

## Calendar No. 929

100TH CONGRESS  
2D SESSION**S. 1626**

[Report No. 100-505]

To keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code.

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 IN THE SENATE OF THE UNITED STATES

AUGUST 7 (legislative day, AUGUST 5), 1987

Mr. DECONCINI (for himself and Mr. HEFLIN) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

SEPTEMBER 14 (legislative day, SEPTEMBER 7), 1988

Reported by Mr. BIDEN, with an amendment

[Strike out all after the enacting clause and insert the part printed in italic]

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**A BILL**

To keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code.

- 1 *Be it enacted by the Senate and House of Representa-*  
 2 *tives of the United States of America in Congress assembled,*  
 3 That this Act may be cited as the "~~Intellectual Property~~  
 4 ~~Bankruptcy Protection Act of 1987~~".
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1        **SEC. 2.** Section 365 of title 11 of the United States  
2 Code is amended by inserting at the end the following new  
3 subsection:

4        **“(n)(1)** For the purpose of this title—

5            **“(A)** the term ‘protected information’ means trade  
6 secrets and other confidential technical information to  
7 the extent the confidentiality thereof is protected by  
8 applicable nonbankruptcy law; and

9            **“(B)** the term ‘intellectual property’ includes in-  
10 ventions, designs, works of authorship, mask works,  
11 protected information, trademarks, trade names, serv-  
12 ice marks, and other products of intellectual or creative  
13 effort now or hereafter protected by applicable non-  
14 bankruptcy law.

15        **“(2)** Until and unless a trustee assumes an executory  
16 contract or unexpired lease under which the debtor has  
17 granted rights in intellectual property, the trustee may not  
18 interfere with the grantee’s rights (A) to deal with the intel-  
19 lectual property, as provided in the contract or lease, (B) to  
20 gain access to or possession of any information or property in  
21 existence as of the time of the filing which the contract or  
22 lease provided would be made available to the grantee if the  
23 debtor failed to perform its affirmative obligations, and (C) in  
24 the case of a trademark, trade name, service mark, or similar  
25 intellectual property, to permit existing grantees to continue

1 in concert the quality assurance procedures of the licensor. If  
2 the trustee rejects such contract or lease, the trustee is re-  
3 lieved only from the specific performance of prospective obli-  
4 gations thereunder measured from the filing date and is pro-  
5 hibited from taking any action which would interfere with the  
6 grantee's rights set forth in subparagraphs (A), (B), and (C)  
7 of this paragraph. Subject to subsection (g) of this section and  
8 to section 553 of this title, if the grantee elects to exercise its  
9 rights under the contract or lease as set forth in this subsec-  
10 tion, the grantee must satisfy its obligations under such con-  
11 tract or lease.

12       “(3) If the debtor was the grantee under an executory  
13 contract or unexpired lease which granted rights in intellec-  
14 tual property, prior to assumption or rejection and notwith-  
15 standing rejection of such contract or lease, the trustee, the  
16 debtor, and the grantor must maintain the confidentiality of  
17 any protected information obtained pursuant to the executory  
18 contract or unexpired lease to the extent required by applica-  
19 ble nonbankruptcy law. Prior to assumption or rejection, the  
20 grantor is entitled to adequate assurance of the continued  
21 confidential treatment of such protected information. If the  
22 contract or lease is rejected, upon request by the grantor  
23 including an offer of reimbursement of expenses, all materials  
24 embodying protected information shall be returned to the  
25 grantor. The trustee, after he has received actual notice of

1 the existence of the protected information in the bankruptcy  
 2 estate, and the debtor, are not, by reason of the rejection,  
 3 permitted to disclose protected information without the con-  
 4 sent of the person to whom the obligation of confidentiality is  
 5 owed.”.

6 SECTION 1. AMENDMENTS TO TITLE 11 OF THE UNITED STATES

7 CODE.

8 (a) DEFINITION.—Section 101 of title 11, United  
 9 States Code, is amended—

10 (1) in paragraph (50) by striking “and” at the  
 11 end,

12 (2) in paragraph (51) by striking the period at  
 13 the end and inserting in lieu thereof a semicolon, and

14 (3) by adding at the end the following:

15 “(52) ‘intellectual property’ means—

16 “(A) trade secret;

17 “(B) invention, process, design, plant, or  
 18 plant variety, including patents or patent applica-  
 19 tions thereon;

20 “(C) confidential research or development  
 21 information;

22 “(D) work of authorship, including copy-  
 23 rights therefor; or

24 “(E) mask work;

1 to the extent protected by applicable nonbankruptcy  
2 law; and

3 “(53) ‘mask work’ has the meaning given it in  
4 section 901(a)(2) of title 17.”

5 (b) *EXECUTORY CONTRACTS LICENSING RIGHTS TO*  
6 *INTELLECTUAL PROPERTY*.—Section 365 of title 11,  
7 United States Code, is amended by adding at the end the  
8 following:

9 “(n)(1) If the trustee rejects an executory contract under  
10 which the debtor is a licensor of a right to intellectual prop-  
11 erty, the licensee under such contract may elect—

12 “(A) to treat such contract as terminated by such  
13 rejection if such rejection by the trustee amounts to  
14 such a breach as would entitle the licensee to treat such  
15 contract as terminated by virtue of its own terms, ap-  
16 plicable nonbankruptcy law, or an agreement made by  
17 the licensee with another entity; or

18 “(B) to retain its rights (other than a right under  
19 applicable nonbankruptcy law to specific performance  
20 of the future affirmative obligations under such con-  
21 tract, except those affirmative obligations retained in  
22 paragraphs (2) and (3) under such contract, and any  
23 agreement supplementary to such contract, to such in-  
24 tellectual property (including any embodiment of such  
25 intellectual property to the extent protected by applica-

1        *ble nonbankruptcy law), as such rights existed immedi-*  
2        *ately before the case commenced, for—*

3                    *“(i) the duration of such contract; and*

4                    *“(ii) any period for which such contract may*  
5        *be extended by the licensee as of right under ap-*  
6        *plicable nonbankruptcy law.*

7        *“(2) If the licensee elects to retain its rights, as de-*  
8        *scribed in paragraph (1)(B) of this subsection, under such*  
9        *contract—*

10                    *“(A) the trustee shall allow the licensee to exercise*  
11        *such rights;*

12                    *“(B) the licensee shall make all payments with*  
13        *respect to such rights due under such contract with re-*  
14        *spect to the rights retained for the duration of such*  
15        *contract and for any period described in paragraph*  
16        *(1)(B) of this subsection for which the licensee extends*  
17        *such contract; and*

18                    *“(C) the licensee shall be deemed to waive—*

19                    *“(i) any right of setoff it may have with re-*  
20        *spect to such contract under this title or applicable*  
21        *nonbankruptcy law; and*

22                    *“(ii) any claim allowable under section*  
23        *503(b) of this title arising from the performance*  
24        *of such contract.*

1       “(3) If the licensee elects to retain its rights, as de-  
2 scribed in paragraph (1)(B) of this subsection, then on the  
3 written request of the licensee the trustee shall—

4               “(A) to the extent provided in such contract, or  
5 any agreement supplementary to such contract, provide  
6 to the licensee any intellectual property (including such  
7 embodiment) held by the trustee; and

8               “(B) not interfere with the rights of the licensee  
9 as provided in such contract, or any agreement supple-  
10 mentary to such contract, to such intellectual property  
11 (including such embodiment) including any right to  
12 obtain such intellectual property (or such embodiment)  
13 from another entity.

14       “(4) Unless and until the trustee rejects such contract,  
15 on the written request of the licensee the trustee shall—

16               “(A) to the extent provided in such contract or  
17 any agreement supplementary to such contract—

18                       “(i) perform such contract; or

19                       “(ii) provide to the licensee such intellectual  
20 property (including any embodiment of such intel-  
21 lectual property to the extent protected by applica-  
22 ble nonbankruptcy law) held by the trustee; and

23               “(B) not interfere with the rights of the licensee  
24 as provided in such contract, or any agreement supple-  
25 mentary to such contract, to such intellectual property

1     *(including such embodiment), including any right to*  
2     *obtain such intellectual property (or such embodiment)*  
3     *from a third entity.”.*

4     **SEC. 2. EFFECTIVE DATES; APPLICATION OF AMENDMENTS.**

5     **(a) EFFECTIVE DATE.**—*Except as provided in subsec-*  
6     *tion (b), this Act and the amendments made by this Act shall*  
7     *take effect on the date of the enactment of this Act.*

8     **(b) APPLICATION OF AMENDMENTS.**—*The amend-*  
9     *ments made by this Act shall not apply with respect to any*  
10    *case commenced under title 11 of the United States Code*  
11    *before the date of the enactment of this Act.*



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