) if the planned reorganization actually results in the debtor impermissibly assigning the contract or lease in question.<sup>18</sup>

In any event, under section 365(c), the ability of the debtor to assume a contract or lease is a matter of "applicable law," which refers to the non-bankruptcy law governing the contract.<sup>19</sup> But while section 365 dictates that contract terms must be disregarded so far as the existence of any anti-assignment provision, it does not require that all contractual terms should be disregarded entirely.<sup>20</sup> In particular, it does not override provisions identifying the applicable law of the contract.<sup>21</sup> In many cases, the contract in question will contain a "choice of law clause."<sup>22</sup> That choice of law clause is relevant to what applicable law must be given effect. As we will argue, the choice of law between federal common law and state law may well be determinative of whether the agreement in question can be assumed or assigned in bankruptcy.<sup>23</sup>

## II. FEDERAL COMMON LAW

Federal patent, copyright and trademark statutes do not address the assumability or assignability of licenses.<sup>24</sup> In holding that intellectual property licenses are non-assignable under "applicable law," many courts have held "applicable law" in these

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<sup>18</sup> See *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 493 (1st Cir. 1997) (rejecting the hypothetical test and finding that § 365(c) and (e) require a case-by-case analysis as to whether the nondebtor party was being forced to accept performance from a party other than the debtor with whom the nondebtor party contracted with originally).

<sup>19</sup> See *City of Jamestown v. James Cable Partners, L.P. (In re James Cable Partners)*, 27 F.3d 534, 538 (11th Cir. 1994) (explaining that the "applicable law" that § 365(c) refers to must mean "applicable law" other than general prohibitions against assignments and refers to non-bankruptcy law).

<sup>20</sup> See *id.* at 537–38 (explaining that the subsections of § 365 must be read together to determine what constitutes "applicable law" within the meaning of § 365(c)(1) and § 365(c)(2): "[a] statute should be construed so that effect is given to all its provisions, so that no part of it will be inoperative or superfluous, void or insignificant." The court notes, in particular, that § 365(f) states that "applicable law" prohibiting the assignment of executory contract does not necessarily bar the trustee from assigning a contract).

<sup>21</sup> Cf. *In re James Cable Partners*, 27 F.3d 534, 538 (11th Cir. 1994) (interpreting "applicable law" with respect to an executory contract under section 365(c) to mean applicable law other than general prohibitions barring assignment, and concluding that non-bankruptcy law under Tennessee law would apply to the franchise agreement); 11 U.S.C. § 365 (2012).

<sup>22</sup> See *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland* 489 U.S. 468, 470 (1989) (noting that the contract in dispute contained a choice of law provision that stated that the contract would be governed by the law of the place where the project was located); see also *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 123 (Bankr. D. Del. 2015) (noting that the choice of law clause referred to the federal trademark law).

<sup>23</sup> Compare *In re CFLC, Inc.*, 89 F.3d 673, 680 (9th Cir. 1996) (holding that patent licenses were unassignable under applicable federal law without the consent of the licensor), and *In re Trump*, 526 B.R. at 125 (rejecting assignment under applicable federal trademark law), with *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388, 401, 405 (2004) (finding patent license freely assignable under California law).

<sup>24</sup> See *In re CFLC*, 89 F.3d at 678 ("Since the federal patent laws are silent on the question of [patent] licenses and their assignability, a federal rule of decision on assignability is possible only if this is an area 'in which judicial creation of a special federal rule would be justified.'"); see also *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333 (9th Cir. 1984) (looking to federal patent law for guidance on the assignability of copyright licenses).

instances to be federal common law invented to further the goals of federal intellectual property regimes.<sup>25</sup>

The creation of a federal common law in this area remains controversial. In *Erie Railroad v. Tompkins*, the U.S. Supreme Court famously held "[t]here is no federal general common law. Congress has no power to declare substantive rules of common law applicable in a State whether they be local in their nature or 'general,' whether they be commercial law or a part of the law of torts."<sup>26</sup> Many distinguished jurists and commentators have taken this to mean that every federal rule of decision must be directly traceable to some statute<sup>27</sup>—of which there is none regarding the assignment of intellectual property licenses.

Nevertheless, in *In re CFLC, Inc.*, the Ninth Circuit Court of Appeals held that *Erie Railroad* did not prevent the creation of federal common law governing the assignment of intellectual property licenses.<sup>28</sup> The court began by discussing the legal standard for the creation of federal common law, noting that such areas are "few and restricted", and "limited to situations where there is a 'significant conflict between some federal policy or interest and the use of state law.'"<sup>29</sup> It then discussed the public policy concerns animating federal patent law, including the desire to encourage the creation of new technology.<sup>30</sup> Finally, it concluded that a rule of free assignability would undermine this goal by depriving licensors of the ability to control the identity of licensees, and would therefore be "fraught with danger."<sup>31</sup> On that basis, the court agreed with the creation of federal common law in the patent area.<sup>32</sup>

Although cases commonly analyze the public policy grounds in favor of a federal common law rule of decision, they tend not to address what should happen if the relevant agreement contains a choice of law clause that elects state law.

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<sup>25</sup> See, e.g., *In re CFLC*, 89 F.3d at 679 (emphasizing that allowing free assignability of nonexclusive patent licenses would discourage the underlying goal of federal patent policy of promoting creation and disclosure of useful technological advances); *In re Trump*, 526 B.R. at 124 (noting that federal trademark law bans assignment of trademark licenses in order to ensure consistency and uniformity in quality); *In re XMH Corp.*, 647 F.3d 690, 692 (7th Cir. 2011) ("The rule that trademark licenses are not assignable in the absence of a provision authorizing assignment is a similarly sensible default rule.").

<sup>26</sup> *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938).

<sup>27</sup> See Martha A. Field, *The Legitimacy of Federal Common Law*, 12 PACE L. REV. 303, 307 (1992) (discussing views of Justices Powell and Rehnquist as holding "a position that is potentially highly restrictive of federal common law. In fact, if the position were followed consistently, it would make almost all federal common law illegitimate").

<sup>28</sup> See *In re CFLC*, 89 F.3d 673, 679 (9th Cir. 1996) (holding that because the conflict between federal patent policy and state laws would allow assignability, federal law governs the assignability of patent licenses).

<sup>29</sup> *Id.* at 678.

<sup>30</sup> See *id.* at 679 (noting that "the fundamental policy of the patent system is to 'encourage the creation and disclosure of new, useful, and non-obvious advances in technology and design' by granting the inventor the reward of 'the exclusive right to practice the invention for a period of years'" (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150–51)).

<sup>31</sup> See *id.* (describing the negative consequences of free assignability).

<sup>32</sup> See *id.* (resolving the conflict between federal patent policy and California state law by determining that federal law governs the assignability of patent licenses).

Would the chosen state law prevail or would the judicially created federal common law preempt the parties' choice of law? Though cases are largely silent on this question, a few decisions contain intriguing references to choice of law, suggesting that state law should be applied.

In *In re XMH Corp.*, the court held that a trademark license is not freely assignable, reasoning that whether state law or federal law applied, the outcome would be the same.<sup>33</sup> However, in the course of arriving at this conclusion, the court remarked that "[u]nfortunately the parties haven't told us whether the applicable trademark law is federal or state, or if the latter which state's law is applicable (the contract does not contain a choice of law provision) . . . ."<sup>34</sup> This passage suggests that Judge Posner, writing for the majority, thought either that federal common law might not exist in this area or that it could be superseded by the parties' choice of state law.<sup>35</sup>

More recently, in *In re Trump Entertainment Resorts, Inc.*, the bankruptcy court in the District of Delaware held that "[s]ince the Trademark License Agreement is just that, a trademark license agreement, it is clear that the applicable law here is federal trademark law."<sup>36</sup> However, it then proceeded to buttress this conclusion in a footnote stating that "[u]nder the heading 'Governing Law,' the Trademark License Agreement provides that 'ANY QUESTIONS GOVERNED BY THE TRADEMARK STATUTES OF THE UNITED STATES OF AMERICA SHALL BE GOVERNED BY AND DETERMINED PURSUANT TO AND/OR UNDER SUCH STATUTES.'"<sup>37</sup> Here, the court reasoned that federal law governs because the parties themselves elected for the application of federal law in their choice of law provision.<sup>38</sup> If the federal law of assignability automatically preempted a state choice of law, the parties' choice of law clause would have been irrelevant.<sup>39</sup>

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<sup>33</sup> See *In re XMH Corp.*, 647 F.3d 690, 695 (7th Cir. 2011) (noting that the question of whether state or federal law applies is irrelevant because the universal rule is that trademark licenses are not assignable in the absence of a clause expressly authorizing assignment).

<sup>34</sup> *Id.*

<sup>35</sup> See *id.* at 693 (noting that suits over assignments of trademark licenses are deemed to arise under state rather than federal law, even when the trademark is federally registered).

<sup>36</sup> *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 123 (Bankr. D. Del. 2015).

<sup>37</sup> *Id.* at n.7 (emphasis in original).

<sup>38</sup> See *id.* at 124 (stating that parties to a license agreement are free to contract around the default rule, and that nothing in the Trademark License Agreement here indicates that the parties intended to do so).

<sup>39</sup> It is unclear why the court thought the quoted language supported a federal choice of law, since there are no trademark statutes applicable to the assignability of patents. The federal law of trademark assignability is a feature of federal *common* law. It seems that the court opted for a somewhat tortured reading of the governing law provision precisely to avoid the otherwise difficult choice of law issues that the case presented. It is worth noting that the court omitted the first half of the provision in question, which read: "THIS AGREEMENT, THE LEGAL RELATIONS BETWEEN THE PARTIES AND THE ADJUDICATION AND THE ENFORCEMENT THEREOF, SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE SUBSTANTIVE LAWS OF THE STATE OF NEW JERSEY WITHOUT REGARD TO APPLICABLE CONFLICT OF LAW, EXCEPT THAT . . . ." In the absence of any provision to the contrary, this provision arguably should have applied New Jersey law to the question of contract assignability. See Motion of Trump AC Casino Marks, LLC for an Order Modifying the Automatic Stay Pursuant to 11 U.S.C. § 362(d) to Allow Termination of a License

The courts in both *XMH Corp.* and *Trump* were clearly aware of the choice of law issue. However, for different reasons, they both concluded that any potential conflict between federal and state law did not have to be addressed on the facts of those particular cases.

### III. CONFLICT OF LAWS

The results in *XMH Corp.* and *Trump* raise the question of what would happen in a situation in which the parties' contractual choice of law did in fact present an apparent conflict with federal common law. There are three possibilities. The first possibility is that the choice of law clause would be given effect so that state law applied.<sup>40</sup> The second possibility is that federal common law would be held to articulate an important public policy that prevents the parties from electing a competing state law rule of decision.<sup>41</sup> And the third possibility (which amounts to the same conclusion as the second) is that a court would find that, though the parties may be entitled in theory to elect a state law of decision, the law of any state includes and is itself identical to federal common law.<sup>42</sup>

There is no obvious answer as to which of these three choices is right or what a court would decide. The seminal case discussing the intersection between contractual choice of law and federal law is *Volt Information Sciences, Inc. v. Board of Trustees of Leland*. In *Volt*, a dispute arose between Stanford University and Volt over that latter's performance under a construction contract.<sup>43</sup> Volt made a formal demand for arbitration, to which Stanford responded by filing a complaint in California Superior Court and seeking indemnity from two other companies involved in the construction project.<sup>44</sup> Volt moved to compel arbitration and Stanford moved to stay arbitration under a provision of California law that generally permits a court to stay arbitration pending the resolution of third party litigation that could result in "conflicting rulings on a common issue of law or fact."<sup>45</sup> The contract between Stanford and Volt contained a choice of law provision stating that "[t]he Contract shall be governed by the law of the place where the Project is

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Agreement with the Debtors at 41, *In re Trump Entm't Resorts*, 526 B.R. 116 (Bankr. D. Del. 2015) (No. 14-12103).

<sup>40</sup> See *In re XMH Corp.*, 647 F.3d 690, 695 (7th Cir. 2011) (suggesting that had the license agreement contained a state-law choice of law clause, state law might be applicable for the purpose of determining whether the license was assignable).

<sup>41</sup> See *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 123 (Bankr. D. Del. 2015) (finding that the applicable law governing trademark license agreement is federal trademark law). In reaching this finding, the court noted that "while the basic policies underlying copyright and patent protection are to encourage creative authorship and invention, the purposes of trademark protection are to protect the public's expectation regarding the source and quality of goods." *Id.* at 127 (quoting *Miller v. Glenn Miller Prods., Inc.*, 454 F.3d 975, 993 (9th Cir. 2006)).

<sup>42</sup> See *id.*; see also *In re XMH Corp.*, 647 F.3d at 695 (providing that the "universal rule" is that trademark licenses are not freely assignable absent a clause in a trademark licensing agreement that states so).

<sup>43</sup> See *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland*, 489 U.S. 468, 470 (1989).

<sup>44</sup> See *id.* at 470–71.

<sup>45</sup> See *id.* at 471.

located."<sup>46</sup> However, there was also no dispute that the contract between Stanford and Volt involved interstate commerce and that federal arbitration law does not contain any such stay provision.<sup>47</sup> The Supreme Court upheld the California choice of law, writing that "[w]here, as here, the parties have agreed to abide by state rules of arbitration, enforcing those rules according to the terms of the agreement is fully consistent with the goals of the FAA, even if the result is that arbitration is stayed where the Act would otherwise permit it to go forward."<sup>48</sup>

In dissent, Justice Brennan wrote that "[c]hoice-of-law clauses simply have never been used to deal with the relationship between state and federal law. There is no basis whatever for believing that the parties in this case intended their choice-of-law clause to do so."<sup>49</sup> Justice Brennan went even further, arguing that the entire question of whether parties could choose state law in the face of conflicting federal law was unintelligible, because "[b]y settled principles of federal supremacy, the law of any place in the United States includes federal law."<sup>50</sup> Yet that is not the view of the majority. The Supreme Court's actual holding was therefore premised on the assumption that contradictory state and federal law can coexist, and that the parties to a contract can under some circumstances make a state law election.<sup>51</sup>

An unpublished decision from the Eleventh Circuit is even more directly on point because it directly addresses a conflict between state choice of law and federal common law. In *Tyler v. AIG Life Insurance Company*, the passenger in a moving vehicle jumped out and sustained fatal injuries.<sup>52</sup> The beneficiary of two death and dismemberment policies covering the passenger, made a demand on AIG Life Insurance Company, which denied the claims on the grounds that the injuries were not "accidental."<sup>53</sup> Since the term "accidental" was not defined in the policies, the question for the court was whether to employ the definition under the parties' contractual choice of law provision, which was Alabama law, or the "federal common law" created around the Employee Retirement Income Security Act ("ERISA").<sup>54</sup> It was undisputed that "the case [was] governed by ERISA."<sup>55</sup> The court held that

[i]t would be eminently reasonable to apply Alabama law to interpret two insurance policies issued in Alabama, involving an Alabama employee, an Alabama beneficiary, and a loss that

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<sup>46</sup> *Id.* at 470.

<sup>47</sup> *See id.* at 471–72.

<sup>48</sup> *Id.* at 479.

<sup>49</sup> *Id.* at 490 (Brennan, J., dissenting).

<sup>50</sup> *Id.*

<sup>51</sup> *See id.* at 479 (finding that since the parties to the contract agreed to abide by the state rules governing arbitration, enforcement of those rules according to the terms of the contract was consistent with the goals of the FAA, notwithstanding that the results reached under federal law and state law are contradictory).

<sup>52</sup> *See Tyler v. AIG Ins. Co.*, 273 F. App'x. 778, 780 (11th Cir. 2008).

<sup>53</sup> *See id.* at 780–81.

<sup>54</sup> *See id.* at 781.

<sup>55</sup> *Id.* at 781 n.3.



occurred in Alabama. We therefore find that the Alabama choice of law provision in the insurance policies at issue is not unreasonable or fundamentally unfair and does not conflict with ERISA.<sup>56</sup>

*Volt Information* and *Tyler* leave a patchwork of legal standards that a court might employ if forced to decide whether the parties' choice of law provision should be interpreted to displace federal common law rule governing the assignability of an intellectual property license. Following *Volt*, the question might be whether upholding the parties' choice of law "is fully consistent with the goals of" applicable intellectual property law.<sup>57</sup> Following *Tyler*, the standard might be whether doing so would not be "unreasonable or fundamentally unfair."<sup>58</sup> Language from previous decisions creating a federal common law of license assignment provides only rough guidance as to what a court would decide. The Ninth Circuit, writing in this area, has held that the creation of federal common law is "limited to situations where there is a 'significant conflict between some federal policy or interest and the use of state law'" and that the creation of a federal common law governing the assignability of patents meet that standard.<sup>59</sup> If there is in fact a "significant conflict" between state and federal law in this area, then that might be interpreted to mean that federal common law can never be displaced by a state choice of law clause. But here, the Ninth Circuit was simply articulating a general standard applicable to the creation of any federal common law, and we know that federal common law can be displaced by a state law choice of law clause in some circumstances, as occurred in *Tyler*.<sup>60</sup>

Furthermore, some courts—particularly the Seventh Circuit—have been much less strident in describing the importance of the federal policy in this area. Judge Posner's decision in *XMH Corp.* modestly concluded that, like other rules in the law of contracts, "[t]he rule that trademark licenses are not assignable in the absence of a provision authorizing assignment is a . . . sensible default rule."<sup>61</sup> Does this "sensible default rule" constitute such significant federal policy that it should nullify the contract parties' choice of law? It is worth keeping in mind that federal law already allows the parties to contract around the sensible default rule with an

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<sup>56</sup> *Id.* at 785.

<sup>57</sup> See *Volt Info. Scis., Inc. v. Bd. of Trs. for Leland Stanford Junior Univ.*, 489 U.S. 468, 479 (1989) (finding that because the parties' decision to abide by the state rules is "fully consistent" with the federal law on point, the clause is enforceable).

<sup>58</sup> See *Tyler*, 273 F. App'x at 785 (finding that because the choice of law provision governed by Alabama state law concerning the insurance policies at issue is "not unreasonable or fundamentally unfair" and does not conflict with federal law on point, the provision is enforceable).

<sup>59</sup> See *In re CFLC, Inc.*, 89 F.3d 673, 678–79 (9th Cir. 1996) (internal citation omitted) ("Thus, federal law governs the assignability of patent licenses because of the conflict between federal patent policy and state laws, such as California's, that would allow assignability.").

<sup>60</sup> See *Tyler*, 273 F. App'x at 785 (finding it reasonable to give effect to an Alabama choice of law provision for the purpose of interpreting insurance policies that were issued in Alabama, involved an Alabama employee, an Alabama beneficiary, and a loss that occurred in Alabama. The court noted that such a choice of law provision did not conflict with ERISA).

<sup>61</sup> *In re XMH Corp.*, 647 F.3d 690, 696 (7th Cir. 2011).

express assignability provision, which tends to suggest that the federal policy against assignability is not very strong. It could be argued that the parties' decision to elect conflicting state law is just another way of contracting around that federal policy.

#### IV. DIFFERENCES IN STATE LAW

An important question at this juncture is whether a judicial policy of upholding state choice of law clauses would make any difference. The Seventh Circuit asked this question and concluded that, at least with respect to trademark licenses, it was irrelevant because state and federal law would be identical.<sup>62</sup> However, the court in that case was left at a loss because the parties did not identify the relevant state law that would have been applicable.<sup>63</sup>

In reality, while there is very little state law in this area and much of it is very old, there is some reason to believe that as a whole, the law of many states would favor the assignability of most licenses. One commentator has remarked that "when state law is applied, the issue of the transferability of a patent license is generally determined in accordance with standard contract interpretation rules."<sup>64</sup> Additionally, "[w]hile each states' specific law(s) on the issue vary somewhat, the general rule is aptly recited in *Corpus Juris Secundum*: 'Subject to certain exceptions in the case of contracts involving relations of personal confidence or trust or being for personal services, all contracts are assignable.'"<sup>65</sup>

The law in California is well settled that patent licenses are freely assignable in the absence of any express contractual restriction,<sup>66</sup> and the logic behind that policy would likely be applied under California law to other types of intellectual property licenses. Many patent, copyright and trademark license agreements are drafted in California.<sup>67</sup> It is safe to assume that a significant number of them choose California law. If it turns out that contractual choice of law provisions are effective in invoking state law as to matters of contract assignability, this would have a significant impact for California licenses.

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<sup>62</sup> See, e.g., *id.* ("None of this matters, though, because as far as we've been able to determine, the universal rule is that trademark licenses are not assignable in the absence of a clause expressly authorizing assignment.").

<sup>63</sup> See *id.* at 695 ("Unfortunately the parties haven't told us whether the applicable trademark law is federal or state, or if the latter which state's law is applicable (the contract does not contain a choice of law provision)—or for that matter which nation's, since Western is a Canadian firm.").

<sup>64</sup> Carole A. Quinn, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability*, 32 CREIGHTON L. REV. 1121, 1121 (1999).

<sup>65</sup> *Id.* at 1129 (quoting 6A C.J.S. Contracts § 29 (1975)).

<sup>66</sup> See *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388, 401 (2004). There is no discussion in *Tidwell* about issues potentially arising from contractual choice of law clauses.

<sup>67</sup> See UNITED STATES PATENT AND TRADEMARK OFFICE, <https://www.uspto.gov/learning-and-resources/inventors-entrepreneurs/california> (discussing information regarding patents and trademarks in California).

An important wrinkle is that there is no guaranty that every kind of intellectual property license would be treated the same under the laws of any given state. In particular, some courts might restrict the assignability of patent and copyright licenses but not trademark licenses. The primary policy concern animating copyright and patent law is to encourage creativity and authorship of novel products and ideas.<sup>68</sup> Restrictions on assignability increase the value of these innovations by rewarding inventors with more control and therefore more economic incentive. However, courts have recognized that the primary purpose of trademark law is different, namely to protect the public's expectations regarding the source and quality of goods.<sup>69</sup> That goal of trademark law has been touted in support of non-assignability, on the basis that it is the ultimate owner of the trademark who has the strongest incentive to maintain quality, and that free assignability undermines its ability to ensure that the trademark is licensed only to licensees that will uphold those standards.<sup>70</sup> But an argument can be made that to the extent the ultimate owner wants to enforce its quality standards, it actually does have that ability even where the license is transferred to a third party. Under federal law, a trademark license can only be assigned if the licensor retains an ability to monitor and control the licensee's use.<sup>71</sup> One argument in favor of treating trademark licenses differently is that federal law already provides a mechanism for the ultimate owner of the trademark to control the quality of goods sold under the mark. As such, federal law already contemplates that courts are capable of making determinations about whether a licensor does or does not maintain sufficient control over a licensee to uphold its quality standards.<sup>72</sup> A licensor that thinks a third-party assignee is

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<sup>68</sup> See *Tidwell*, 124 Cal. App. 4th at 398 (2004).

<sup>69</sup> See *id.* at 394.

<sup>70</sup> See *In re XMH Corp.*, 647 F.3d 690, 696 (7th Cir. 2011) (when the trademark owner handpicks the licensee for the production of the trademarked good, the trademark owner has the ability to vet the licensee for quality control. This ability to vet is eliminated if the licensee is allowed to further sublicense to others without consent of the trademark owner to sublicensees who may not have the same quality control in the production of the trademarked good).

<sup>71</sup> See 11 U.S.C. §§ 365(c)(1)(A)–(B), (f)(1) (2012) (section (c) prohibits the assignment of a contract or lease whether or not assignment is prohibited by the contract or lease if applicable law prohibits such assignment. Section (f) permits assignment notwithstanding any provision in the contract or lease regardless of any applicable law prohibiting such assignment subject to section (c)); see *In re Trump Entm't Resorts, Inc.*, 526 B.R. 116, 121–24 (Bankr. D. Del. 2015) (analyzing the application of section 365 of the Code to trademarks, and finding that federal law generally prohibits the assignment of trademark licenses unless the trademark owner consents. Federal law has recognized that a critical way for the trademark owner to uphold its duty of quality control is to know the identity and the abilities of any new sublicensees. Through this prohibition, federal law recognizes that a trademark owner monitors and controls the licensee's use of the license by having discretion over the identity of a third-party assignee). Explaining the inconsistency between sections (c) and (f) by citing *Catapult Entm't, Inc.*, 165 F.3d 747, 750 (9th Cir. 1999) in which the ninth circuit noted that section (f)(1) provides a broad rule which is trumped by the existence of any specific applicable rule under section (c)(1)).

<sup>72</sup> See generally 11 U.S.C. §§ 365(c)(1)(A)–(B), (f)(1); see *In re XMH Corp.*, 647 F.3d at 696 (7th Cir. 2011); see *In re Trump*, 526 B.R. at 121–24 (analyzing whether licensors maintain sufficient control over their licenses to uphold quality standards).

incapable of upholding its quality standards can ask the court to rule that the assignment is invalid based on the owner's inability to exercise this control.<sup>73</sup>

A popular trademark treatise explains that "because the trademark owner has a duty to control the quality of goods and services sold under the mark, it must have the right to pass on the abilities of new potential licensees."<sup>74</sup> But the argument can be turned on its head: Because a trademark owner has available judicial remedies against any assignee, and can enforce the binding control rights built into the agreement, there is no need to give the trademark owner the blanket right to pass on the identity of the potential assignee.<sup>75</sup>

#### CONCLUSION

In light of the widespread belief that intellectual property licenses are generally not assignable in bankruptcy, federal conflict of law doctrine creates a ray of hope for bankruptcy debtors to argue that some intellectual property licenses can be assumed or assigned in bankruptcy. Judge Posner's decision in *In re XMH Corp* questions the existence of federal common law in this area and then articulates only a "sensible default rule" favoring non-assignability.<sup>76</sup> This language does not suggest a federal policy against assignability that would be sufficiently strong to support the blanket preemption of state law. If, for example, California law were applied, assumption and assignment of certain licenses by the bankruptcy trustee or debtor-in-possession would have to be upheld. The ability to assume, or assume and assign, those agreements may unlock substantial value for the bankruptcy estate. These issues will likely be tested in the next wave of bankruptcies.

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<sup>73</sup> See *In re Trump*, 526 B.R. at 124 (explaining that federal trademark law prohibits the assignment of trademark licenses without the licensor's consent because the licensor has a crucial interest in ensuring that a third-party assignee is capable of upholding the licensor's quality standards).

<sup>74</sup> 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:43 (4th ed. 2016).

<sup>75</sup> It is also worth noting that, unlike in patents and copyrights, there is a self-contained domain of state trademark law including each state's own trademark recordation system. The United States Patent and Trademark Office states on its website that "[t]o acquire trademark and/or service mark registration at the state level, applicants must file an application with the trademark office of the specific state in which protection is sought. For information about state registration requirements, applicants must contact the individual state trademark office." The website goes on to list all 50 states and a corresponding link to each specific state trademark application. State trademark applications are available at <https://www.uspto.gov/trademarks-getting-started/process-overview/state-trademark-information-links> (to navigate to this link, go to the website and search "state trademark information links").

<sup>76</sup> See *In re XMH Corp.*, 647 F.3d at 695–96 (suggesting both that the federal common law might not exist in this area, and that the rule deeming trademark licenses unassignable absent an assignment provision is a "sensible default rule").