Note

NONEXCLUSIVE PATENT LICENSEES UNITE: USE BANKRUPTCY COMMITTEES TO SUE FOR PATENT INFRINGEMENT

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INTRODUCTION

Prior to 1988, the five-word sentence most feared by nonexclusive patent licensees was "Your licensor filed for bankruptcy." They should still be afraid. While most patentees[1] prefer nonexclusive licenses,[2] which provide enormous royalty profits[3] as well as the con-

1. Patent owners.

2. *See* Stuart P. Meyer, *Exploiting Intellectual Property Assets Through Licensing: Strategic Considerations*, *in* PROTECTING YOUR INTELLECTUAL PROPERTY: HOW TO VALUE, MAXIMIZE AND ENHANCE YOUR ASSETS 29, 34 (PLI Patents Series No. 468, 1997) (noting that "the most common type of license is a non-exclusive license").

3. For example, in 1994, IBM earned $640 million from patent and technology licensing agreements. *See* Peter C. Grindley & David J. Teece, *Managing Intellectual Capital: Licensing and Cross-Licensing in Semiconductors and Electronics*, CAL. MGMT. REV., Winter 1997, at 8, 14. An active licensing strategy instituted in 1985 by Texas Instruments resulted in cumulative royalty earnings of over $1.8 billion between 1986 and 1993. *See id.* at 20. Hoping to "offset skyrocketing R&D and technology development costs," Dow Chemical, a company known for its reluctance to license new technology, recently decided to pursue an active licensing strategy. David Rotman & Alex Scott, *Turning Process Know-How into Profits*, CHEMICAL WK., July 23, 1997, at 45, 45. Dow hopes that this licensing business will generate annual revenues of $100 million by the year 2000. *See id.* Chemical giants Monsanto and DuPont also have begun to reconsider their aversion to licensing. *See id.* In fact, DuPont has set a licensing revenue target of $100 million by the year 2005. *See id.* Even chemical companies with well-established licensing programs have decided to increase their emphasis on licensing. *See id.* at 45-46. It is relatively safe to assume that the licenses underlying these royalty streams are nonexclusive since the licensor-companies would want to maintain the ability to utilize their licensed technology. *See* George E. Frost, *General Motors' Approach to Licensing*, *in* 2 THE LAW AND BUSINESS OF LICENSING 734.663, 734.665 (Marcus B. Finnegan & Robert Goldscheider eds., 1980) (noting that General Motors employs a nonexclusive licensing strategy because it "simply cannot afford to license away [its] own right to use [its] own invention").

tinued ability to use the technology and to control patent litigation,[4] patentee bankruptcy can place nonexclusive licensees in a precarious position. Prior to 1988, if a patentee-licensor filed for bankruptcy under chapter 11 of the Bankruptcy Code[5] and was allowed to reject the license as an executory contract,[6] the licensee could no longer use the patented technology without infringing the patent.[7] This unseemly state of affairs came to a head in *Lubrizol Enterprises v. Richmond Metal Finishers, Inc.*[8] In *Lubrizol*, the Court of Appeals for the Fourth Circuit allowed the debtor-licensor, Richmond Metal Finishers, to reject as executory its nonexclusive patent license agreement with its licensee, Lubrizol Enterprises.[9]

To prevent other patent licensees from suffering fates similar to that suffered by Lubrizol,[10] Congress enacted the Intellectual Property Bankruptcy Protection Act of 1988 (IPBPA).[11] Congress intended the IPBPA to protect the debtor-licensor's right to rehabilitate while affording the patent licensee the right to continue exploiting[12] the patent without threat of infringement.[13] The IPBPA allows the debtor-licensor to reject the license, and all affirmative duties under it, while allowing the patent licensee to retain his right to use the intellectual property.[14] Congress realized that by rejecting the affirmative duties the debtor-licensor breaches the license agreement; thus, the IPBPA allows the licensee to enter a general unsecured

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4. *See, e.g.*, Frost, *supra* note 3, at 734.665 (noting that General Motors would require "far greater royalty potential than is usually available to warrant the risk of being dragged into [patent infringement] litigation" by exclusive licensees). Nonexclusive licenses allow licensors to retain control over patent litigation because, unlike exclusive licensees, nonexclusive licensees do not have standing to sue for patent infringement. *See* discussion *infra* Part I.C.

5. *See* 11 U.S.C. §§ 1101-74 (1994).

6. *See infra* text accompanying notes 76-79 (explaining executory contracts and how the ability to reject them in bankruptcy may benefit the debtor).

7. *See* S. REP. NO. 100-505, at 2-3 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201-02.

8. 756 F.2d 1043 (4th Cir. 1985).

9. *See id.* at 1046-48.

10. *See Intellectual Property Contracts in Bankruptcy: Hearing on H.R. 4657 Before the Subcomm. on Monopolies and Commercial Law of the House Comm. on the Judiciary*, 100th Cong. 11 (1988) [hereinafter *House Hearings*] (statement of Rep. Don Edwards) (noting that the Act is intended to "reverse the impact of cases such as *Lubrizol*").

11. Pub. L. No. 100-506, 102 Stat. 2538 (codified as amended at 11 U.S.C. §§ 101(35A), 101(39), 365(n) (1994)).

12. In the context of this Note, the term "exploiting" should not be given its usual pejorative meaning, but instead should be defined as "commercializing to the fullest extent possible."

13. *See* S. REP. NO. 100-505, at 4-5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3203.

14. *See* discussion *infra* Part II.A.

claim against the debtor-licensor for breach of contract.[15] However, Congress failed to recognize that if the license involved is a nonexclusive patent license, rejecting the affirmative duty to defend the patent leaves the patent unprotected. While it may be true that debtor-licensors are not in a financial position to protect the patent, nonexclusive patent licensees do not have standing to protect the patent.[16] Since patents derive their value from the ability to exclude others from using the patented technology, failure to protect a patent can render the patent—as well as licenses based upon it—worthless.[17] As a result, if the *Lubrizol* case were decided today, the patent licensee Lubrizol would still be in a precarious position, unable to defend the licensed patent.

This Note will offer a solution to extricate nonexclusive patent licensees from this precarious position. Part I will discuss the prevalence of nonexclusive patent licenses and reasons for denying nonexclusive licensees standing to sue for patent infringement. Part II will examine the shortcomings of the IPBPA. Part III will propose the use of a licensees committee, similar to the Official Creditors Committee, to oversee the protection of a patent during the pendency of a licensor's bankruptcy proceeding.

I. PATENT LICENSES

Historically, firms have focused on deriving profits from manufacturing plants or investments while neglecting the profit potential of their intellectual property portfolios.[18] Many companies have recently realized, however, that patents are a key to maintaining a competitive advantage in the marketplace.[19] This heightened awareness of intellectual property has resulted in an increased emphasis on protecting patentable technology.[20] Aggressive patenting strategies

15. *See* S. REP. NO. 100-505, at 10, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3207.

16. *See* discussion *infra* Part I.C.

17. *See* James S. Hilboldt, Jr., *Key License Clauses*, *in* TECHNOLOGY LICENSING AND LITIGATION 1992, at 191, 201 (PLI Patents Series No. 334, 1992) (stating that "[f]ailure to prosecute an infringing third party renders the licensed patent worthless, for the very purpose of a patent is to permit patent holders and licensees to prevent unauthorized parties from engaging in the patented activity").

18. *See* Grindley & Teece, *supra* note 3, at 8 ("While firms have for decades actively managed their physical and financial assets, until quite recently intellectual property . . . management was a backwater.").

19. *See id.*

20. *See id.* at 17 (offering statistics showing that, in the 25-year span from 1969 to 1994, nearly 8% of the patents granted to the top semiconductor companies were issued in 1994).

do not come without a price, however, and companies have turned to patent licensing to recoup these costs.[21]

A. The Decision to License

The role that patents play within the economy depends upon the ability of the patent owner to protect her patent against infringers.[22] In 1982, Congress created the Court of Appeals for the Federal Circuit (CAFC) and granted it exclusive jurisdiction over patent appeals.[23] Since its creation, the CAFC has improved the predictability and enforceability of patents while developing a more coherent body of law.[24] Importantly, CAFC decisions have helped overcome earlier judicial bias against patents as evil monopolies.[25] Following the precedents of the CAFC, district courts have increasingly upheld the validity of patents.[26] Growing confidence that patents would survive

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21. *See The American Bankruptcy Institute Survey: Hearing on S. 1626, S. 1358, S. 1863, and S. 2279, Bills Pertaining to Title 11 of the United States Code, the Bankruptcy Code, Before the Subcomm. on Courts and Admin. Practice of the Senate Comm. on the Judiciary*, 100th Cong. 242-43 (1988) [hereinafter *Hearing on S. 1626*] (statement of John P. McLaughlin, Vice President, Genentech, Inc.) (noting that Genentech uses patent licensing revenues to finance research and development efforts).

22. *See* Jon F. Merz & Nicholas M. Pace, *Trends in Patent Litigation: The Apparent Influence of Strengthened Patents Attributable to the Court of Appeals for the Federal Circuit*, 76 J. PAT. & TRADEMARK OFF. SOC'Y 579, 581 (1994) (noting that increasing the enforceability of patents raises their value, which in turn creates a "greater motivation to seek patent protection").

23. *See* The Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25, 25, 38 (codified as amended in scattered sections of 28 U.S.C.).

24. *See* Merz & Pace, *supra* note 22, at 579-80.

25. *See* DRAFTING LICENSE AGREEMENTS § 6.04, at 6-8 to 6-9 (Michael A. Epstein & Frank L. Politano eds., 2d ed. 1994 & Supp. 1995) (stating that "[t]he Federal Circuit plainly disagrees with the anti-monopoly philosophies underlying" previous court opinions); Lawrence G. Kastriner, *The Revival of Confidence in the Patent System*, 73 J. PAT. & TRADEMARK OFF. SOC'Y 5, 9 (1991) (noting that the trail blazed by the Federal Circuit has been followed by the district courts, with the result that "[d]isparaging references to patents as 'monopolies' . . . have all but disappeared from recent judicial decisions"). In fact, the driving force behind the creation of the Court of Appeals for the Federal Circuit was the desire to "stabilize the patent law by means of centralized review." Merz & Pace, *supra* note 22, at 579. This need arose from variable interpretation of the patent law by the twelve federal circuit courts. *See id.* For a general discussion of the specific changes made to the patent law by the Federal Circuit, see Kastriner, *supra*, at 10-22.

26. *See* Alexander E. Silverman, *Intellectual Property Law and the Venture Capital Process*, 5 HIGH TECH. L.J. 157, 161-62 (1990) (stating that "[f]rom 1982 through 1987, the CAFC upheld 89% of district court decisions finding patents [valid], and reversed or vacated 45% of district court decisions finding patents [invalid]"); Gerald Sobel, *The Court of Appeals for the Federal Circuit: A Fifth Anniversary Look at Its Impact on Patent Law and Litigation*, 37 AM.

judicial scrutiny prompted more businesses to rely on their intellectual property as core business assets.[27] Focusing their creative energies on their patent portfolios, businesses realized that they could exploit them in a variety of ways: by practicing[28] the patented invention themselves (vertical integration), by selling the patented invention to another (assignment), or by allowing another to practice the invention (licensing).[29]

Among the various ways to exploit an invention, vertical integration and assignment lie at opposites ends of the spectrum. The patent statute grants the patentee "the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States."[30] A patentee is considered to have "vertically integrated" her patent if she not only develops the patented invention but also exploits it in the marketplace.[31] Thus, the vertically integrated patentee makes, uses, offers for sale and sells the patented invention. Vertical integration makes sense if the patentee can produce and market the invention at least as effectively as anyone else could.[32] At the other end of the spectrum, a patentee may use an assignment to transfer all of her interest in the patent, including the right to exclude others, to a third party.[33] A patentee who does not want to vertically integrate, but wants to retain rights to the patent can opt for an intermediate solution, the patent license. Rather than transfer the

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U. L. REV. 1087, 1090-91 (1988) (noting that, since the creation of the CAFC, patent litigants face an increased likelihood that a court will find the patent at issue to be valid).

27. *See* DRAFTING LICENSE AGREEMENTS, *supra* note 25, § 6.04, at 6-8 (stating that "the decisions of the Federal Circuit on validity and infringement and its economic orientation to patent issues are leading to increased licensing activity").

28. In the context of this Note, the term "practice" encompasses the terms "make," "use," "offer for sale," and "sell."

29. *See* JOHN W. SCHLICHER, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS 23, 164-65 (1996).

30. 35 U.S.C. § 154(a)(1) (1994).

31. *See* SCHLICHER, *supra* note 29, at 240.

32. *See id.* at 23-30 (discussing factors to be considered when deciding whether to license or to vertically integrate).

33. Section 261 of the patent statute governs a patentee's right to assign her patent. It reads in pertinent part:

> Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

35 U.S.C. § 261 (1994). An assignment is defined as "[t]he act of transferring to another all or part of one's property, interest or rights." BLACK'S LAW DICTIONARY 119 (6th ed. 1990).

right to exclude others, the license merely acts as a promise by the patentee not to sue the licensee for practicing the invention.[34]

Patent licenses may present good business opportunities for both the patentee-licensor as well as the licensee by allowing both parties to procure something that they cannot furnish efficiently on their own. Patentees-licensors might use patent licenses to obtain much needed manufacturing and marketing services,[35] to break into foreign markets,[36] or to enter domestic markets without making large capital investments.[37] As illustrated by the battle for market dominance between Apple and IBM, patent licenses may also create a larger demand for the patentee's invention and in some cases guarantee that her invention becomes the technical standard in the industry.[38] From a licensee's perspective, a patent license can allow him to penetrate a new market without the expense and risk associated with a massive research and development effort.[39] After deciding that it makes good business sense to license patented technology, the parties must decide what type of license will help them to achieve their goals efficiently.

34. A license is defined as "permission by competent authority to do an act which, without such permission, would be . . . otherwise not allowable. . . . Leave to do thing which licensor could prevent." BLACK'S LAW DICTIONARY, *supra* note 33, at 919-20.

35. *See* SCHLICHER, *supra* note 29, at 27; *see also* NEIL F. SULLIVAN, TECHNOLOGY TRANSFER: MAKING THE MOST OF YOUR INTELLECTUAL PROPERTY 91-92 (1995) (discussing the benefits to be derived from university research organizations licensing their technology to more adept marketing and production organizations).

36. *See* GREGORY J. BATTERSBY & CHARLES W. GRIMES, A PRIMER ON TECHNOLOGY LICENSING 3 (1996) (noting that licenses are a good way for domestic companies to break into international markets by licensing to entities that already possess an expertise in the particular foreign market).

37. *See id.* (stating that licensees can allow a company to enter a market "without having to make a heavy investment in capital equipment and personnel" and thus to "avoid [] many of the risks" of developing a new product).

38. Unlike Apple, who refused to license their technology, IBM adopted a broad licensing strategy for its personal computers. *See id.* at 3-4. Though Bill Gates may disagree, at least one commentator suspects that IBM's licensing strategy may be largely responsible for the wide acceptance of the PC in the marketplace compared with Apple's lagging Macintosh sales. *See id.*; *see also* Meyer, *supra* note 2, at 43 (stating that in certain segments of the high technology industry "patent licenses are often provided on a free or nominal-payment basis in order to promulgate the patented technology as a *de facto* industry standard").

39. *See* BATTERSBY & GRIMES, *supra* note 36, at 5; *see also* SULLIVAN, *supra* note 35, at 92 (noting that licensing of technology allows a company to channel existing resources towards the "developmental aspects of the product or planning for the next generation of products").

B. Exclusive and Nonexclusive Patent Licenses

The parties can choose one of two general types of patent license relationships, exclusive or nonexclusive. Under an exclusive patent license, the patentee promises to continue to exclude all others from practicing the invention.[40] Thus, an exclusive patent license involves two promises by the patentee: not to sue the licensee for infringement and not to make that same promise to anyone else. Under a nonexclusive patent license, the patentee only promises not to sue the licensee for infringement.[41]

Whether to pursue an exclusive or a nonexclusive relationship is a complex decision that determines how much control each party will have over the patented technology. An exclusive relationship necessarily involves a large shift in control over the patent from the patentee to the licensee. This shift in control may benefit the patentee by maximizing his royalty rate,[42] inducing licensee investments,[43] and promoting economies of scale.[44]

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40. An exclusive license is defined as "[p]ermission to do thing and contract not to give leave to any one else to do same thing." BLACK'S LAW DICTIONARY, *supra* note 33, at 564.

41. *See id.* at 919-20.

42. When a patentee grants an exclusive license, she may be seen as transferring her lawful monopoly power to her exclusive licensee. This dominant market position often carries a premium, which may allow the patentee-licensor to maximize his profits by demanding and receiving higher royalty rates. *See* Mark David Kleinginna & Lawrence P. Shanda, *Making the Exclusivity Decision*, 26 LES NOUVELLES 179, 180 (1991), *reprinted in* 2 THE LAW AND BUSINESS OF LICENSING: LICENSING IN THE 1990'S, at 1499, 1501-03 (Jay Simon & Woody Friedlander eds., 1998) (analyzing the exclusivity decision in licensing intellectual property using a durable goods paradigm and concluding that an exclusive license permits profit maximization).

43. An exclusive license may induce licensee investment by ensuring that the investment will not benefit other licensees. *See* SCHLICHER, *supra* note 29, at 70-71. Without an exclusive license, the licensee may be unwilling to invest in a variety of otherwise profitable activities like research and development, marketing, and customer services. *See id.* at 69-70 (noting that research and development investments in nonexclusively licensed technologies may yield unprotectible improvements that can be used by other licensees, that marketing investments may increase market demand for all licensees, and that investment in customer services like repair services may be used by customers of other licensees).

44. Economies of scale exist when it is cheaper, per unit, to produce a large quantity of a particular item than it is to produce a small quantity. *See* DAVID N. HYMAN, ECONOMICS 252-55 (2d instructor's ed. 1992). Thus, when economies of scale exist, an exclusive licensee may be able to minimize production costs because he will be responsible for producing a large quantity of goods—enough to meet the entire market demand. These lower costs will increase the profitability of the licensee's exploitation of the patent, *see id.*, and should make the exclusive licensee more willing to pay a higher royalty to the licensor-patentee than he would have paid for a nonexclusive license.

From the licensee's perspective, an exclusive license may provide a dominant market position[45] as well as the ability to control the exploitation and protection of the invention.[46] The benefits of an exclusive relationship do not come without costs, however. An exclusive license forces the patentee-licensor to "plac[e] all [of his] eggs in one basket,"[47] which may not be a good idea for several reasons. Even though the exclusive licensee has the affirmative duty to maximize the use of the invention,[48] he may fail to exploit the invention, in which case the patentee has no other licensees available to generate income.[49] The patentee also loses the ability to use his invention for his own purposes.[50] Granting an exclusive license may also subject the patentee to increased antitrust exposure.[51] Finally, an exclusive rela-

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45. *See* Kleinginna & Shanda, *supra* note 42, at 1502 (noting that by obtaining an exclusive license, the licensee has the "opportunity to optimize the end-market products' pricing cycle" and, as a result, "possibly control the market, in lieu of being controlled by [it]").

46. *See* Frost, *supra* note 3, at 734.665 (discouraging licensors from issuing exclusive licenses because it is "important to have the product available on a nonexclusive basis to the industry in general"). If a license is nonexclusive, the licensee is not able to control how other nonexclusive licensees exploit the invention. Additionally, a licensee is not able to sue infringers to protect the invention. *See* DONALD S. CHISUM, 8 CHISUM ON PATENTS § 21.03[2][d], at 21-269 (1997) ("[I]t is well-settled that a nonexclusive [patent] licensee has no standing to file suit for infringement and indeed in most instances is not a proper party to such a suit.").

47. Kleinginna & Shanda, *supra* note 42, at 1499.

48. *See* Frost, *supra* note 3, at 734.665 (noting that an exclusive licensee "takes on" this and other "obligations").

49. Licensors sometimes avoid this pitfall by placing protective language in the license agreement that converts the license to a nonexclusive license if the exclusive licensee fails to meet certain performance criteria. A typical clause might read:

> Licensor hereby grants to Licensee, under the Proprietary Rights, an exclusive right and license to make, have made, use and sell Licensed Products in the Territory.
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> . . . Licensee shall use its best efforts to market and sell the Licensed Products . . . . If Licensor determines that Licensee's marketing efforts with respect to any Licensed Product . . . are not meeting Licensor's reasonable commercial expectations, Licensor shall notify Licensee as to what its reasonable commercial expectations are for marketing and sales of such Licensed Products . . . .
>
> If Licensee advises Licensor that such commercial expectations are not reasonable and Licensor does not agree with Licensee's determination, Licensor shall inform Licensee in writing within thirty (30) days after receiving Licensee's explanation that Licensee shall be deemed to have forfeited its exclusive license rights hereunder and this license shall become non-exclusive.

WORLD INTELLECTUAL PROPERTY ORGANIZATION, GUIDE TO THE LICENSING OF BIOTECHNOLOGY 155 (1992) [hereinafter WIPO].

50. *See* Frost, *supra* note 3, at 734.665 (noting that General Motors does not use exclusive licenses because it must maintain the right to use its own inventions).

51. *See* DRAFTING LICENSE AGREEMENTS, *supra* note 25, § 3.03[6], at 3-31 ("Exclusive licenses of patents . . . may be subject to the Hart-Scott-Rodino Antitrust Improvements Act of 1976."). The Act requires exclusive intellectual property licenses to be reported if (1) either party is engaged in activities that affect United States commerce, (2) one party has total assets

tionship allows the licensee to sue for patent infringement, which can force the patentee to litigate in inconvenient fora.[52] At least one commentator has indicated that the loss of control over infringement litigation that accompanies an exclusive license may drive the decision to pursue a nonexclusive relationship.[53] In the end, most patentees conclude that the costs and loss of control over the technology associated with exclusive licenses outweigh the benefits and opt for a nonexclusive relationship.[54] To fully understand how a nonexclusive licensee can be adversely affected by his licensor's bankruptcy and subsequent rejection of the patent license, it is necessary to examine why courts deny nonexclusive patent licensees standing to sue for patent infringement.

C. Nonexclusive Licensees Lack Standing to Sue for Patent Infringement

Since standing to sue for patent infringement is a statutory right, understanding nonexclusive licensee standing requires an examination of the patent statute. Under the statute, a patentee has standing to bring an action for patent infringement.[55] The term "patentee" includes assignees of the patent.[56] While the patent statute appears to

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or annual net sales of $100 million or more and the other party has total assets or annual net sales of $10 million or more, and (3) assets being acquired are valued in excess of $15 million. *See id.* at 3-31 to 3-32. *But see* THE 1995 FEDERAL ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 94 (1996) (noting that, in general, "an exclusive license may raise antitrust concerns only if the licensees themselves, or the licensor and its licensees, are in a horizontal relationship").

52. *See* 8 CHISUM, *supra* note 46, § 21.03[2][c], at 21-264 to 21-265 ("An exclusive licensee generally has standing to sue for infringement against anyone operating without authority in the stated area of exclusivity. . . . However, in many instances, the courts will require joinder of the patent owner as a necessary or indispensable party."). The patentee will be deemed to be an indispensable party to the litigation if he still possesses an interest in the patent. *See id.* § 21.03[3][b], at 21-284 to 21-285. Making the patentee an indispensable party protects the infringer against multiple liability. *See id.*

53. George Frost noted that:

> The exclusive licensee can be expected to want to enforce the patent against his competitors. If it were possible for him to do this without involving us we would not be concerned. But this is not possible and any such enforcement is most likely to become litigation involving GM. It would take far greater royalty potential than is usually available to warrant the risk of being dragged into litigation.

Frost, *supra* note 3, at 734.665.

54. *See* Meyer, *supra* note 2, at 34.

55. *See* 35 U.S.C. § 281 (1994) ("A patentee shall have remedy by civil action for infringement of his patent.").

56. *See* 35 U.S.C. § 100(d) (1994) (stating that the term patentee "includes not only the patentee to whom the patent was issued but also the successors in title to the patentee"). Courts

grant standing to sue for patent infringement only to patentees and their assignees, courts have interpreted the statute to grant standing to anyone who possesses any of the proprietary rights granted by the patent statute.[57] These rights consist of the ability "to exclude others from making, using, offering for sale, or selling the [patented] invention throughout the United States."[58] Thus, the standing doctrine may be stated as follows: anyone who possesses the right to exclude others from making, using, offering for sale, or selling a patented invention has standing to sue for infringement of that patent.

Applying this doctrine, courts have held that exclusive patent licensees have standing to sue for infringement provided that they join the patentee to the action and hold some property rights under the patent.[59] While this appears to open patent standing to a broad class of potential plaintiffs, courts have limited this effect by requiring the language in the license to state clearly and unambiguously that the license is exclusive.[60] As a result, many licenses which on their face appear to be exclusive may be held to be nonexclusive for standing purposes.

Under the standing doctrine, courts have held that nonexclusive patent licensees do not have standing to sue for patent infringement,[61] which comes as no surprise. Recall that a nonexclusive license is

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have interpreted the phrase "successors in title" to include assignees of the patent. *See, e.g.*, Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A., 944 F.2d 870, 876 (Fed. Cir. 1991) (concluding that a licensee who holds "all substantial rights under the patent" is, in effect, an assignee and thus has standing to sue for infringement).

57. *See, e.g.*, Ortho Pharm. Corp. v. Genetics Inst., Inc., 52 F.3d 1026, 1032 (Fed. Cir. 1995) (stating that a licensee who has been given the exclusive right to exploit any or all of the patentee's proprietary rights has standing to sue for patent infringement).

58. 35 U.S.C. § 154(a)(1) (1994).

59. *See, e.g.*, Textile Prods., Inc. v. Mead Corp., 134 F.3d 1481, 1484 (Fed. Cir. 1998) (noting that an exclusive licensee must join the patentee as co-plaintiff in order to bring a patent infringement action). Under a limited exception, the exclusive licensee may sue in his own name if the patentee is infringing his own patent. *See id.*

60. *See* William F. Lee et al., *When an Exclusive License Is Not an Exclusive License: The Standing of "Exclusive" Patent Licensees to Sue After* Ortho Pharmaceutical Corp. v. Genetics Institute, Inc., 7 FED. CIRCUIT B.J. 1, 26 (1997) (noting that after *Ortho Pharmaceutical* a license without an explicit promise not to license to subsequent third parties is probably not exclusive). *But see Textile Prods.*, 134 F.3d at 1484 (stating that an exclusive license may be created where a patentee promises "expressly or impliedly" to exclude others from practicing the invention within the field covered by the license).

61. *See Textile Prods.*, 134 F.3d at 1484 (stating that bare licensees lack standing); *Ortho Pharm.*, 52 F.3d at 1031 (noting that "a nonexclusive license[e] suffers no legal injury from infringement and, thus, has no standing to bring suit or even join in a suit with the patentee"); Penril Datacomm Networks, Inc. v. Rockwell Int'l Corp., 934 F. Supp. 708, 710 (D. Md. 1996) (stating that a nonexclusive licensee lacks standing).

merely a promise by the patentee not to sue the licensee for infringement of the patent.[62] The license does not allow the nonexclusive licensee to exclude anyone from using the patented technology. Thus, the patentee has transferred no property interest in the patent to the nonexclusive licensee. Courts have also stated several policy reasons for denying standing to nonexclusive licensees. In *A.L. Smith Iron Co. v. Dickson*,[63] Judge Learned Hand stated the policy reasons for denying standing as follows:

> It is indeed true that a mere licensee may have an interest at stake in such a suit; his license may be worth much more to him than the royalties which he has agreed to pay, and its value will ordinarily depend on his ability to suppress the competition of his rivals. The reason why he is not permitted to sue is not because he has nothing to protect. But against that interest is the interest of the infringer to be immune from a second suit by the owner of the patent; and also the interest of the patent owner to be free to choose his forum . . . . Indeed, the owner may have granted a number of licenses, and it would be exceedingly oppressive to subject him to the will of all his licensees. These two interests in combination have been held to overweigh any interest of the licensee . . . .[64]

Thus, courts deny standing to nonexclusive patent licensees because (1) standing requires a property interest that nonexclusive licensees lack, (2) standing would subject infringers to multiple liability, and (3) standing would deprive the patent owner of the ability to choose his own forum for the infringement action.

Since patents, and hence patent licenses, derive their value from the ability to exclude others from utilizing the technology,[65] nonexclusive licensees invoke affirmative duties under the license agreements to ensure that infringers are prosecuted.[66] Affirmative duties are active, rather than passive, contractual obligations that each party assumes under the license agreement. Licensees may have affirmative duties such as informing the patentee-licensor of improvements made

62. *See supra* note 41 and accompanying text.

63. 141 F.2d 3 (2d Cir. 1944).

64. *Id.* at 6; *see also Ortho Pharm.*, 52 F.3d at 1031 (quoting Hand's language).

65. *See* Hilboldt, *supra* note 17, at 201("[T]he very purpose of a patent is to permit patent holders and licensees to prevent unauthorized parties from engaging in the patented activity.").

66. *See* Joseph Scafetta, Jr., *Nonexclusive Patent Licensees: The Lack of Right to Sue for Patent Infringement*, 45 GEO. WASH. L. REV. 1, 21 (1976).

on the invention,[67] reporting sales of the licensed invention to the patentee-licensor,[68] or maximizing the use of the invention.[69] Similarly, the affirmative duties or obligations of a patentee-licensor may include furnishing the licensee with improvements to the patented invention,[70] as well as defending the patent against all patent infringers.[71] While the patentee-licensor's affirmative duty to prosecute infringers normally protects the economic interests of nonexclusive licensees, this protection can vanish if the patentee-licensor files for bankruptcy.[72]

II. TREATMENT OF PATENT LICENSES UNDER SECTION 365(n) OF THE BANKRUPTCY CODE

Chapter 11 of the Bankruptcy Code, which governs corporate reorganizations,[73] balances two competing interests: equitable distribution of the debtor's property among various creditors, and debtor rehabilitation.[74] By pursuing a policy of debtor rehabilitation, the Bankruptcy Code provides a way for a company that can pay most of its debts to stay in business.[75] One of the important rehabilitation powers given to the debtor is the power to assume or reject executory contracts.[76] Executory contracts are generally defined to be contracts

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67. *See* Timothy J. Engling, *Improvements in Patent Licensing*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 739, 740-41 (1996), *reprinted in* 5 THE LAW AND BUSINESS OF LICENSING: LICENSING IN THE 1990S, *supra* note 42, at 4265, 4266-67.

68. *See* Dirk K. Barrett Jr., *The Patent License: Standard Clauses and Variations*, *in* TECHNOLOGY LICENSING AND LITIGATION 1995, at 211, 229 (PLI, Patents Series No. 404, 1995).

69. *See id.* at 236; Frost, *supra* note 3, at 734.665.

70. *See* Engling, *supra* note 67, at 740, *reprinted in* 5 THE LAW AND BUSINESS OF LICENSING: LICENSING IN THE 1990S, *supra* note 42, at 4265, 4266.

71. *See* WIPO, *supra* note 49, at 177 (providing a sample infringement clause from a typical nonexclusive patent license, which states that "[t]he Licensor shall, at its discretion, use diligence to cause infringement to cease [through] the grant of a license or other remedy or use diligence in bringing an infringement action against the THIRD PARTY").

72. *See* discussion *infra* Part II.C.

73. *See* DAVID L. BUCHBINDER, A PRACTICAL GUIDE TO BANKRUPTCY 14 (1990).

74. *See* DOUGLAS G. BAIRD, THE ELEMENTS OF BANKRUPTCY 18-19 (rev. ed. 1993).

75. *See id.*

76. *See* 11 U.S.C. § 365(a) (1994) ("[T]he trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor."); *see also* HARVEY M. LEBOWITZ, BANKRUPTCY DESKBOOK 436 (1986). The trustee referred to in the statute is the bankruptcy trustee who is appointed by the court to perform four basic duties: investigate, liquidate, litigate, and administrate the bankruptcy case. *See* BUCHBINDER, *supra* note 73, at 106-07. For the chapter 11 reorganization cases that are the focus of this Note, the debtor typically acts as his own bankruptcy trustee and is referred to as the "debtor-in-possession." *See id.* at

"under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other."[77] A debtor will assume an executory contract, allowing it to remain in effect according to its original terms, if performance of the contract would benefit his rehabilitation.[78] Conversely, a debtor will reject an executory contract if he believes that continued performance under the contract would be detrimental to his rehabilitation.[79]

While the right to reject promotes debtor rehabilitation, rejection can have a highly detrimental effect on the other party to the contract. The Code attempts to protect the interest of the nondebtor party by allowing him to enter a general unsecured claim for breach of contract against the debtor.[80] Since general unsecured creditors are

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108. Throughout this Note, the terms "debtor" and "debtor-in-possession" will be used interchangeably.

77. Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973). Despite extensive use of the term, neither the Bankruptcy Code nor its legislative history offers a precise definition of "executory contracts." *See* LEBOWITZ, *supra* note 76, at 437. Although many courts have adopted Countryman's definition, *see, e.g.*, Mitchell v. Streets (*In re* Streets & Beard Farm Partnership), 882 F.2d 233, 235 (7th Cir. 1989); Gloria Mfg. Corp. v. International Ladies' Garment Workers' Union, 734 F.2d 1020, 1021-22 (4th Cir. 1984), at least two scholars have been critical of his definition as well as the analysis that supports it, *see* Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection,"* 59 U. COLO. L. REV. 845, 849-51 (1988) (noting that Countryman failed to explain the link between rejection and "breach"); Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN. L. REV. 227, 238 (1989) (stating that when applied too broadly, Countryman's definition does not give intuitively correct results); Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. COLO. L. REV. 1, 8, 9 (1991) (stating that, at least in the rejection context, Countryman's definition is of no consequence because whether the contract is executory or not, the outcome of rejection is the same: it creates a claim against the estate).

78. *See* LEBOWITZ, *supra* note 76, at 436.

79. *See id.*

80. *See* 11 U.S.C. § 365(g) (1994). A typical, nonbankrupt company has two types of creditors, secured and unsecured. *See* LYNN M. LOPUCKI & ELIZABETH WARREN, SECURED CREDIT: A SYSTEMS APPROACH 24-27 (2d ed. 1998). Secured creditors have liens on the company's assets. *See* LEBOWITZ, *supra* note 76, at 17. Conversely, unsecured creditors do not possess any interest in the company's assets. *See id.* at 16. The distinctions between these two kinds of creditors become important when a company is placed into bankruptcy, which may occur either voluntarily or involuntarily. *See* BUCHBINDER, *supra* note 73, at 29-41. Secured creditors will be paid in full before unsecured creditors receive any payment. *See* MICHAEL J. HERBERT, UNDERSTANDING BANKRUPTCY §§ 10.01, .04[A] (1995). All unsecured creditors are not created equal, however. Certain unsecured creditors will be repaid before other unsecured creditors. *See id.* §§ 10.04[A]-[C] (listing the priority of payment for various classes of unsecured claims and noting that, for example, administrative expenses incurred in the bankruptcy pro-

typically the last creditors to be paid by the debtor, the nondebtor party usually recovers little or no money for the breach[81] and must enter the market to find a replacement contract. In cases involving patent licenses, however, no replacement contract is available in the market because the debtor-licensor has a lawful monopoly on the patented technology.[82] Despite this fact, the Court of Appeals for the Fourth Circuit in *Lubrizol Enterprises v. Richmond Metal Finishers, Inc.*[83] allowed the debtor-licensor, Richmond Metal Finishers, to reject as executory its nonexclusive patent license agreement with its licensee, Lubrizol Enterprises.[84] The court realized that its holding could have "a general chilling effect upon the willingness of such parties" to enter into intellectual property licenses, but stated that it felt bound by the Bankruptcy Code to allow the rejection without concern for the detrimental effects to the nondebtor party.[85] The court noted that Congress had enacted provisions that allowed courts to consider the plight of real property lessees, who also possess unique property, but that "no comparable special treatment is provided for technology licensees such as Lubrizol."[86] In response to the *Lubrizol* decision, Congress enacted the IPBPA, which attempted to balance the competing policies of debtor rehabilitation and innovation advancement.[87]

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ceeding itself are paid before unsecured tax claims). General unsecured creditors typically will be paid last. *See id.* § 10.04[D].

81. *See* HERBERT, *supra* note 80, § 4.09 (noting that "only creditors with secured claims have claims with real value").

82. *See* S. REP. NO. 100-505, at 2-4 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201-03.

83. 756 F.2d 1043 (4th Cir. 1985).

84. *See id.* at 1046-48. In 1982, Lubrizol Enterprises, Inc. entered a nonexclusive license agreement with Richmond Metal Finishers, Inc. (RMF) that allowed Lubrizol to use metal coating process patents owned by RMF. *See id.* at 1045. RMF filed for bankruptcy roughly one year later. *See id.* RMF sought to reorganize and rehabilitate by rejecting the Lubrizol license as an executory contract under § 365(a) of the Bankruptcy Code so that it could sell or license the technology "unhindered by the restrictive provisions in the Lubrizol agreement." *Id.*

85. *Id.* at 1048.

86. *Id.*

87. *See* S. REP. NO. 100-505, at 10, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3207 (noting that § 365(n) "represents a careful compromise between the needs of the debtor and [those of] the licensee").

A. A Summary of the IPBPA

The purpose of enacting the IPBPA[88] was to "make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to Section 365 [of the Bankruptcy Code] in the event of the licensor's bankruptcy."[89] This legislation provides the intellectual property licensee with two options if a court allows a debtor-licensor to reject a license. The licensee can choose (1) to terminate the license, in essence acquiescing to the rejection,[90] or (2) to retain the license and to continue making royalty payments.[91] Even if the licensee chooses to retain the license, however, the debtor-licensor still rejects any affirmative duties that it might have under the license.[92] Such af-

88. Pub. L. No. 100-506, 102 Stat. 2538 (codified as amended at 11 U.S.C. §§ 101(35A), 101(39), 365(n) (1994)). Section 365(n) reads, in pertinent part, as follows:

> (n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect–
>
> (A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or
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> (B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract, and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for-
>
> (i) the duration of such contract; and
>
> (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.
>
> (2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract–
>
> (A) the trustee shall allow the licensee to exercise such rights;
>
> (B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and
>
> (C) the licensee shall be deemed to waive–
>
> (i) any right to setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and
>
> (ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

11 U.S.C. § 365(n) (1994).

89. S. REP. NO. 100-505, at 1, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200.

90. *See* 11 U.S.C. § 365(n)(1)(A).

91. *See id.* § 365(n)(1)(B).

92. *See id.* (stating that though the licensee may elect to retain his rights, these rights do not include "any other right[s] under applicable nonbankruptcy law to specific performance of

firmative duties might include the licensor's obligation to defend the patent in infringement actions or to continue to improve the technology.[93] Allowing the debtor-licensor to avoid any affirmative duties under the license furthers the goal of debtor rehabilitation by "minimiz[ing] the burdens on the debtor licensor."[94] Still, by choosing to retain rights under the license, the licensee retains the right to use the intellectual property as described in the agreement, including rights under an exclusivity provision.[95]

Other provisions in the IPBPA address administrative and logistical issues. These issues include the scope of the Act,[96] responsibilities of the debtor and the licensee upon retention,[97] transfer of intel-

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such contract"); S. REP. NO. 100-505, at 9, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3206 (stating that, although the licensee can use the license without interference, he "cannot otherwise compel affirmative post-petition performance under the license").

93. *See* Noreen M. Wiggins, Note, *The Intellectual Property Bankruptcy Protection Act: The Legislative Response to* Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 16 RUTGERS COMPUTER & TECH. L.J. 603, 625 (1990).

94. Mary A. Moy, Comment, *The Intellectual Property Bankruptcy Protection Act: An Unbalanced Solution to the International Software Licensing Dilemma*, 11 U. PA. J. INT'L BUS. L. 151, 184 n.172 (1989) (noting that "'[f]uture affirmative actions . . . could deplete the bankrupt estate at the expense of the general creditors . . . .'" (quoting H.R. REP. NO. 100-1012, at 8 (1988))).

95. *See* 11 U.S.C. § 365(n)(1)(B) (stating that rights retained by licensee "includ[e] a right to enforce any exclusivity provision" of the license). According to Senator Joseph Biden, the ability of the licensee to retain exclusive rights to the technology was intended to add "certainty to licensing transactions." S. REP. NO. 100-505, at 12, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3209.

96. Under the IPBPA, "'intellectual property' means [a] trade secret, invention, process, design, or plant protected under [the patent statute], patent application, plant variety, work of authorship protected under [the copyright statute], or mask work." 11 U.S.C. § 101(35A) (1994). Trademarks are notably absent from this list. For a criticism of Congress's omission of trademarks from the IPBPA, see generally David M. Jenkins, *Licenses, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 155-75 (1991).

97. If the licensee chooses to retain his right to use the intellectual property, the debtor-licensor must allow the licensee to exercise these rights and, in return, the licensee must make all royalty payments due under the license. *See* 11 U.S.C. § 365(n)(2). Section 365(n)(2) also states that the licensee waives any right to setoff and administrative expenses. *See id.* Generally, administrative expenses include all expenses incurred by the estate after the commencement of a bankruptcy. *See* BUCHBINDER, *supra* note 73, at 234. These expenses may include attorneys' or other professionals' fees. *See id.* "Setoff" is "the common law right of a creditor to balance mutual debts with a debtor." *Id.* at 189. This common law right is codified in § 553 of the Bankruptcy Code, with certain limitations. *See id.* The right of setoff may be beneficial to the creditor by allowing him to have a priority interest in the money owed to him. *See* BAIRD, *supra* note 74, at 211. However, the limitations imposed by the Bankruptcy Code can lessen the amount actually received by the creditor, thus most creditors do not request permission to pursue a setoff. *See* BUCHBINDER, *supra* note 73, at 189-90 (stating that the Code does not allow a creditor to use as a setoff either "a claim assigned to it by another entity within 90 days of the

lectual property held by the debtor,[98] and trustee actions between petition filing date and the rejection date.[99] While the IPBPA has had its supporters,[100] there has been extensive criticism of the Act.

B. Criticism of the IPBPA

1. *Questioning the Need for Congressional Action.* Before examining the specific features of the IPBPA, one must first consider the threshold issue of whether congressional action was, in fact, needed to protect intellectual property licensees in the event of licensor bankruptcy. Some critics believe that Congress overreacted to the result in *Lubrizol* by enacting the IPBPA.[101] They believe that the threat from the *Lubrizol* holding was uncertain and that courts would have, in time, adopted a balancing test.[102] This test, which had already

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bankruptcy filing" or "a debt owed to the debtor and incurred within 90 days prior to the filing").

98. If requested in writing, the debtor-licensor must transfer intellectual property in its possession if so provided in the license agreement. *See* 11 U.S.C. § 365(n)(3). This section addresses the problem faced by most software licensees of determining what happens to the source code when the licensor enters bankruptcy. *See* Moy, *supra* note 94, at 185-86. In a typical software licensing arrangement, licensees are given a copy of the object code, but not a copy of the source code. *See id.* at 160. The object code is all that is required to reproduce the software; however, without the source code, the object code is unintelligible and licensees may have difficulty understanding how the program works. *See id.* The source code is used for software debugging and updating and can be used to misappropriate the program. *See id.* at 160-61. Therefore, instead of giving a copy of the source code to the licensee, the licensor performs all maintenance functions. *See id.* The source code may be held by the licensor, but it is typically placed in escrow. *See id.* at 164. Section 365(n)(3) dictates how the transfer of this type of intellectual property will occur. *See id.* at 185-86.

99. Upon written request of the licensee, the debtor-licensor must either continue to perform under the license or provide the licensee with the intellectual property held by the debtor-licensor. *See* 11 U.S.C. § 365(n)(4).

100. *See Hearing on S. 1626*, *supra* note 21, at 224-25 (statement of John L. Pickitt, President, Computer and Business Equipment Manufacturers Association); *id.* at 235-36 (statement of Steven C. Mendell, Chief Executive Officer, XOMA Corp.); *id.* at 242-43 (statement of John P. McLaughlin, Vice President, Genentech, Inc.); *id.* at 254-55 (statement of George A. Hahn, Esq., on behalf of the National Bankruptcy Conference); *id.* at 272 (statement of Jeffrey L. Tarkenton, Esq., on behalf of the American Bankruptcy Institute).

101. *See House Hearings*, *supra* note 10, at 103 (testimony of George A. Hahn, on behalf of the National Bankruptcy Conference) (noting that a judicial balancing test would have been preferable to a congressional response); Moy, *supra* note 94, at 192 (concluding that a judicial balancing test would have been more effective than legislative interference in alleviating the problems created by *Lubrizol*).

102. *See House Hearings*, *supra* note 10, at 100 (testimony of George A. Hahn, on behalf of the National Bankruptcy Conference) (stating that since courts ultimately will adopt a balancing test, Congress should allow courts to correct the problem); Moy, *supra* note 94, at 178 (noting that "[g]iven time, the balancing test would have most likely settled the problems that persisted in cases involving the rejection of . . . technology licensing agreements").

been applied by several courts, relied on the bankruptcy court's equitable powers to balance the effects on the debtor's rehabilitation against the effects on the licensee's business to determine if the debtor could reject the license.[103] These critics argue that allowing judicial resolution of the issue would have resulted in a flexible rule that might have treated parties more fairly in individual cases than does subjecting them to a rigid statutory rule that most likely does not address every potential circumstance.[104]

While the use of a balancing approach appears to be more fair in individual cases, it does not provide the predictability that is critical to contracting parties. It is often better to have a less-than-fair rule that is predictable than to have a completely fair rule that is unpredictable.[105] Parties value predictability over fairness because they can plan their affairs based on less-than-fair, predictable rules, but not based on completely fair, unpredictable rules.[106] In the case of intellectual property licenses, the balancing approach might be more fair, but it would inhibit intellectual property licensing. Since the ability to reject a license would be determined by balancing the equities, the potential licensor would not be able to predict whether or not he would be able to reject the license in the event of his bankruptcy. Likewise, prior to licensor bankruptcy, the potential licensee would be unable to predict whether or not he could retain the license. This lack of predictability inherent in a balancing test would inhibit intel-

103. In her Comment, Mary Moy notes that in the pre-*Lubrizol* decision *In re Petur U.S.A. Instrument Co.*, 35 B.R. 561 (Bankr. W.D. Wash. 1983), the court refused to allow the debtor to reject an intellectual property license, even though the rejection was based on sound business judgment, because it would cause a detrimental impact on the licensee that was disproportionate to the benefit gained by the unsecured creditors. *See* Moy, *supra* note 94, at 171-72. Moy also discusses several post-*Lubrizol* cases that rejected the "harsh" *Lubrizol* rule and adopted the balancing test, despite the Supreme Court's denial of certiorari in *Lubrizol*. *See id.* at 174-77 (discussing *In re* Logical Software, Inc., 66 B.R. 683 (Bankr. D. Mass. 1986), and *In re* Midwest Polychem, Ltd., 61 B.R. 559 (Bankr. N.D. Ill. 1986)).

104. *See* Moy, *supra* note 94, at 191-92; *Hearing on S. 1626*, *supra* note 21, at 292-93 (statement of Thomas M.S. Hemnes).

105. *See* Ducre v. Executive Officers of Halter Marine, Inc., 752 F.2d 976, 994 n.37 (5th Cir. 1985) (noting "the supremely important interests in predictability and certainty which lie at the heart of contract law"); Breskman v. BCB, Inc., 708 F. Supp. 655, 657 (E.D. Pa. 1988) (noting that "certainty, predictability and uniformity of result . . . are of greatest importance when the parties are likely to take into consideration the legal consequences of their planned transactions, such as the legal effect of contracts").

106. *See* 6A WILLIAM L. NORTON, JR., NORTON BANKRUPTCY LAW AND PRACTICE § 152:16, at 152-39 (2d ed. 1997) (noting that predictability is important because "[i]f business people do not know whether their contracts will be enforced, they will not engage in commerce").

lectual property licenses and continue the chilling effect brought about by the *Lubrizol* decision. Moreover, even assuming that the balancing approach did alleviate the chilling effect, judicial development advocates admit that it could have taken several years for this balancing test to develop organically,[107] during which time the chilling effect of *Lubrizol* would continue. While it is likely that the IPBPA does not provide answers for all intellectual property dilemmas faced in the event of licensor bankruptcy, some legislative action was called for to provide the predictability that could not have been achieved through the judicial development of a balancing test.

2. *Criticism of IPBPA Provisions.* Congress realized that "intellectual property licensing arrangements are not generally standardized" and that "the particular transaction is the product of the circumstances of the licensor, the licensee and other interested parties."[108] Despite this realization, the IPBPA sets out fairly simple rules to alter the complex relationship between licensor and licensee. While congressional action was sought by critics of the *Lubrizol* decision,[109] and arguably by the *Lubrizol* court itself,[110] perhaps no congressional action could have solved all of the myriad problems presented by the bankrupt licensor's rejection of an intellectual property license.[111] Critics of the IPBPA have faulted the Act for its limited

107. *See House Hearings*, *supra* note 10, at 100 (testimony of George A. Hahn on behalf of the National Bankruptcy Conference) (noting that "there is a general tendency slowly gathering momentum in [the] general direction [of a balancing test], which will take several years").

108. S. REP. NO. 100-505, at 9 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3206.

109. *See* Jeffrey R. Seul, Comment, *License and Franchise Agreements as Executory Contracts: A Proposed Amendment to Section 365 of the Bankruptcy Code*, 59 U. COLO. L. REV. 129, 140 (1988) (stating that the judiciary has been "vocal about the need for further reform").

110. The court noted that Lubrizol had never used the licensed technology, *see* Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985), which tends to indicate that rejection of the license would not have harmed the licensee in the case at hand. Despite the lack of harm to Lubrizol, the court stated that its decision could have a chilling effect on technology licensing. *See id.* at 1048. The court also noted that Congress had decided to protect other classes of nondebtors, namely lessees of real property and union members under collective bargaining agreements but, by its silence, had chosen to allow technology licensees to suffer "the general hazards of § 365." *Id.*; *see also* Seul, *supra* note 109, at 140-44 (exploring judicial recognition of the vulnerability of nondebtor parties in the rejection of executory contracts).

111. *See* Barbara C. Brown et al., *Technology Licenses Under Section 365(n) of the Bankruptcy Code: The Protections Afforded the Technology User*, 95 COM. L.J. 170, 199 (1990) ("[T]he commercial relationship between technology licensors and licensees is often complex. It is difficult to construct a Code provision broad enough to cover typical problems, yet one that will be fair and equitable under all circumstances.").

scope,[112] for failing to protect the licensor in the event of licensee's bankruptcy,[113] for failing to adopt a balancing-of-equities approach,[114] and for failing to limit the licensor's ability to assign the license.[115] Much of the criticism, however, has focused on the ability of the licensor to reject his affirmative obligations.

Criticism of the debtor-licensor's ability to reject affirmative obligations has focused on two common obligations: the obligation to provide ongoing technical support[116] and the obligation to share fu-

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112. *See, e.g.*, Anthony Giaccio, *The Effect of Bankruptcy on the Licensing of Intellectual Property Rights*, 2 ALB. L.J. SCI. & TECH. 93, 124-25 (1992) (arguing that the definition of intellectual property under the IPBPA should be expanded to include "all forms of federally protected intellectual property"); Michael J. Shpizner, Commentary, *Congress Passes New Legislation Protecting Licensees of Intellectual Property*, 30 IDEA 1, 3-4 (1989) (concluding that one of the issues left unresolved by the IPBPA was the treatment of trademark licenses). *See generally* Jenkins, *supra* note 96, at 161-75 (discussing the reasons Congress chose to exclude trademarks from the definition of intellectual property, the problems resulting from this exclusion, and proposed amendments to § 365(n) of the Bankruptcy Code). Congress stated that trademarks fell out of the scope of the IPBPA because trademark-licensing relationships depend on quality control, a complex issue that Congress was not prepared to address at that time. *See* S. REP. NO. 100-505, at 6, *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.

113. *See, e.g.*, Ann Livingston & Leif M. Clark, *Technology Transfers: What if the Other Party Files Bankruptcy?*, 21 ST. MARY'S L.J. 173, 205 (1989).

114. *See, e.g.*, Moy, *supra* note 94, at 192 (concluding that, by allowing the licensee to retain the license in every situation, the IPBPA "alleviates the problems of the licensee [while] inadvertently creating burdens for the licensor" and recommending that a more balanced approach be taken that will account for the interest of both the licensee and the licensor); *see also* John P. Musone, Comment, *Crystallizing the Intellectual Property Licenses in Bankruptcy Act: A Proposed Solution to Achieve Congress' Intent*, 13 BANKR. DEVS. J. 509, 534 (1997) (recommending that courts adopt a balancing standard in assessing the right of a licensor to reject the intellectual property license).

115. *See, e.g.*, Marjorie F. Chertok, *Structuring License Agreements with Companies in Financial Difficulty–Section 365(n)–Divining Rod or Obstacle Course?*, 65 ST. JOHN'S L. REV. 1045, 1074 (1991) (positing that the failure of § 365(n) to address the assignment issue makes assumption of the license and subsequent assignment to third parties "the [l]icensor's [u]ltimate [w]eapon"). Chertok argues that assignment is the licensor's ultimate weapon because the licensor may assign the license to someone who is incapable of adequately performing under the contract. *See id.* at 1075. There are two flaws in this argument. First, if the licensor chooses to reject the license rather than assume and assign, the licensee is guaranteed of not receiving adequate performance, since by rejecting, the licensor avoids all affirmative duties. Therefore, the licensee is no worse off than if the assignee failed to adequately perform. Second, if the assignee fails adequately to perform under the terms of the license, the licensee can sue the assignee for breach of contract, and actually hope to collect, assuming that the assignee is not also in bankruptcy. Therefore, assumption and assignment may actually put the licensee in a better position than rejection. *See also* David S. Kupetz, *Intellectual Property Issues in Chapter 11 Bankruptcy Reorganization Cases*, 35 IDEA 383, 397 (1995) (noting that § 365(n) is silent as to the assignment issue and recommending that parties include clauses in the license agreement limiting the right of assignment to indicate their intent in the event of a bankruptcy).

116. *See* Brown et al., *supra* note 111, at 195-96 (noting the inequity of IPBPA's forcing a licensee to continue making *all* royalty payments while a licensor is allowed to reject

ture improvements.[117] Critics argue that a licensee's interest in intellectual property extends beyond the mere right to use it without the threat of an infringement suit.[118] They contend that allowing the licensor to reject these affirmative obligations diminishes the value of the intellectual property.[119] While critics of the IPBPA have noted that provisions of the Act may have tipped the scales in favor of either the licensee or the patentee-licensor, they have all but ignored the fact that it does not address licensee standing. This aspect of the Act could nullify any impact its enactment may have had.

"obligations to train the licensee's personnel, to modify the technology according to changes in the licensee's business, and otherwise to support the licensee and service the technology"); John J. Fry, Note, *The Rejection of Executory Contracts Under the Intellectual Property Bankruptcy Protection Act of 1988*, 37 CLEV. ST. L. REV. 621, 641-44 (1989) (discussing how the IPBPA would not protect a licensee's right to continued technical consulting services).

117. *See* Brown et al., *supra* note 111, at 195 (noting that technology may be licensed at an early stage of development, with the licensee relying on continued development by the licensor to make the technology commercially viable). *But see* Robert T. Canavan, Comment, *Unsolved Mysteries of Section 365(n)–When a Bankrupt Technology Licensor Rejects an Agreement Granting Rights to Future Improvements*, 21 SETON HALL L. REV. 800, 813-31 (1991) (arguing, albeit weakly, that debtor-licensor rejection does not cut off a licensee's right to future improvements because that right is a passive right rather than an affirmative obligation). Canavan acknowledges that ability to reject rights to future improvements may be attributed to "the classic 'fresh start' [bankruptcy] policy." *Id.* at 817. Under this policy, the licensee would be allowed to use the unburdened future improvements for rehabilitation. *See id.* Canavan states that "[t]o date, no commentator has suggested that Congress considered this policy when it enacted the [IPBPA], nor was it mentioned in the Senate Report." *Id.* He then posits that there is a "competing policy" of allowing the debtor-licensor only to reject *affirmative* obligations. *Id.* at 818. He argues that given the silence regarding the "fresh start" policy, Congress must have intended to promote the policy of affirmative obligation avoidance rather than the policy of debtor rehabilitation. *Id.* at 816-19. Canavan concludes that since the right to future improvements is not, technically, an affirmative obligation, the IPBPA does not allow the debtor-licensor to withhold these improvements from the licensee. *See id.* at 830-31. Canavan's fatal flaw is his myopic focus on the IPBPA. The "classic" bankruptcy policy of debtor rehabilitation was not mentioned in connection with passage of the IPBPA because the IPBPA is merely a small section in an entire code devoted to debtor rehabilitation. Additionally, the licensor's right to reject affirmative obligations is not a "competing" policy; rather it furthers the overriding policy of debtor rehabilitation.

118. *See, e.g.*, Fry, *supra* note 116, at 642 (noting that technical consulting services provided by the licensor "are largely inseparable from the technology which is the subject of the license agreement").

119. *See, e.g.*, *id.* at 643 ("Without the [technical] expertise of the inventor[-licensor], the licensee's ability to commercialize the invention successfully could be significantly impaired because the inventor[-licensor], with his intimate knowledge of the licensed technology, is in a much better position to recognize and correct for unforeseen difficulties encountered in its application."); Brown et al., *supra* note 111, at 195 ("The licensor's avoidance of [the] obligations [to provide future improvements] in the early stages of the technology's development could effectively deprive the licensee of substantially all of the financial benefits anticipated from the license.").

C. IPBPA's Failure to Address Licensee Standing Is Its Biggest Flaw

Patents are valuable because they prevent unauthorized parties from practicing certain technology.[120] Thus, the inability to bring an infringement action makes the patent worthless.[121] In criticizing the IPBPA, commentators have addressed this problem in passing by discussing how a licensee might be reimbursed if forced to defend the intellectual property,[122] but that discussion bypasses the true issue: the debtor-licensor's ability to reject the duty to prosecute infringers coupled with the nonexclusive licensee's lack of standing to bring an infringement action renders the nonexclusive patent license worthless to the nonexclusive licensee.[123]

Under nonbankruptcy conditions, the nonexclusive licensee does not need the ability to sue for patent infringement. Even though he may base his entire business on the license, the nonexclusive licensee can protect himself by contractually requiring the patentee-licensor to defend the patent against infringement.[124] The nonexclusive licensee has a cause of action for breach of contract should the licensor fail to prosecute infringers.[125] However, if the licensor files for bankruptcy and rejects the nonexclusive patent license as an executory contract, the nonexclusive licensee is no longer protected. By rejecting the license, the debtor-licensor rejects all affirmative duties under the license, including the duty to defend the patent against infringement.[126] As in the nonbankruptcy setting, the nonexclusive licensee

120. *See* Hilboldt, *supra* note 17, at 201.

121. *See id.*

122. *See, e.g.*, Fry, *supra* note 116, at 641 ("One obligation common to intellectual property licenses is the licensor's duty to defend patent infringement suits. Although rejection would excuse the licensor from defending an infringement suit, the licensee could enter a general, unsecured claim against the estate for the cost of its defense in the suit under 11 U.S.C. § 502(g)."); Wiggins, *supra* note 93, at 625 (noting that under the IPBPA, "[t]he licensee cannot force the licensor to continue to defend him in patent infringement suits" but "[n]o restrictions are placed . . . on the [licensee's] right to pursue any general claim for damages . . . under section 365(g)").

123. One article has briefly addressed this issue. *See* Livingston & Clark, *supra* note 113, at 195 ("Thus, with respect to [patent] enforcement, the rejecting trustee is excused from bringing an infringement action. The licensee, who has an incentive to see that such actions are brought, would appear to lack standing to bring such a suit . . . .").

124. *See* Scafetta, *supra* note 66, at 21 (noting that the licensee is remediless if he fails to negotiate a clause into the license under which the licensor agrees to enforce the patent). The license agreement can even provide that the licensee will fund the infringement action if the patentee is disinclined to incur, or financially incapable of incurring, the legal expenses. *See id.*

125. *See id.*

126. *See supra* notes 92-93 and accompanying text.

has a cause of action for breach of contract.[127] This cause of action is of little value to the licensee, however, because it becomes a general unsecured claim against the debtor-licensor's bankruptcy estate.[128] General unsecured claims are the last claims to be paid and may be worth pennies on the dollar at the end of an oftentimes lengthy case.[129] In the meantime, the licensee's business may be decimated by ongoing infringement. Because nonexclusive licensees must have standing to sue for patent infringement to protect themselves in this situation, Congress should amend the Bankruptcy Code to allow nonexclusive licensees to sue for patent infringement if the debtor-licensor rejects the license.

IV. USE OF THE COMMITTEE MECHANISM TO PROTECT THE PATENT

The IPBPA was enacted to ensure that the debtor-licensor cannot unilaterally cut off an intellectual property licensee's right to use the intellectual property.[130] For the IPBPA to fulfill its purpose, a nonexclusive patent licensee must be able to protect the underlying patent against infringers following a debtor-licensor's rejection of the nonexclusive patent license. To provide this protection, nonexclusive patent licensees must be given standing to sue for patent infringement in this limited situation. Thus, what is needed is a mechanism under the Bankruptcy Code whereby a group of similarly situated parties can sue in the name of the debtor to protect property of the debtor's bankruptcy estate. Such a mechanism, called the creditors' committee, already exists under the Bankruptcy Code. This Part will examine how the creditors' committee can be used to provide standing to nonexclusive patent licensees.

A. The Committee Mechanism

The Bankruptcy Code uses committees to protect the interests of creditors while promoting debtor rehabilitation.[131] Section 1102 calls

127. *See* 11 U.S.C. § 365(g) (1994).

128. *See supra* note 80 and accompanying text.

129. *See supra* note 81 and accompanying text.

130. *See* S. REP. NO. 100-505, at 1 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200.

131. Since a debtor has the most knowledge of how to run his business, the debtor, acting as the debtor-in-possession, is typically left in full control of the business during bankruptcy. *See* JAMES J. WHITE & RAYMOND T. NIMMER, BANKRUPTCY 172 (2d ed. 1992). While this situation promotes debtor rehabilitation, the debtor-in-possession may not necessarily protect the interest of creditors. *See* BUCHBINDER, *supra* note 73, at 108. The committee mechanism allows the unsecured creditors to unite and monitor the actions of the debtor-in-possession. *See id.*

for the mandatory appointment of a committee composed of unsecured creditors, commonly referred to as the Official Creditors' Committee.[132] The creditors' committee ordinarily consists of the seven largest unsecured creditors who are representative of the body of unsecured creditors.[133] Additionally, the United States trustee may appoint other committees at her discretion or, upon request of one of the parties in interest, by order of the court.[134] Congress intended for additional committees to be appointed in large bankruptcy cases where the class of unsecured creditors consists of a large number of creditors with a wide variety of interests and objectives.[135] While additional committees have been used to protect special interests of groups such as equity shareholders, trade creditors, secured creditors, and current and former employees,[136] bankruptcy courts have been reluctant to order the appointment of additional committees of unsecured creditors.[137] This reluctance stems from the belief that multiple committees may complicate negotiations between the debtor and creditors, delay the debtor's reorganization process, and create additional administrative expenses for the debtor's estate.[138]

To aid committees in protecting the interests of creditors, the Code grants them broad powers. Committees have the power to monitor the actions or inaction of the debtor,[139] to aid in formulating a plan of reorganization,[140] and to "perform such other services as are in the interest of those represented."[141] Additionally, with the court's approval, committees may hire their own attorneys and accountants,[142] whose expenses are payable by the debtor's estate.[143] Commit-

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132. *See* 11 U.S.C. § 1102(a)(1) ("[T]he United States trustee shall appoint a committee of creditors holding unsecured claims . . . ."). Since the unsecured creditors' committee is the only committee whose appointment is mandated by the Code, it is commonly referred to as the Official Creditors' Committee or the Official Unsecured Creditors' Committee. *See* BUCHBINDER, *supra* note 73, at 108. It should be noted that if the debtor is a small business, the court "may order that a committee of creditors not be appointed." 11 U.S.C. § 1102(a)(3).

133. *See* Kenneth N. Klee & K. John Shaffer, *Creditors' Committees Under Chapter 11 of the Bankruptcy Code*, 44 S.C. L. REV. 995, 1005 (1993) (explaining § 1102(b)(1)).

134. *See* 11 U.S.C. §§ 1102(a)(1)-(2).

135. *See* S. REP. NO. 95-989, at 114 (1978), *reprinted in* 1978 U.S.C.C.A.N. 5787, 5900.

136. *See* Klee & Shaffer, *supra* note 133, at 1027-30.

137. *See id.* at 1025.

138. *See id.* at 1024-25 (noting that the common assumption is that all additional committees appear to enjoy the same rights as the Official Creditors' Committee).

139. *See* 11 U.S.C. § 1103(c)(2).

140. *See id.* §§ 1103(c)(2)-(3).

141. *Id.* § 1103(c)(5).

142. *See id.* § 1103(a).

tees also have a general right to "raise and [to] appear and be heard on any issue in a case under [chapter 11]."[144] While the Code grants broad powers to committees, it does not expressly grant committees the power to bring adversary proceedings in the name of the debtor.[145] Realizing that standing provides an important form of creditor protection,[146] however, a majority of courts consider committee standing to sue on behalf of the debtor to be implicitly included among the broad general powers granted to committees.[147]

Courts have limited their willingness to grant committee standing to avoid unnecessarily wresting power from the debtor. Before granting standing to sue on the debtor's behalf, courts typically require the creditors' committee to show that "(1) a colorable claim exists that the debtor has not pursued, (2) the committee made a demand upon the debtor to bring the action, and (3) the debtor unjustifiably refused to pursue the action following the demand."[148] To protect the debtor's right to administer his bankruptcy estate, the creditors' committee must demonstrate these elements even if the committee members fully fund the litigation.[149] While courts usually grant standing to allow creditors' committees to pursue debtor claims arising under the bankruptcy statute,[150] courts also have granted

143. *See id.* § 503(b)(4).

144. *Id.* § 1109(b).

145. *See* Committee of Unsecured Creditors v. Monsour Med. Ctr. (*In re* Monsour Med. Ctr.), 5 B.R. 715, 717 (Bankr. W.D. Pa. 1980).

146. *See id.*

147. *See* Peter C. Blain & Diane Harrison O'Gawa, *Creditors' Committees Under Chapter 11 of the United States Bankruptcy Code: Creation, Composition, Powers, and Duties*, 73 MARQ. L. REV. 581, 606 (1990) (noting that courts have implied creditor standing under § 1103(c)(5) or § 1109(b) of the Code).

148. Klee & Shaffer, *supra* note 133, at 1044.

149. *See id.* at 1044-45.

150. Courts usually grant standing to committees so that they may enforce the debtor's rights under the Bankruptcy Code to avoid fraudulent and preferential transfers. *See id.* at 1044. Under § 548, governing fraudulent transfers, the debtor can recover money transferred by the debtor with actual intent to hinder, delay, or defraud creditors. *See* 11 U.S.C. § 548(a)(1) (1994). *See generally* BUCHBINDER, *supra* note 73, at 183-85 (discussing fraudulent transfers). Section 547 allows the debtor to recover money preferentially given to certain creditors within 90 days prior to the filing of the bankruptcy petition so that the money may be distributed among all creditors. *See* 11 U.S.C. § 547(b)(4)(A). *See generally* BUCHBINDER, *supra* note 73, at 169-81 (discussing preferences). The debtor may choose not to pursue these claims for several reasons. The debtor may lack sufficient funds to bring the action himself. *See* HERBERT, *supra* note 80, § 14.05. Additionally, the transfer could have been made to one of the debtor's executives, resulting in a potential conflict of interest because the person making the decision to recover the money may be the very person from whom the money will be recovered. *See id.*; Michael L. Cook et al., *Fraudulent Transfers*, *in* 20TH ANNUAL CURRENT DEVELOPMENTS IN

standing to committees so that they may pursue debtor claims arising under other statutes.

Louisiana World Exposition v. Federal Insurance Co.[151] involved a contractor creditors' committee, appointed by a bankruptcy court under 11 U.S.C. § 1102(a), that had filed a complaint under Louisiana law against the officers and directors of the debtor, Louisiana World Exposition, for gross negligence, mismanagement and breach of fiduciary duty.[152] A bankruptcy court had granted standing to the contractor creditors' committee to sue on behalf and in the name of the debtor.[153] The district court granted defendant's motion to dismiss for failure to state a claim, noting that under Louisiana law, corporate creditors do not have standing to maintain such an action; therefore, the creditors' committee should not have standing.[154] The Court of Appeals for the Fifth Circuit noted that under the state statute only a corporation or its shareholders had a cause of action and that a creditor has no such cause of action.[155] In spite of this fact, the court held that the contractor creditors' committee had standing to bring the suit against the directors because the committee was bringing the action on behalf of and in the name of the debtor, who did have standing to sue under the state statute.[156]

The contractors in *Louisiana World Exposition* and nonexclusive patent licensees are in similar situations. The members of the contractor creditors' committee ordinarily would have lacked standing to sue for gross negligence, mismanagement, and breach of fiduciary duty.[157] Similarly, nonexclusive patent licensees ordinarily lack standing to sue for patent infringement. Despite the contractor creditors' committee's lack of standing, the court allowed the committee to bring suit under the Louisiana statute on behalf and in the name of the debtor.[158] Similarly, nonexclusive patent licensees who are mem-

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BANKRUPTCY AND REORGANIZATION 1998, at 415, 437 (PLI Commercial Law Series No. 767, 1998) (discussing adversary proceedings in the fraudulent transfer context).

151. 858 F.2d 233 (5th Cir. 1988).

152. *See id.* at 235.

153. *See id.* at 234.

154. *See id.* at 234-35.

155. *See id.* at 239-40 (noting that "[i]t is clear . . . beyond peradventure that Louisiana law does not give a creditor a direct cause of action against a director of an insolvent corporation for damages for gross negligence, mismanagement or breach of fiduciary duty").

156. *See id.* at 252.

157. *See id.* at 239-40.

158. *See id.* at 247.

bers of a creditors' committee should have standing to sue for patent infringement on behalf of and in the name of the patentee.

B. Patent Licensee Creditors' Committees

1. *Nonexclusive Licensees May Have Standing to Sue*. Nonexclusive patent licensees who are parties to licenses that have been rejected in bankruptcy currently have two options for obtaining standing to sue for patent infringement: the Official Creditors' Committee or a patent licensee creditors' committee. As discussed earlier, when a patentee-licensor rejects a patent license, the licensee becomes a general unsecured creditor of the debtor.[159] As a result, the licensee's interests are protected by the Official Creditors' Committee.[160] Thus, the nonexclusive patent licensee could get the Official Creditors' Committee to pursue a patent infringement action on behalf of and in the name of the patentee. This result is unlikely, however, because the nonexclusive licensee's breach of contract claim is probably not large enough to place the licensee on the Official Creditors' Committee, which is comprised of the seven largest unsecured creditors.[161]

Alternatively, like the contractors in *Louisiana World Exposition*, the nonexclusive licensees could ask the court to appoint an additional creditors' committee,[162] a patent licensee creditors' committee, to protect the special interest of patent licensees.[163] While bankruptcy courts may be sensitive to the needs of patent licensees, there is no guarantee that courts will appoint such a committee. In fact, bankruptcy courts generally have been reluctant to order the appointment of additional committees.[164] As with the balancing test proposed as an alternative to the IPBPA,[165] this solution is unsatisfactory because it is unpredictable. A more permanent solution is needed.

2. *Congress Should Require the Formation of a Patent Licensees' Creditors' Committee*. Section 365(n) should be amended to provide that upon debtor-licensor rejection of a patent license, bankruptcy

159. *See supra* note 80 and accompanying text.
160. *See supra* note 132-33 and accompanying text.
161. *See supra* note 133 and accompanying text.
162. *See Louisiana World Exposition*, 858 F.2d at 235.
163. *See supra* text accompanying notes 134-35.
164. *See* Klee & Shaffer, *supra* note 133, at 1025.
165. *See* discussion *supra* Part II.B.1.

courts will form a patent licensees' creditors' committee to protect the patent during the bankruptcy proceeding.[166] All licensees of the patent, exclusive and nonexclusive, would be eligible for committee membership. Participation on the committee would be voluntary, but the patentee and all licensees of the patent would be bound by the actions of the committee.[167]

The committee would have standing to bring patent infringement actions under the patent statute on behalf of and in the name of the debtor-patentee. Since the action would be on behalf of the patentee, any damages recovered would become part of the debtor's estate after reimbursing the licensee committee for litigation costs. As with other creditors' committees, before a court would grant standing, the patent licensee creditors' committee would have to show that (1) a colorable claim of infringement exists that the debtor-licensor has not pursued, (2) the committee made a demand on the debtor to bring the action, and (3) the debtor unjustifiably refused to pursue the action following the demand.[168] Refusal based on a lack of financial resources to pursue the action would be deemed unjustifiable if the moving member of the committee is prepared to fund the litigation. The decision to attempt to pursue an infringement action would be an individual one, not a majoritarian one. Thus, standing would be granted to any member who could demonstrate the existence of the three elements listed above. To ensure that the licensee committee furthers the pursuit of debtor rehabilitation, any costs incurred by the committee would be borne by the committee members who have chosen to pursue the infringement action rather than by the bankruptcy estate. However, committee members may be reimbursed out of any funds recovered in the litigation.

The committee mechanism adequately addresses each of the three reasons courts have given for denying standing to nonexclusive licensees: lack of property interest, subjecting infringers to multiple liability, and depriving patentee choice of forum. First, since the patent licensee creditors' committee would bring the infringement action in the name of and on behalf of the patentee, the committee would possess a property interest in the patent. Second, the committee

166. Providing a mechanism to protect the patent only makes sense; it is in the best interest of the estate to protect all assets of the estate, and the patent is an asset of the estate.

167. Allowing membership on the committee to be voluntary would relieve smaller licensees of the burden of participating in the committee if they feel that they are not likely to need to pursue an infringement action.

168. *See supra* text accompanying note 148.

mechanism solves the problem of multiple liability because it would effectively create a mandatory class action comprised of all interested potential plaintiffs to prosecute the infringement action. Since the licensees' committee would be pursuing the infringement action on behalf of the patentee, the patentee would be bound by the outcome of the case. Similarly, all other licensees would be bound by the outcome based on their membership on the committee and their opportunity to assist in pursuing the action.

Finally, use of the committee mechanism overcomes the criticism that nonexclusive licensee standing hinders the patentee's privilege to choose a convenient forum in two ways. Prior to being granted standing to sue, the licensees' committee must have made a demand on the debtor-patentee to pursue the action which was refused by the debtor-patentee. This safeguard gives the debtor-patentee the opportunity to choose his forum by choosing to pursue the infringement action. If the debtor-patentee refuses the demand, he can be deemed to have waived his privilege to choose his forum. Moreover, once the committee is granted standing, it can bring an action in place of the patentee. By not requiring the committee to join the debtor-patentee in the infringement action, the debtor-patentee is spared litigation in an inconvenient forum.

Use of the committee mechanism would continue § 365(n)'s current policy of relieving the debtor-licensor of the affirmative duty to prosecute infringing parties, thus promoting debtor rehabilitation. The committee mechanism would also allow the patent licensees to protect their interest in the patent without subjecting the infringing party to multiple liability.

CONCLUSION

Currently, § 365(n) of the Bankruptcy Code allows debtor-licensors to reject patent licenses as executory contracts and, in the process, to reject the affirmative duty to protect the patent against infringement. As written, the statute allows patent licensees to continue using the license while providing for debtor rehabilitation. However, Congress did not consider that nonexclusive patent licensees do not have standing to sue for patent infringement.

Section 365(n) should be amended to provide for the formation of a patent licensee creditors' committee upon the rejection of a patent license. The committee would balance the interests of the patent licensees with the goal of debtor rehabilitation by providing a mechanism to protect the patent against infringement for the duration of the debtor's bankruptcy while relieving the debtor-licensor from the burden of funding patent litigation.