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ACTION: INTRODUCED BY MR. DeCONCINI AND MR. HEFLIN

By Mr. DECONCINI (for himself and Mr. HEFLIN):

S. 1626. 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; to the Committee on the Judiciary.

INTELLECTUAL PROPERTY BANKRUPTCY PROTECTION ACT

● Mr. DECONCINI. Mr. President, today I join my colleague Senator HEFLIN in introducing a bill entitled the Intellectual Property Bankruptcy Protection Act of 1987. This legislation is designed to address a major problem facing intellectual property in the current Bankruptcy Code by clarifying the rights of parties if a licensor or licensee declares bankruptcy. Past court decisions have allowed for the technical dissection of intellectual property licensing agreements by creating situations where a completed transaction involving intellectual property is really nothing more than a promise that can be broken. It's time we took

the steps needed to end this unfair practice.

Let me paint a picture for you of how current law can effectively sound a death knoll for the small business dependent on intellectual property for the success of its operation. A small businessperson contracts with a patent owner to utilize the newly developed technology in his business. Things are going well. The business is successful and growing. Then, the licensor files for bankruptcy. The bankruptcy judge handling the case determines that the licensor can obtain a much higher royalty if he enters into an exclusive license with another party. The judge then decides to resell the rights to the patent as part of the reorganization, even though such a decision could effectively doom the licensee's business. A successful business folds because it no longer has access to the intellectual property that its foundation was built on in the first place. This is the kind of scenario this legislation is designed to prevent.

Some of the difficulty with the intellectual property agreements stems from court decisions to render the license agreements "executory." This is done because of the nature of the agreements, that is the licensor's promise not to sue the licensee for infringement, the licensee's duty to account for profits, or the licensee's commitment to use its best efforts to use the licensed property. This decision means the agreements are eligible to be rejected or breached by a licensor-debtor in possession or the trustee of the licensor's bankruptcy estate.

Let's consider a real-life example which involves Lubrizol, Enterprises—a division of Lubrizol Corp. in Ohio. Lubrizol licensed a metal finishing technology from a Virginia firm that filed for bankruptcy a year later. The company planned to put the technology rights up for sale to alleviate some of its financial crunch. Lubrizol objected and sued to retain its license. However, it lost on appeal and that area of its business was lost. The Lubrizol ruling occurred because Congress never considered this issue, because no courts had considered it before the Bankruptcy Reform of 1978 and because it requires the application in bankruptcy cases of the very specialized area of intellectual property law.

The system of granting rights for the use of intellectual property, rather than an outright transfer of ownership, evolved to assure a full and fair development opportunity for patents, copyrights, trade secrets, and trademarks. Through the use of nonexclusive licenses, different commercial applications of intellectual property develop in different geographic markets. Society benefits from the licensing of new technology because licensing increases the number of companies that can take advantage of an innovative or cost-saving discovery. But recent court decisions have changed the game. Potential licensees are now insisting on total ownership transfers to prevent the possible loss of rights during a bankruptcy filing.

In addition, this quirk in the bankruptcy law threatens American licensors competing in the international marketplace. Uncertainty over the law jeopardizes American technology licenses in the world market. We need to act now to encourage full development of intellectual property in the worldwide marketplace.

The solution I am proposing today would deny bankrupt licensors the ability to deprive licensees of irreplaceable intellectual property. It would provide protections similar to those offered in real estate sales agreements and leases. The bill protects the licensee's right to use intellectual property which exists at the time of the bankruptcy filing in accordance with the terms of the parties' agreements. The bill does not address other provisions of the agreement which might impose affirmative obligations upon the trustee or debtor-in-possession. However, it does explicitly validate and make self-enforcing any arrangements which the parties have made prior to the bankruptcy filing which provide for access to information or property that exists at the time of the bankruptcy filing and that will facilitate the licensee's post filing use of the intellectual property as it exists at the time of the filing.

The bill generally leaves to other provisions of the Bankruptcy Code and to the contractual rights of the parties under their specific agreement, as enforceable in bankruptcy, the rights of the nondebtor party to an intellectual property license in the event the trustee or debtor-in-possession is permitted by the bankruptcy court not to perform other affirmative obligations under the license. There are two exceptions to the general approach. First, where the debtor is a trademark licensee. To sustain a trademark, the licensee must comply with the trademark owner's (licensor's) ongoing quality assurance program. If the trustee or debtor-in-possession is unable or unwilling to comply with that quality assurance program, the trademark owner's rights in the trademark are damaged at best or lost. Second, where the debtor was the licensee under a disclosure agreement which required the debtor to maintain the confidentiality of trade secrets, although rejection of that contract or lease will relieve the debtor and trustee, or other prospective obligations, the debtor, the trustee and the licensor are required to maintain the contractual confidentiality to avoid the loss of the trade secret under applicable nonbankrupcy law. To avoid undue burden upon appointed trustees, the bill requires that trustees receive actual notice of the existence of protected information prior to imposition of any obligations upon the appointed trustee.

I urge my colleagues to join me in correcting this existing inequity in our bankruptcy law. As chairman of the Senate Subcommittee on Patents, Copyrights and Trademarks, I am critically aware of the importance of intellectual property licenses. Licenses that involve patents, copyrights, and trade secrets are different from others because in this type of license, there is only one source—the company that owns the intellectual property. There is no alternative for the licensee. Thus losing the license may have enormous consequences, since there is nowhere else the company can go to get the technology or information it needs. We must make sure the "executory" contract does not signal the execution of many businesses relying on intellectual property licenses for their livelihood. Mr. President, I ask unanimous consent that the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 1626

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Intellectual Property Bankruptcy Protection Act of 1987".

SEC. 2. Section 365 of title 11 of the United States Code is amended by inserting at the end the following new subsection:

"(n)(1) For the purpose of this title—

"(A) the term 'protected information' means trade secrets and other confidential technical information to the extent the confidentiality thereof is protected by applicable nonbankruptcy law; and

"(B) the term 'intellectual property' includes inventions, designs, works of authorship, mask works, protected information, trademarks, trade names, service marks, and other products of intellectual or creative effort now or hereafter protected by applicable nonbankruptcy law.

"(2) Until and unless a trustee assumes an executory contract or unexpired lease under which the debtor has granted rights in intellectual property, the trustee may not interfere with the grantee's rights (A) to deal with the intellectual property, as provided in the contract or lease, (B) to gain access to or possession of any information or property in existence as of the time of the filing which the contract or lease provided would be made available to the grantee if the debtor failed to perform its affirmative obligations, and (C) in the case of a trademark, trade name, service mark, or similar intellectual property, to permit existing grantees to continue in concert the quality assurance procedures of the licensor. If the trustee rejects such a contract or lease, the trustee is relieved only from the specific performance of prospective obligations thereunder measured from the filing date and is prohibited from taking any action which would interfere with the grantee's rights set forth in subparagraphs (A), (B), and (C) of this paragraph. Subject to subsection (g) of this section and to section 553 of this title, if the grantee elects to exercise its rights under the contract or lease as set forth in this subsection, the grantee must satisfy its obligations under such contract or lease.

"(3) If the debtor was the grantee under an executory contract or unexpired lease which granted rights in intellectual proper-

ty, prior to assumption or rejection and notwithstanding rejection of such contract or lease, the trustee, the debtor, and the grantor must maintain the confidentiality of any protected information obtained pursuant to the executory contract or unexpired lease to the extent required by applicable nonbankruptcy law. Prior to assumption or rejection, the grantor is entitled to adequate assurance of the continued confidential treatment of such protected information. If the contract or lease is rejected, upon request by the grantor including an offer of reimbursement of expenses, all materials embodying protected information shall be returned to the grantor. The trustee, after he has received actual notice of the existence of the protected information in the bankruptcy estate, and the debtor, are not, by reason of the rejection, permitted to disclose protected information without the consent of the person to whom the obligation of confidentiality is owed.".●