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The Clash Between Section 365 and Intellectual Property Law

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My testimony concerns the difficult interface between the Bankruptcy Code and intellectual property licensing rights. It is based upon my more than 35 years in the bankruptcy field, including my tenure as a bankruptcy judge in the Central District of California from 1985-2000. I am currently a partner in the law firm of Arnold & Porter LLP and a member of the firm's national bankruptcy and corporate restructuring practice.[1] Among many other bar and professional activities, I am a Fellow of the American College of Bankruptcy, a former member of ABI's Board of Directors, and a member (and former board member) of the National Conference of Bankruptcy Judges. I also currently serve as the co-reporter for the Commission's Advisory Committee on Executory Contracts and Unexpired Leases.

For many years, I have advised and represented parties in connection with matters at the intersection of bankruptcy and intellectual property licensing law, particularly in the context of (i) the power to assume, reject, or compel the modification of executory contracts under Bankruptcy Code § 365; and (ii) asset sales pursuant to Bankruptcy Code § 363 and the scope of sales purportedly "free and clear" of prior licenses, rights and claims under Bankruptcy Code § 363(f). I appreciate this opportunity to present some perspectives on these issues.

My focus will be important unsettled questions regarding the treatment of IP licenses and assets under the Bankruptcy Code, and the resulting uncertainties, unnecessary complications, and extra expense that could be avoided by amendments to Section 365. The underlying problem is that Section 365 does not mention IP licenses expressly, with one exception: subsection 365(n) addresses the rights of patent or copyright licensees to use the IP under the terms of the license *after or pending rejection* of the license by the debtor/licensor. Notably absent from Section 365, however, is any specific provision regarding the terms and conditions under which a debtor may *assume or assign* an IP license.

[1] The views expressed herein are solely my own, and do not necessarily represent the views of my firm or any of its clients. Nor do they necessarily represent the views of the Commission's Advisory Committee on Executory Contracts and Unexpired Leases.

As the case law has developed, Section 365(c)(1) has been held to apply to IP licenses, which means that they have been generally exempted from the Bankruptcy Code's nullification of anti-assignment and *ipso facto* contractual clauses, and thus are subject to consent requirements for assignment and, depending upon the circuit, for assumption as well. In many respects, however, this section is a poor fit, resulting in conflicting opinions. A second area of concern relates to the scope and effect of Section 365(n) as to the rights of licensees who obtained their licenses from prior owners, rather than directly from the debtor (*i.e.*, where the debtor/licensor was not a direct party to a pre-existing license). Finally, in light of *Precision Industries, Inc. v. Qualitech Steel SBQ* , 327 F.3d 537 (7th Cir. 2003), and its interpretation of Section 365(h) which confers similar post-rejection use rights on debtors' lessees, the survival of Section 365(n) rights of licensees after a sale of the IP is uncertain and is probably subject to being cut off by the effect of Section 363(f), absent an express court order preserving the licensee's use rights. Amendments and clarifications to address these issues would reduce litigation costs and systemic uncertainties.

1. **<u>First things first: are IP licenses "executory contracts" subject to Section 365?</u>**

What's included in the concept "intellectual property" or "IP"? Outside of the bankruptcy arena, intellectual property usually is considered to encompass patents, copyrights and trademarks, as well as trade secrets and the knowhow associated with the foregoing. However, the bankruptcy definition of Section 101(35A) does not include trademarks, for reasons that are hard to justify in hindsight, especially considering that many IP licenses include trademarks along with other types of IP, as their usage is often intertwined. Because of this definitional issue, case law is split on the issue of whether a trademark licensee's rights are terminated by rejection. *Compare In re Old Carco, LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (because trademarks are not 'intellectual property' under the Code, rejection by a debtor/licensor deprives licensee of all rights to use the trademark) with *In re Exide Technologies*, 607 F.3d 957, 966-68 (3d Cir. 2010) (rejection should relieve a bankruptcy trademark licensor of burdensome obligations, but should not allow the licensor to take back trademark licenses), and *Sunbeam Products, Inc. v. Chicago American Mfg.*, 686 F. 3d 372 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012) (rejection constitutes a form of breach which, under nonbankruptcy law, gives the licensee the option to retain use of both patents *and* trademarks).

> **<u>RECOMMENDATION:</u>** All types of IP, including trademarks, should be included within the bankruptcy definition.

What makes IP licenses different from other contracts? IP "assets" are usually conceptualized as a bundle of rights that may be transferred stick by stick or wholesale to one or multiple parties. To monetize the value of IP, most IP owners enter into agreements, usually called "licenses," that permit third parties to use the IP for specified purposes, or within a specified geographic region, or a specified time period, under specified conditions. Licenses thus have the attributes of both completed, if delimited, property transfers (the granting of certain IP rights) and of executory contracts (obligations usually remain on both sides). Licenses range on a sliding scale from conferring very limited nonexclusive rights to conferring all or essentially all rights to the IP in what amounts to a sale or divesture of all of the owner's interests in the IP. In essence, licenses are a form of covenant not to sue the licensee for using the IP, protecting licensees from the lawsuits to stop infringement that are the principal means of protecting and enforcing IP ownership rights against unauthorized use. Licensors may also be obligated by the license to provide access to know how, protect licensees from unauthorized use of the IP by third parties by suing improper users for infringement, and provide upgrades or subsequently developed enhancements. On the other hand, licensees are required to use the IP only within the parameters of the license terms and usually have to pay royalty fees.

Litigation issue: Executoriness of IP licenses has been the subject of recurring litgation. The case law concerning IP licenses has struggled to distinguish between the aspects of IP licenses that constitute "completed transfers" of bundles of rights from the "executory" aspects of

IP licenses resting upon the continuing mutual obligations of the parties not to infringe on the other party's rights. Because of these typical mutual continuing obligations, IP licenses have generally but not universally been held to be "executory" contracts. *See, e.g., In re Access Beyond Techs., Inc.*, 237 B.R. 32, 43 (Bankr. D. Del. 1999), and the cases cited therein. Some courts have gone so far as to hold that IP licenses are per se "executory" contracts because they necessarily include commitments by each party to refrain from suing the other for infringement based upon the permitted use of the IP by the other party. *Id.*

> **RECOMMENDATION:** It should not be necessary to litigate the issue of "executoriness" for each IP license. Expressly including all IP licenses within the ambit of Section 365 should avoid this side show.

2. **The nonassignability question: are IP licenses assumable or assignable by debtor-licensees to third parties without the consent of the nondebtor party?**

Principle of nonassignability of IP Licenses: Outside of bankruptcy, by operation of law, IP licenses are not assignable by licensees unless the licensor expressly consents to assignment. In bankruptcy, courts have consistently held, pursuant to Section 365(c)(1)(A), that these IP law principles constitute "applicable law [that] excuses a party, other than the debtor, . . . from accepting performance from or rendrering performance to an entity other than the debtor. . .," and that debtors are barred from assigning IP licenses absent the express consent of the nondebtor licensors. With respect to patents, the "long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement." *Unarco Indus., Inc. v. Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir.1972), *cert. denied*, 410 U.S. 929 (1972) (citations omitted); *see, e.g., In re CFLC, Inc.*, 174 B.R. 119, 123 (N.D.Cal.1994), *aff'd sub nom., Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, 89 F.3d 673 (9th Cir.1996) (as applied in bankruptcy cases, this principle bars assumption or assignment of IP licenses). *Accord: In re Access Beyond Techs.*, 237 B.R. at 45. The same fundamental principle applies to copyright and trademark licenses. *See, e.g., Gardner v. Nike, Inc.*, 279 F.3d 774, 781 (9th Cir. 2002) (requiring copyright licensees to get explicit consent from the licensor "strikes the balance between the competing interests" of both the' "need for free alienability and divisibility" and "the necessity to preserve the rights and control of the owners and creators"); *In re N.C.P. Mktg. Group, Inc.*, 337 B.R. 230, 236 (D. Nev. 2005) *aff'd*, 279 F. App'x 561 (9th Cir. 2008) (trademark license is "personal" and not assignable in bankruptcy).

This IP principle of nonassignability thus directly conflicts with the presumption embodied in Section 365(f) that the trustee/debtor has the right to assign contracts notwithstanding anti-assignment clauses in those contracts or in applicable law. The question is whether Section 365(c)(1) should apply as written to IP licenses, or whether creating a separate provision just for IP licenses would make better statutory and policy sense.

The problematic hypothetical test as applied to bar assumption of IP licenses by a debtor/licensee: Because Section 365 does not separately provide for IP licenses, they are generally treated as falling within Section 365(c)(1)'s exception for contracts nonassignable as a matter of nonbankruptcy law. Section 365(c) provides that the "trustee may not assume or assign" a contract that falls within the scope of that subsection. Application of Section 365(c)(1) to IP licenses has given rise to a circuit split between the "hypothetical" test versus the "actual" test. *In re Catapult Entm't Inc.,* 165 F.3d 747 (9th Cir. 1999), which held that a copyright license could not be assumed by a debtor because it cannot be assigned – even if the debtor intends to keep and not assign the license – is the leading case establishing the "hypothetical" test for assumption and assignment. *Accord, In re CFLC, Inc.*, 89 F.3d 673, 679-80 (9th Cir. 1996) (nonexclusive patent license not assignable, therefore not assumable without consent of licensor); *Matter of West Elec., Inc.*, 852 F.2d 79 (3d Cir. 1988) (contract for production of military equipment not assignable, and therefore not assumable, stressing "literal meaning of words chosen by Congress"); *Cinicola v. Scharffenberger*, 248 F.3d 110, 127 n. 19 (3d Cir. 2001)(acknowledging *West* applied the "hypothetical" test). *See also, In re James Cable Partners LP,* 27 F.3d 534, 537 n.6 (11th Cir. 1994) (adopting hypothetical test in *dicta*). On the other hand, the "actual" test rejects the "hypothetical" test when the reorganized debtor seeks to assume but *not* to assign an IP license agreement, on the ground that "trustee" does not equate to the "debtor or the debtor in possession" in this section and that therefore the IP license could be assumed by the debtor in possession for the benefit of the reorganized debtor. *See, e.g., In re Footstar, Inc.*, 323 B.R. 566 (Bankr. S.D.N.Y. 2005) (allowing reorganized debtor to retain name-brand distribution licensing agreement over objection of licensor).

The change of control issue for assumption of IP licenses: Embedded in the "actual" test is the premise that the debtor, debtor in possession and reorganized debtor are so essentially the same that compelling the nondebtor licensor to accept the reorganized debtor as the licensee does not materially modify the original deal. However, this premise is not universally valid. Unlike an individual debtor (the prototypical opera singer of the "personal services" exception) whose physical and personal identity does not change in a bankruptcy case, a reorganized corporate debtor may be a materially different entity from the debtor that was party to the IP license.

In fact, in the overwhelming majority of cases, the equity ownership of the debtor entity is transformed by the bankruptcy plan, with equity holders being replaced by creditors whose debt has been converted to equity. Moreover, top management is ousted during the case in 38% of the cases, with that percentage likely to be materially higher if pre-filing management changes are fully included. *See, e.g.,* S. Bharath, V. Panchapegesan, I. Werner, *The Changing Nature of Chapter 11*, http://www.ssrn.com/abstract=1102366 (2010). Therefore, although the "mere" filing of a Chapter 11 case does not always mean that the reorganized debtor will be controlled by different people or entities with potentially different agendas, goals and values, the entity exiting Chapter 11 is usually under different ownership and control.

IP licenses frequently contain "change of control" provisions that terminate the license upon specified events defined as constituting a change of control. This is consistent with the proposition that IP licensors have the right to choose to whom they license their IP. On the other hand, some licenses expressly permit retention of the license notwithstanding a merger, sale of substantially all of the assets, or other similar change of control events.

Crafting a solution: separate treatment for IP licenses: The test for the assumability of IP licenses by a reorganized debtor should probably be addressed separately from that applied to the other contracts specified in Section 365(c), and should be directly linked to the terms of the license. The default provision could go either way: (i) permit assumption unless barred by a change of control prohibition in the license or (ii) prohibit assumption unless affirmatively permitted by a change of control provision in the license. Some licensors will care about change of control and contract accordingly; others will not care, or will be willing to contract to allow for a change of control for a price or on terms that are built into the license agreement. Ultimately, however, the IP principle of allowing the IP owner to control whether and to whom it will grant licenses should be preserved. Such a change will limit litigation over assumability while fostering reorganization in circumstances where it may not currently be possible in jurisdictions endorsing the hypothetical test. In addition, even where a licensor would be entitled to enforce a change of control provision in an assumption under a plan, it may elect not to do.

> **RECOMMENDATION:** IP licenses should be freely assumable by reorganized debtor/licensees unless a "change of control" contractual restriction requires express consent, but not assignable except with the express consent of the nondebtor licensors.

3. The nonassignability of IP licenses: can a debtor/licensee's IP license be assigned as part of an asset sale absent consent?

Where a debtor is the *licensee*, its right to assign an IP license is restricted by the IP principle that the IP owner can choose whether and with whom to contract, and that a licensee does not, absent express consent, have the right to sublicense, transfer, or assign the IP. This proposition is generally accepted in bankruptcy case law at this point. However, contrary to this principle, the standard form of orders approving asset sales that may include IP license rights typically cut off any right to challenge the buyer's right to assume licenses, other than by direct appeal of the order.

Adequacy of notice is a threshold issue. The opportunity to object depends upon adequate notice of the proposed treatment of the particular license by the proposed sale. Typically, the list of contracts to be assumed or rejected is not filed until the eve of the hearing to approve the sale and, indeed, is often not finalized until *after* that hearing. Sometimes the prospective buyer is not finalized until the end of an auction sale process, sometimes on the eve of the court hearing to approve the sale. As of the objection deadline, the nondebtor licensor may know neither who will be the buyer nor what treatment is proposed for the IP license. Even where the identity of the buyer may be known ahead of time, in a case with hundreds or even thousands of contracts to consider and designate, the buyer may not even be aware of the IP license – and the nondebtor licensor might not be included on the bankruptcy schedules or notice list.

Assuming notice is sufficient, in theory, each and every prudent nondebtor licensee should therefore file a protective limited objection to the assumption and assignment of its license without its consent *if it is at all concerned* about the identity of the buyer or the ability to perform under the license. On the other hand, if the nondebtor licensor does not mind having the IP license assigned to a new party, the failure to objection – if notice was properly given – would likely be deemed to be consent or waiver, and certainly would preclude any subsequent challenge to the assignment to the buyer. *Cf. Precision Industries, Inc. v. Qualitech Steel SBQ* , 327 F.3d 537 (7th Cir. 2003) (tenant's failure to object to Section 363 sale precluded subsequent efforts to assert right to occupancy under Section 365(h)).

Streamlining the objection/rights protection process: If nondebtor licensors have the unilateral right (under applicable IP law) to refuse an assignment of the debtor's license, then all that should be necessary is a notice of such objection, with standard language to be required in sale orders to provide that, if such a notice of objection has been timely filed, the IP license shall not be assigned absent express consent and buyer would have no right to use the IP, but that all other nondebtor licensors (as to which notice was given) would be deemed to have consented to the assignment of their licenses. This would avoid the need (i) for licensors to file a full-blown objection and to appear in a distant forum to contest the issue, while (ii) creating a presumption of consent absent a notice of objection, which would be beneficial to debtors and buyers.

What if licensors of key IP licenses do object to assignment: the effect of veto power: The discussion above only applies if the licenses are incidental to the proposed sale. If the ability to use the IP license is critical to the value of the assets being sold under Section 363, then the nondebtor licensor holds veto-power over the sale transaction. This issue recently arose in a Section 363 sale in the *Rhythm and Hues* Chapter 11 case in Los Angeles. Debtor provided visual special effects ("**VFX**") for converting 2-D images into 3-D images for motion pictures and other purposes, most notably having won the 2013 Oscar® for *Life of Pi*. Having run out of money, it engineered a quick auction sale so that pending films could be promptly completed. However, one critical software program was licensed from a nondebtor third party. The pending films could not be completed without the software. Having been burned in the numerous prior bankruptcy filings of other VFX companies, the licensor refused to consent to installment payments and deferrals of the arrearages and other contractual obligations, and instead insisted upon full payment up front. The sale might well have fallen through but for the resolution of this IP license by stipulation on essentially the terms demanded by the licensor.

This leverage is fully consistent with and required by IP law. Two scenarios are of particular concern to licensors. First is the misappropriate problem. For example, in the *Solyndra* bankruptcy case, a German manufacturer and licensor of the specialized equipment used to manufacture Solyndra's solar units was extremely concerned about the risk of key technology and knowhow (including installation and maintenance manuals that had disappeared from locked storage under the control of the German manufacturer's local agent) falling into the hands of unscrupulous parties that would create knockoffs. The manufacturer ultimately negotiated a settlement with the debtor to provide protections for the manufacturer's IP. Another example is the competitor problem, where a competitor seeks to gain access the IP and knowhow by purchase or in the context of a takeover through a plan, or for purposes of damaging or taking the trademark off the market. *See, e.g.*, *Institut Pasteur v. Cambridge Biotech Corp*., 104 F.3d 489, 493 (1st Cir. 1997).

Quality control is often another concern. In the Delaware Chapter 11 case of *Hoop Holdings, LLC* and parallel proceedings in Canada, the debtors sought to sell their interest in The Disney Stores. Debtors had been operating the retail chain throughout the U.S. and Canada under the terms of a copyright and trademark licensing agreement with a subsidiary of The Walt

Disney Company. The license agreement, however, barred any assignment without Disney's consent, and neither the stores nor their inventory could be sold in contravention of the license agreement. Ultimately, the debtors sold the bulk of the retail chain back to Disney, with both courts recognizing that Disney had the right to prohibit any assignment given Disney's indisputable interest in protecting its trademark and the reputation for the quality of its branded products.

> **<u>RECOMMENDATION:</u>**
> (i) A simple form of notice of objection to assignment of an IP license, as to which debtor is a licensee, should be sufficient to trigger exclusion of the license from the assets and contracts being assigned and sold to the buyer. Full-fledged briefing should not be required.
>
> (ii) Either all orders approving Section 363 sales or sales under a plan should be required expressly to provide that, if an objection has been filed with respect to a particular IP license as to which the debtor is the licensee, that license will not be assigned absent the express consent of the nondebtor licensor OR the Code should be revised to obviate the need to include such an express provision in sale or assignment orders.

4. **<u>The enforceability question: to what extent are IP licenses enforceable against debtor-licensors as subsequent purchasers and against buyers of IP assets in bankruptcy cases?</u>**

Presumption of binding effect of prior licenses: Outside of bankruptcy, it is a well-established principle of patent law in particular that pre-existing licenses are binding upon successors in interest and subsequent exclusive licensees. *See generally, Jac USA, Inc. v. Precision Coated Prods., Inc*., No. 00 C 3780, 2003 WL 1627043 (N.D. Ill. Mar. 25, 2003) ("]T]he purchaser of a patent takes subject to outstanding licenses") (quoting *Sanofi, S.A. v. Med-Tech Veterinarian Prods., Inc.,* 565 F.Supp. 931, 939 (D.N.J. 1983)); *Syndia Corp. v. Lemelson Med. Educ. & Research Found*., 165 F.Supp.2d 728, 753 (N.D.Ill. 2001) (where two licenses conflict, the first prevails, even though the taker of the second has an exclusive license and the right to enforce the patent, and had no notice of the existence of the first license); *New York Phonograph Co. v. Edison*, 136 F. 600, 606 (C.C.N.Y. 1905) (a pre-existing license follows the assets of the licensor into the possession of a subsequent owner); *Pratt v. Wilcox Mfg. Co*., 64 F. 589, 590 (C.C.N.D. Ill. 1893) (successor corporation by merger took patents of predecessor corporation subject to existing licenses). In other words, subsequent owners can only acquire such ownership rights in the patents as prior owners retained after accounting for outstanding licenses.

The principle of enforceability of licensee rights against a debtor/licensor was partially codified in Section 365(n). This subsection was enacted in response to widespread outrage over *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), which had ruled that, upon rejection of an intellectual property license, the licensee loses its rights to use any of the licensed IP. The amendment was designed to protect the rights of nondebtor licensees to continue to use the IP even though the debtor/licensor would still have the power to reject the license to avoid burdensome performance obligations. The Section 365(n) protections are consistent with the applicable nonbankruptcy IP law as summarized above, but this subsection leaves several gaps. First, it does not protect licensees that obtained their licenses from prior owners (and thus were not privy to an executory contract with the debtor that would be subject to rejection or assumption), even though such licensee rights are protected under applicable nonbankruptcy law. Second, Section 365(n) does not expressly override Section 363(f)'s "free and clear" sale provisions.

Litigation issue – rights of licensees in a Section 363 sale: These gaps have been exposed in such cases as the recent Chapter 11 case of another VFX vendor, *Digital Domain Group* (Case No. 12-12568 (BLS), Bankr. D. Del.). When the debtors sought to auction off certain patents relating to the conversion of 2-D to 3-D visual effects, limited objections to the sale were filed by a number of parties who were seeking to protect their rights as licensees. Some of the nonexclusive licenses had been granted by the original owner of the patents; others by the debtors. With respect to most of the licenses, the debtors stipulated to provisions in the order preserving whatever rights were held by the licensees as of petition date. However, the debtors successfully objected to provisions with respect to certain license rights granted by the original owner, on the ground that the debtors were not in privity with those objecting parties and had not assumed those obligations when they acquired the prior owner's IP and other assets. The bankruptcy court noted the controversy, but did not expressly resolve the issue of whether Section 365(n) applied to licenses granted by prior owners, nor whether Section 365(n) rights prevail over Section 363(f). This matter is currently on appeal.

> **<u>RECOMMENDATION:</u>** Either Section 365(n) should be broadened to provide protection to licensees holding licenses granted by prior owners OR Section 363(f) should be modified to provide that sales may be free and clear of claims, liens, and interests, *other than* pre-existing IP licenses, to the extent that such licenses were enforceable prepetition, OR both. This protection should be automatic, without the need for filing objections or including specific language in the order. Whether any such licenses exist and the extent to which they are enforceable against a buyer in a bankruptcy sale (or the reorganized debtor) would not have to be determined by the bankruptcy court, but rather would be left to a post-bankruptcy determination under applicable nonbankruptcy law in a nonbankruptcy forum.

5. **<u>The adequate protection question: can nondebtor parties obtain specific performance to protect IP assets and knowhow pending assumption or rejection of IP licenses?</u>**

Section 365(n)(4) provides authority for the nondebtor *licensee* to seek specific enforcement by a debtor/licensor during the case, while the assumption/rejection decision is still pending. However, Section 365 does not contain any counterpart that would authorize a nondebtor *licensor* to obtain specific performance during the case. Difficult problems can arise particularly in the context of development-stage companies, where the sponsor providing the money has often cross-licensed patents and trade secrets that are being used in research. In many development-stage companies, the real value lies in the knowhow of the human capital, as research to develop products or innovations may be in progress without having reached the patent application stage.

The biotech arena creates some special additional challenges: live laboratory animals and organic materials that literally embody the research, such as “knockout” mice genetically bred with specific genes deactivated or omitted, may be at risk of total loss (*i.e.*, death), if a landlord locks out the debtor, all the employees quit, or the utilities are cut off. If the debtor lacks access to cash or other resources necessary to protect the IP assets, then the courts should be responsive to the license counterparty's efforts to preserve the value of the research by taking it into protective custody or other means. While the courts can, in theory, fashion such remedies as they deem appropriate to preserve the value of the estate, express authority of some type should be included in Section 365 for the period prior to the assumption/ rejection decision.

> **RECOMMENDATION:** If the debtor cannot provide adequate protection in the interim, pending the final decision whether to assume or reject, Section 365 should expressly authorize the court to transfer IP assets, trade secrets, lab mice, etc., to the temporary custody and control of the nondebtor party to an IP license, to preserve their value and avoid unnecessary waste, without prejudice to debtor's ultimate rights in the IP.

6. **The "cure" and "adequate assurances" question: should bankruptcy courts retain jurisdiction over installment cure payments?**

Nondebtor/licensors may be willing to go along with a debtor/licensee's assignment of its rights to a purchaser in bankruptcy. They might be more willing to do so – *and* even to agree to installment or deferred payment of cure amounts – if they know they can have prompt and inexpensive access to the bankruptcy court to resolve post-assignment disputes that sometimes develop shortly after the entry of the assignment or sale order. For example, the software licensor that threatened to hold up the asset sale in the *Rhythm and Hues* Chapter 11 case if all payments (not just past due ones) were not paid at closing made this demand because the *Digital Domain* buyer had tried to renege on the first post-closing cure payment it was supposed to have made to the licensor. The Canadian licensor belatedly realized that it had no ready way to enforce the cure payment obligations against the Indian buyer, because the Delaware bankruptcy court had not retained jurisdiction over the buyer. This history explained why the licensor was so unyielding in the subsequent *Rhythm and Hues* case. The need to be able to enforce installment cure payment obligations is not unique to IP licenses, but IP licensors *are* uniquely positioned to insist upon cash at closing if they are not satisfied of their ability to obtain quick enforcement.

> **RECOMMENDATION:** Section 363 sales may be facilitated by a limited retention of jurisdiction over cure payment obligations, as licensors and other

contract counterparties might be willing to accept installment payments, thereby relieving immediate cash demands, if they know that they can bring a motion to compel cure payment in the bankruptcy court.