

THE ESSENTIAL CONCEPT, THE FIRST TRUTH, AND THE FOURTH CIRCUIT'S INTERPRETATION OF SECTION 365(C)(1) IN *IN RE SUNTERRA CORPORATION*

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“ab•surd *adj.* 1. Ridiculously incongruous or unreasonable.”¹

INTRODUCTION

Since the Court of Appeals for the Ninth Circuit decided the *Everex*² case in 1996, bankruptcy courts have struggled to reconcile the special rights 11 U.S.C.A. § 365 provides debtors with the special rights other federal law provides some intellectual property holders. In 2004, the Court of Appeals for the Fourth Circuit added another layer to the problem with its opinion in *In re Sunterra*.³ The Fourth Circuit refused to depart from the plain meaning of 11 U.S.C.A. § 365(c)(1), stating along the way that applying the statute's plain meaning does not produce an “absurd” result.

Section 365 of the Bankruptcy Code gives trustees and debtors-in-possession the right to “assume” executory contracts and then assign them to a third party. This basic power lets bankruptcy estates use the bankruptcy process to manage contracts regardless of contractual antiassignment provisions. It allows estates to retain the benefits and burdens of some contracts while shedding unprofitable contracts by “rejecting” them. Some of these contracts—intellectual property licenses—allow use of copyrighted material or patented concepts. When applied to these intellectual property licenses, the power to assume and assign inherently conflicts with common law decisions granting the holders of federal patents and copyrights the right to control assignment of rights under related licenses.⁴

The Bankruptcy Code addresses this conflict through 11 U.S.C.A. § 365(c)(1), which provides an exception to the general section 365 right to assume or assign a contract. Section 365(c)(1) restricts the estate's right to assume or assign when applicable nonbankruptcy law would

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excuse the intellectual property licensor from accepting performance from, or providing performance to, a third party.

The Fourth Circuit's decision in *Sunterra* is important for three reasons. First, while a long-standing series of circuit court decisions recognize patent holders' right to control assignment of their patent licenses, the same is not true with respect to copyrights. The *Sunterra* opinion recognizes this right with respect to copyrights, expanding the list of decisions that have done so.

Second, the interpretation of 11 U.S.C.A. §365(c) has provided some controversy, at least academically. The phrase "assume or assign" in the section, when read according to its plain meaning, means that an estate can not assume an intellectual property license when applicable non-bankruptcy law would hypothetically prevent the license's assignment. In many situations, especially where a reorganizing debtor simply wants to continue business as usual, this "hypothetical" approach to interpretation results in harsh results. The estate simply loses the license rights at the licensor's whim. To address this problem, a few courts have interpreted section 365(c) using an "actual" test. Using this approach, the phrase "assume or assign" is read as if the "or" was an "and," and the estate's assumption of the intellectual property license is allowed so long as the estate is not actually assigning the license. With its opinion in *Sunterra*, the Fourth Circuit Court of Appeals adopts the "hypothetical" test, joining the majority of circuit courts previously addressing the issue.

Third, the *Sunterra* case exemplifies the problems posed by applying the section 365(c)(1) exception and the "hypothetical" test to intellectual property license assumptions. The equities of the case led both the bankruptcy court and the district court to rule in Sunterra Corporation's favor, allowing it the right to assume its software license with RCI Technology Corporation.⁵ The circuit court, however, felt compelled to follow the majority of the other circuits in applying 365(c)(1) using the "hypothetical" test. It held that Sunterra could not assume its software license with RCI, despite the facts that Sunterra had already paid RCI in full for the perpetual license and that, for all practical purposes, the license was transferable.

The results? Sunterra's potential loss of a \$40 million-plus investment and its right to use a key software system—most of which it developed itself and actually owned. A potential windfall for the licensor, RCI. Nothing for the estate and a potential disaster for the creditors – assuming the loss of the software adversely affects Sunterra's ability to reorganize. Still, the Fourth Circuit Court of Appeals' decision is not, from a legal perspective, controversial. Its reasoning falls squarely in line with that of the majority of other circuit court level decisions and applies, in a noncontroversial fashion, existing Supreme Court decisions regarding statutory interpretation. From this perspective, it is a well-reasoned deci-

sion. However, commentators have long predicted the problems prior decisions in the area could cause—and the *Sunterra* decision provides a perfect example.⁶ What are the circumstances that led to this result?

THE ESSENTIAL CONCEPT

Sunterra owned and operated timeshare resorts with tens of thousands of units. To manage the complex booking processes, Sunterra decided to develop its own unique computer program, the SWORD System. In 1997, Sunterra entered into a software licensing arrangement with RCI, which allowed it to use the code for RCI's Premier Software system in connection with the SWORD System. Sunterra paid RCI \$3.5 million for a "world-wide, perpetual, irrevocable, royalty-free-license."⁷ RCI's Premier Software did not, by itself, satisfy Sunterra's needs. Sunterra spent another \$38 million to develop its SWORD System using the software licensed from RCI.

The license provided Sunterra with the rights it needed to use the SWORD System to run its business. Sunterra had a perpetual, irrevocable license to the RCI software. It had the right to modify the software and own the intellectual property rights to the modifications. While RCI had to assent to any assignment of the license, it could not unreasonably withhold that assent. Finally, Sunterra had the right to assign the license to a successor in interest of substantially all of Sunterra's assets so long as the assignee agreed in writing to be bound by the license. In other words, Sunterra could use the software as long as it liked. If it sold its business, merged into another company, or changed corporate form, it could retain the license rights. It had no obligation to pay further royalties.

The license contract contained an additional, interesting characteristic. It contained a cross-license back to RCI. In other words, the contract not only granted Sunterra the rights to use RCI owned intellectual property, it granted RCI the right to use Sunterra's modifications to the Premier Software.

On May 31, 2000, Sunterra filed a petition to commence its chapter 11 case. During the case, Sunterra continued to use its SWORD System, relying upon its license with RCI. However, Sunterra did make some changes to its relationship with RCI. In 1997, when it had entered into the license agreement with RCI, Sunterra also entered into a Master Services Agreement with RCI's parent corporation.⁸ Under this agreement, RCI's parent corporation would provide exchange services to Sunterra. During its bankruptcy case, Sunterra made a decision to terminate this agreement and obtain the needed services from the parent's chief business rival, Interval International.⁹

On March 28, 2002, RCI filed a motion asking the bankruptcy court to deem the software license rejected.¹⁰ RCI simply asked the court to fol-

low a line of prior decisions that interpret 11 U.S.C.A. § 365(c) to hold that an estate cannot assume a patent or copyright license without the licensor's consent.¹¹

Section 365 of the Bankruptcy Code¹² provides a debtor with one of its key restructuring rights. It permits a trustee or debtor-in-possession to relieve the bankruptcy estate of burdensome obligations under some contracts while retaining the benefit of other contracts.¹³ The estate, with the court's approval, may accomplish this by either assuming or rejecting the executory contract.¹⁴ Put simply, assumption provides a reinstatement of the contract, making it binding against both parties going forward. Rejection, on the other hand, relieves the estate from its obligations under the contract.¹⁵ In many cases, the estate assumes the contract so it can sell the contract rights to a third party. This process is called assignment, and subject to a few important exceptions, the estate has special powers allowing it to assign even those contracts that, outside of bankruptcy, could not be assigned.¹⁶

These exceptions provide the key to RCI's motion. The estate's ability to assume or assign a contract has limits. The Bankruptcy Code recognizes that, in some circumstances, allowing an estate to assign a contract to a third party, or even allowing assumption, creates too great an imposition on the other party to the contract. This is where section 365(c) comes in. Section 365(c) lists four situations where an estate cannot "assume or assign" an executory contract. Section 365(c) states:

- (c) The trustee may not *assume or assign* any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—
 - (1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and (B) such party does not consent to such assumption or assignment; or
 - (2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor;
 - (3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief; or
 - (4) such lease is of nonresidential real property under which the debtor is the lessee of an aircraft terminal or aircraft

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gate at an airport at which the debtor is the lessee under one or more additional nonresidential leases of an aircraft terminal or aircraft gate and the trustee, in connection with such assumption or assignment, does not assume all such leases or does not assume and assign all of such leases to the same person, except that the trustee may assume or assign less than all of such leases with the airport operator's written consent.

Of the exceptions in section 365(c), all but one are quite specific in nature. The last, section 365(c)(1), is not. Section 365(c)(1) restricts "assumption or assignment" when nonbankruptcy laws (but not contractual terms) excuse the nondebtor party to the contract from accepting performance from an assignee,¹⁷ unless the other party assents to the assignment.¹⁸ Thus the Bankruptcy Code looks to other law, either statutory or judicial, to determine when forced assignment of contract rights is too unfair to the nondebtor party to be allowed.

Courts have applied section 365(c)(1) to a variety of contracts where some applicable statute clearly restricts assignment of the contract.¹⁹ Outside the realm of clear statutory restrictions, courts most frequently use section 365(c)(1) to limit assumption or assignment of personal services contracts. This is because personal services contracts involve a special relationship, talent, or skill that makes them, under applicable nonbankruptcy law, nonassignable.²⁰

Since 1996, courts have also applied section 365(c)(1) to another type of contract—a license to use patents or copyrights held by the nondebtor party. RCI looked to these cases in arguing that Sunterra could not assume its license to use RCI's Premier Software.

The bankruptcy court denied RCI's motion. In a bench decision, the court decided that the license agreement was not an executory contract and therefore Sunterra did not have to assume it in order to retain its benefits.²¹ Even if the contract was executory, making Sunterra reject the contract was "nonsensical because RCI would not be damaged if Sunterra, as debtor in possession, assumed the very contract rights it had possessed prior to bankruptcy."

RCI appealed the decision to the District Court for the District of Maryland, which affirmed. In a too-short decision²² the district court focused on interpreting the phrase "assume or assign" in section 365(c) and held that the result reached by applying the "hypothetical" test was "unreasonable."²³ Based on this, the court applied the "actual" test and held that Sunterra could assume the license.²⁴

RCI then filed an appeal with the Court of Appeals for the Fourth Circuit, which reversed.

THE FIRST TRUTH

The key to understanding the Fourth Circuit's decision is understanding the basic lack of controversy in its analysis. The decision rests on a foundation of prior rulings, including several circuit court decisions that interpret federal intellectual property laws and section 356(c) to give patent and copyright holders additional power to control their intellectual property both within and without the bankruptcy process. These rulings hold that patent and copyright license rights are inherently unassignable without the licensor's consent (the "nonassignability doctrine") and, further, cannot be retained by a reorganizing debtor without that consent. Almost uniform at the circuit court level, these decisions are rapidly making the nonassignment rule black letter law.

The patent nonassignability doctrine stems from an 1852 U.S. Supreme Court decision, *Troy Iron & Nail Factory v. Corning*,²⁵ which contained the following language in connection with a dispute over the right to manufacture horseshoe spikes:

[i]t is difficult to distinguish whether they mean to claim by assignment or by a license; and when it was urged, in the argument, that they did so by license, it was equally uncertain whether they did so upon a claim which they might assign or use for others who might become owners in their factory, or which they could only personally use without being transmissible by them to others. The difference is well understood. A mere license to a party, without having his assigns or equivalent words to them, showing that it was meant to be assignable, is only the grant of a personal power to the licensees, and is not transferable by him to another.²⁶

A few decades later, the U.S. Supreme Court expanded on this principle in *Oliver v. Rumford Chemical Works*.²⁷ In that case, Rumford Chemical Works held a patent on a type of acid used to make self-rising flour. It granted one Allen Morgan a right to use this invention to manufacture flour. When Morgan died, a dispute arose regarding his heirs' ability to use the patent. In explaining why the patent license was not assignable, the Court stated:

[t]he right is granted to Morgan alone, to him personally, with an agreement by him that he will enter on the manufacture of the self-raising flour, and that he will use all his business tact and skill to introduce and sell the flour. It is apparent that licenses of this character must have been granted to such individuals as the grantor chose to select because of their personal ability or qualifications to make or furnish a market for the self-raising flour, and thus for the acid, all of which was to be purchased from the grantor.²⁸

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These decisions provide little analysis or rationale for the rule restricting assignability nor do they rest the rule on any stated principle of federal patent law. Despite this, as time passed, a long series of federal court decisions emerged consistently applying the nonassignability doctrine.²⁹ As with the earlier Supreme Court decisions, the modern federal circuit court decisions provide little basis for the rule other than the fact that the U.S. Supreme Court had commented on the matter approximately 100 years earlier. Each time a court of appeals addressed the issue, it would simply cite back to the original Supreme Court decisions and the string of prior court of appeal decisions. In this manner, the nonassignability doctrine, first stated in the late 1800s by a court that did not clearly state any rationale for the doctrine, has become unquestioned black letter law.

In 1996, the Court of Appeals for the Ninth Circuit recognized the patent nonassignability doctrine in a bankruptcy case, *Everex Systems, Inc. v. Cadtrak Corporation*.³⁰ The decision applied the federal common law nonassignability doctrine to the language of 11 U.S.C.A. § 365(c)(1)(A). In so doing, the Ninth Circuit Court of Appeals started a trend both with respect to both patent³¹ and copyright licenses.³²

The federal common law nonassignability doctrine doesn't just restrict the estate's ability to assign a patent or copyright license under section 365. The process of assigning a license using section 365(a) is a two-step process. The estate first "assumes" the license—thus reinstating the license's contractual force and binding both the licensee and the licensor. Then, the estate "assigns" the license to the third party, substituting the third party for itself as the licensee.

If section 365(c)(1)'s language only restricted assignment, the statute should read, "the trustee may not assign" or "the trustee may not assume *and* assign." But, this is not the language of the statute. Section 365(c)(1) says, "the trustee may not assume *or* assign." The use of the word "or" instead of "and" must mean that section 365(c)(1) prohibits both assignment and assumption.³³

Thus the nonassignability doctrine may prevent not only assignment of license rights but mere assumption by a reorganizing debtor or a trustee planning to liquidate the bankruptcy estate through a merger. The plain reading of section 365(c)(1), specifically the use of the phrase "assume *or* assign," appears to limit the estate's ability to assume an executory contract where other applicable law would relieve the non-debtor party from accepting performance from someone other than the debtor. In the context of patent and copyright licenses, this would mean the estate could not even assume a contract merely because patent and copyright license interests are not assignable.

In a certain sense, the result seems incongruous. Section 365(c)(1) discusses the affect of nonbankruptcy law excusing the nondebtor from accepting performance from, or providing it to, a third party. Why should a rule restricting assignment outside of bankruptcy excuse the acceptance of performance in bankruptcy from the debtor itself? The answer to this question is not clear.

Unfortunately, the language of section 365(c)(1) is clear. Courts of appeal for five circuits have now adopted the “hypothetical” test in interpreting section 365(c)(1). The hypothetical test holds that the plain meaning of section 365(c)(1) restricts the estate’s ability to assume an executory contract when nonbankruptcy law would prohibit a hypothetical assignment.³⁴

Prior to *Sunterra*, the key decision applying the hypothetical test in the context of patent licenses was the Ninth Circuit’s in *In re Catapult Entertainment*.³⁵ In that case, the Court of Appeals for the Ninth Circuit held a debtor could not assume rights under a nonexclusive patent license over the licensor’s objection.³⁶ In 1994, Catapult Entertainment Inc. formed to create an online gaming network for 16-bit console videogames. In connection with that business, Catapult licensed the right to use certain patented technologies from Perlman. In 1996, Catapult entered into a merger agreement with Mpath Interactive, Inc. It planned to file a chapter 11 bankruptcy petition and then become a wholly owned subsidiary of Mpath by merging with another Mpath subsidiary. As part of the reorganization, Catapult filed a motion to assume the Perlman license, which the bankruptcy court allowed.

The court of appeals reversed the district court’s decision affirming that ruling, holding that the plain language of section 365(c)(1) dictates applying the hypothetical test.³⁷ The *Catapult* decision expanded the *Everex*³⁸ decision’s impact and gave patent licensors veto power over an estate’s ability to retain license rights as part of a reorganization. However, while the *Catapult* decision was controversial, its apparent impact was diminished by the fact pattern. The debtor in *Catapult* had, in fact, planned to change the nature, albeit not the identity, of the licensee through the mechanism of a merger.³⁹ Allowing the debtor to assume the license would have allowed the debtor to complete a transaction with an end result similar to a prohibited assignment. While the Ninth Circuit’s interpretation of section 365(c)(1) could, in other contexts, allow a patent licensor to cause a debtor tremendous harm—that was not the fact pattern in *Catapult* and the potential remained for a more flexible rule to emerge as other courts sought to apply the *Catapult* decision to different fact patterns.

The Court of Appeals for the Fourth Circuit faced that different fact pattern in *Sunterra*. In one sense, *Sunterra* simply continued the trend of

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the *Everex* and *Catapult* decisions. In another sense, however, *Sunterra* failed to recognize the need to distinguish or sidestep in some fashion the *Catapult* decision. The facts in the *Sunterra* case provided the court the opportunity to refine and shape the law. The Fourth Circuit Court of Appeals did not take that opportunity.

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In *Sunterra*, the licensor, RCI, asked the court to overrule the district court's ruling that the debtor could assume the software license. Presaging its final conclusion, the court did not focus on RCI's arguments why it should overrule the lower court. Instead the court addressed, in turn, three arguments *Sunterra* made in support of assumption. First, that the license, being prepaid, was nonexecutory and therefore did not have to be assumed. Second, that the court should apply the "actual" test when interpreting section 365(c)(1) because applying the statute according to its plain meaning produces an absurd result or a result inconsistent with the clear legislative intent. Third, that RCI had assented to the assumption by virtue of its contractual assent to a reasonable assignment.

To determine whether the license was executory, the court applied the Countryman test.⁴⁰ Under the Countryman test, a contract is executory if the "obligations of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete the performance would constitute a material breach excusing the performance of the other."⁴¹ The court noted that each party under the license had an obligation to maintain in confidence the source code developed by the other party. This bilateral obligation was, it held, sufficient to satisfy the Countryman test.⁴² In this respect, the court's holding was consistent with other decisions that have held intellectual property licenses to be executory based on secondary clauses.⁴³

Having found the license executory, the court focused its attention on *Sunterra's* second argument. *Sunterra* urged the court to apply the "actual" test with respect to section 365(c)(1), instead of the "hypothetical" test. *Sunterra* argued that the "actual" test should be applied because if the court applied section 365(c)(1) according to its plain meaning the result would be absurd and would conflict with Congress' clear legislative intent.

The court started its analysis by stating that the plain meaning of the statute dictated application of the "hypothetical" test.⁴⁴ The hypothetical test thus became the default for the court's analysis unless *Sunterra* was able to convince the court to abandon it. "[U]nless there is some ambiguity in the language of a statute, a court's analysis must end with the statute's plain language. . . ."⁴⁵ Two exceptions exist to the plain meaning

rule. The first allows a court to abandon the plain meaning of the statute “when literal application of the statutory language at issue results in an outcome that can truly be characterized as absurd, i.e., that is so gross as to shock the general moral or common sense. . . .”⁴⁶ The second exception exists only “when literal application of the statutory language at issue produces an outcome that is demonstrably at odds with clearly expressed congressional intent. . . .”⁴⁷

In asking the court to apply the first exception, Sunterra argued that the plain meaning of section 365(c)(1) is absurd because (1) it is inconsistent with other provisions of section 365 and (2) it is inconsistent with general bankruptcy policy.

Sunterra’s internal inconsistency argument rested on two problems with the structure of section 365, rendering interpretation of the section as a consistent whole difficult, if not impossible. First, Sunterra argued that applying the plain meaning rule to section 365(c)(1) rendered superfluous another subsection of the statute, section 365(f)(1). This section reads:

Except as provided in subsection (c) of this section, notwithstanding a provision in an executory contract . . . of the debtor, or in *applicable law*, that prohibits, restricts, or conditions the assignment of such contract. . . , the trustee may assign such contract . . . under paragraph (2) of this subsection. . . .⁴⁸

Compare this with the relevant language of section 365(c)(1):

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

(A) *applicable law* excuses a party, other than the debtor, to such contract . . . from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession . . .⁴⁹

Section 365(c)(1) bars assumption when “applicable law” excuses the non-debtor from accepting performance from a third party, but section 365(f)(1) allows assignment despite “applicable law” restricting assignment. Sunterra argued that the section 365(c)(1) restriction on assumption renders inoperative the section 365(f)(1) provision. In short, the 365(f)(1) provision with respect to assignment has no point if you can’t assume the contract in the first place because of section 365(c)(1). The only way to resolve the problem, Sunterra argued, was to apply the “actual” test to rewrite the meaning of section 365(c)(1). The court rejected this argument, noting that the two sections reference different “applicable law.” Section 365(f)(1) provides a broad rule addressing the effect of laws restricting assignment and rendering such laws inoperative. However, within that scope, section 365(c)(1) allows effect to a subset of such laws, those that excuse the other party from accepting performance from or rendering performance to an assignee. The

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conflict between the sections, to the extent one exists, is not sufficient to require a reinterpretation of section 365(c)(1).⁵⁰

Sunterra's second argument on internal inconsistency was that a literal reading of section 365(c)(1) creates a conflict within that section. This argument focuses on the inclusion in section 365(c)(1) of the term "debtor-in-possession." Section 365(c)(1) applies when applicable law excuses acceptance of performance from an entity other than the "debtor" or the "debtor-in-possession." Sunterra argued that if the statute was supposed to prohibit any assumption, why include the phrase "debtor-in-possession" in the statute as well as the phrase "debtor." "If the directive of Section 365(c)(1) is to prohibit assumption whenever applicable law excuses performance relative to *any* entity other than the debtor, why add the words 'or debtor in possession?'"⁵¹ The court rejected this argument as well in a mere paragraph pointing out that section 365(c)(1) addresses two concepts—assumption and assignment. Because these are distinct events, it is possible to have situations where the nondebtor party consents to the debtor-in-possession's assumption of the contract but not its later assignment. In that context, when the debtor-in-possession later attempts to assign the contract, the inclusion of the phrase "debtor-in-possession" makes sense.⁵²

Having rejected the first "absurdity" argument, that a literal reading of the statute was internally inconsistent, the court turned to the argument that a literal reading produced an absurd result because the result is inconsistent with general bankruptcy policy or the intent of the drafters. This was the argument the district court had applied to support its holding applying the "actual" test.⁵³

The general bankruptcy policy that Sunterra argued conflicted with section 365(c)(1) was the policy "of fostering a successful reorganization and maximizing the value of the debtor's assets."⁵⁴ The court did not appear impressed with this argument. Instead, the court noted the existence of a broad range of "nondebtor provisions"—bankruptcy code provisions that act to the detriment of the debtor.⁵⁵ The court noted that the existence of these clear nondebtor provisions make it plausible that Congress intended section 365(c)(1) to restrict the estate's ability to assume executory contracts in the manner dictating by a plain reading of the statute. If it is plausible for Congress to have intended the result, the result could not be absurd. In short, "application of the Plain Meaning Rule does not produce a result so grossly inconsistent with bankruptcy policy as to be absurd."⁵⁶

The court also rejected the contention that a plain reading of section 365(c)(1) produced a result that was "demonstrably at odds with the intentions of its drafters."⁵⁷ To meet this standard, the party seeking reinterpretation must "demonstrate that the result would be contrary to that intended

by Congress.”⁵⁸ The court of appeals’ decision does not indicate what arguments, if any, Sunterra presented in this regard. The court simply stated that the modification of a statutory provision is best left to Congress and it saw no reason to apply the “actual” test to, effectively, create a narrow exception to section 365(c)’s application for debtors-in-possession.⁵⁹

The court then addressed Sunterra’s argument with respect to the second exception to the plain meaning rule—that the plain reading of the statute produces an outcome at odds with legislative history. Interestingly, no direct legislative history exists for the current language of section 365(c)(1). Congress revised this section of the Bankruptcy Code in its 1984 amendments,⁶⁰ and no relevant legislative history exists with respect to the changes within the context of the 1984 amendments.⁶¹

However, the current language of section 365(c)(1) originated not with the 1984 amendment but in a proposed 1980 House Amendment to a Senate technical corrections bill. That proposal did have relevant legislative history. A committee report accompanying that amendment stated:

This amendment makes it clear that the prohibition against a trustee’s power to assume an executory contract does not apply where it is the debtor that is in possession and the performance to be given or received under a personal service contract will be the same as if no petition had been filed because of the personal nature of the contract.⁶²

That statement is quite clear, and a plain reading of section 365(c)(1) is directly at odds with this bit of legislative history. The court declined, however, to recognize the application of this legislative history. It reached its decision for three reasons. First, the statement related to a 1980 proposed amendment and not the 1984 statute itself.⁶³ Second, several years had passed between the issuance of the statement and the enactment of the 1984 amendments to the Bankruptcy Code. Third, the statement reflected the view of only a single House committee.⁶⁴ With these comments, the court disposed of Sunterra’s final argument in support of applying the “actual” test.

Sunterra’s third major argument was that RCI had assented to the assumption by virtue of its contractual assent to a reasonable assignment. Section 5.11 of the contract provided that the antiassignment provision in the contract would not preclude the transfer of the license to a successor in interest of substantially all of Sunterra’s assets if the assignee agreed in writing to be bound by the license. In other words, the license is, by its terms, assignable to a successor in interest to Sunterra. Sunterra claimed this clause was, in effect, a consent to its assumption of the license. While the court held that this contractual term could, in theory, constitute a consent to assignment, the court stated that the term applied only to an “assignment” of the license, not an assumption of the license. Sunterra was attempting to assume the license and RCI had not contractually consented to that assumption.⁶⁵

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And thus Sunterra lost its ability to assume and retain its license. What did this mean for Sunterra? In short, Sunterra could lose its ability to retain and use a software system it mostly developed itself at a cost of over \$40 million. It could lose this right without any transition period whatsoever since 11 U.S.C.A. § 365 does not provide for a delayed effective date on rejection – contract termination is immediate.⁶⁶ Theoretically, the loss of the software system or the cost of replacing it could have a devastating affect on the reorganized Sunterra, causing further business failure. And why? According to the facts available in the decisions, RCI had no significant obligations under the software license other than the obligation not to breach a confidentiality provision. It had no real performance left to deliver to Sunterra. Nor did Sunterra have any real performance left to deliver under the fully paid license agreement. Sunterra lost its rights solely because it had filed a chapter 11 petition and had a nondisclosure obligation under the license. What's more, using the protections provided software licensees by 11 U.S.C.A. § 365(n), RCI could continue to use Sunterra's improvements under the cross-license provisions of the contract. RCI gets a general unsecured claim for damages due to Sunterra's rejection of the license. RCI might even, because of the license rejection, be able to violate its obligations under the nondisclosure provisions. The result: RCI keeps the benefits of the license, Sunterra loses its rights,⁶⁷ and everybody but RCI gets hurt.⁶⁸

“THE ABSURD IS THE ESSENTIAL CONCEPT AND THE FIRST TRUTH”⁶⁹

Did Congress intend this result? Doesn't it seem a little, well, absurd?

Sunterra should have had no problem retaining its rights to the license and, outside of the world of chapter 11, would have retained the rights no matter what. It had a perpetual, irrevocable license to the RCI software. It had the right to modify the software and own the intellectual property rights to the modifications. It could assign the license with RCI's assent, which RCI could not unreasonably withhold. It could assign the license to a successor in interest of substantially all of Sunterra's assets. In other words, Sunterra could use the software as long as it liked. If it sold its business, merged into another company, or changed corporate form, it had contracted in advance for the right to retain the license.

Section 365(c)(1), as interpreted by the Fourth Circuit Court of Appeals, took that right away from Sunterra. The result in the particular case seems incorrect somehow. But that does not necessarily mean the analysis in the *Sunterra* decision is incorrect. The circuit court did review each argument set before it by Sunterra and, for the most part, based its results on prior decisions. Although I have suggested that the result of that decision is “absurd,” that, in and of itself, does not suggest

a misapplication of the law. Nor should a circuit court rewrite a statute simply because the result of properly interpreting the statute, in a specific case, is unjust.

A number of potential solutions to the problem do exist, although none are perfect. Applying the “actual” test provides one solution. The actual test allows the debtor to assume the intellectual property license unless it actually intends to assign the contract. While most circuit courts, like the Fourth Circuit in *Sunterra*, have rejected the “actual” test, the Court of Appeals for the First Circuit has accepted the “actual” test, as have a number of lower courts.⁷⁰

Second, a court can find support for the proposition that federal copyright law does not restrict assignment of copyright licenses. The Fourth Circuit Court of Appeals stated that “copyright law is the applicable non-bankruptcy law that would excuse RCI from accepting performance under the Agreement from an entity other than Sunterra.”⁷¹ As discussed earlier, this rule finds its modern genesis in *Everex*, a 1996 decision of the Ninth Circuit Court of Appeals addressing the issue with respect to patent licenses.⁷² However, the *Everex* decision may violate the Erie Doctrine⁷³ and certainly is contrary to California state law on the issue of patent license assignability.⁷⁴ This fault would eliminate application of the nonassignability doctrine to 11 U.S.C.A. § 365(c)(1).

With respect to copyright licenses, the actual existence of a “federal common law” prohibition on assignment is less likely. Unlike the patent law nonassignability doctrine, which at least finds expression in a few old Supreme Court decisions, the rule limiting assignment of copyrights finds little support in either the Copyright Act or Supreme Court decisions. A line of federal court decisions does exist holding that a copyright license, as with a patent license, is personal to the licensee and thus nonassignable.⁷⁵ As with the *Sunterra* Court, bankruptcy courts have generally ignored the existing copyright cases and argued by bare analogy based on the *Everex* decision – if patent licenses are not assignable, then copyright licenses must be nonassignable too.⁷⁶

Regardless of whether the subject matter is a patent license or a copyright license, adoption of these ancient rules without analysis causes modern courts to ignore the roles intellectual property licenses play in today’s economy. In cases like *Troy Iron*,⁷⁷ the patent license did, in fact, serve as a form of personal services contract. The license was the mechanism that allowed the patent holder to realize profits of his invention through the labor of the licensee. That is, in some cases, still true today. But in many other cases the patent or copyright license is nothing more than a form of business contract—a framework for selling the right to make use of someone’s intellectual creation instead of selling a good. The license has func-

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tionally become a mechanism to allow an intellectual property owner to “sell” its intellectual property while retaining the right to “sell” to others. The intellectual property license is then a commodity.

In such situations, the license no longer looks like a “personal services” contract. The licensor no longer really cares about who the licensee is, whether the licensee will make use of the license, or even profit from its use. The licensee’s conduct no longer matters to the licensor. And, as in the *Sunterra* case, the terms of the intellectual property license may well reflect the licensor’s lack of concern for the identity of the licensee. When an intellectual property license becomes a commodity, should the license still be considered “personal” to the licensee? The answer is that it should not.

This suggests the following solution: when determining whether applicable nonbankruptcy law excuses the licensor from accepting a new licensee, the court should examine the context of the license itself. The court should examine a number of factors, including: whether the benefit of the license to the licensor depends on the identity of the licensee; whether the identity of the licensee was a factor in the licensor’s original decision to grant the license; whether the licensor freely granted such licenses to other parties; whether the license contract has characteristics of a personal services contract; and whether the terms of the license indicate the licensor’s willingness to accept a substitute licensee. The court should not apply the nonassignability doctrine when the terms of the license or the context in which it was granted indicate an acceptance of a substitute licensee or willingness by the licensor to grant a license to a broad group of licensees.

A third solution could rest in the distinction between sections 365(c)(1) and 365(f). Both sections address the bankruptcy estate’s ability to assume and assign notwithstanding nonbankruptcy law restrictions on assignment. The result, however, differs depending on the applicable section. Section 365(f)(1) provides that “. . .notwithstanding a provision in . . . applicable law, that prohibits, restricts, or conditions the assignment of such contract. . .the trustee may assign such contract. . .” Section 365(c)(1), on the other hand, restricts assumption or assignment when applicable law “. . .excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession. . .” Thus nonbankruptcy law that restricts assignment does not prevent assumption or assignment by a bankruptcy estate, while the narrower category of nonbankruptcy law that excuses substituted performance with a third-party does prevent assumption and assignment.

Into which category does the nonassignability doctrine fall? The non-bankruptcy cases that gave rise to the common law rule talk about non-

assignability.⁷⁸ Only in the context of the bankruptcy cases interpreting section 365(c)(1) does the doctrine expand to excuse the acceptance of performance from, or provision of performance to, a third party. This expansion could be viewed as improper and based on a mischaracterization of the nature of a patent license.

Contemporary interpretation of patent and copyright licenses view the license as a contract between the licensor and the licensee. This view, whether or not correct, supports the modern business uses of licenses and also is consistent with the fact that modern intellectual property licenses are almost invariably contained within a broader contractual framework.⁷⁹ However, the traditional view of patent and copyright licenses and the view on which the concept of nonassignability is based does not consider a license to be a form of contract.⁸⁰ Instead, the license is nothing more than a negative covenant—a covenant not to sue the licensee for infringement.⁸¹ Instead of considering this a state law contract right, which might be assignable, the cases describe this covenant as personal to the licensee. Thus the right is not assignable.

Under 11 U.S.C.A. § 365(f)(1), the bankruptcy trustee would, as a threshold matter, be able to assign its right to the intellectual property license. The question of substituted performance then comes in to play in the context of applying 11 U.S.C.A. § 365(c)(1). However, under the traditional concept of intellectual property licenses, the concept of “performance” simply does not apply. No performance requirement exists. The licensor is not expected to “perform,” but merely expected to allow the licensee’s use of the invention or work. The licensee has no performance obligation under the license. While a contract containing an intellectual property license will have performance requirements—often on the part of both the licensee and the licensor—those performance obligations exist under the nonlicense terms of the contract. In some cases, the nature of the contractual obligations will be in the nature of a personal services contract or joint venture agreement and thus section 365(c)(1) will apply. In the other cases, section 365(c)(1) should not apply merely because of the existence of the license.

Whether the answer lies with one of these solutions or somewhere else, the result in *Suntterra* demonstrates the existence of a problem. A strict interpretation of 11 U.S.C.A. § 365(c)(1), coupled with a rigid application of the nonassignability doctrine, can produce unreasonable results. Applying the nonassignability doctrine as applicable law for purposes of section 365(c)(1) will certainly trump the estate’s right to assign regardless of contractual antiassignment provisions. This, arguably, is an acceptable outcome given the personal nature of a patent or copyright license. However, the *Suntterra* decision does far more than this. By preventing assumption in addition to assignment it effectively prevents

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assignments that, outside of bankruptcy, would be okay. Many patent and copyright licenses grant a limited right of assignment—usually in connection with an asset sale, in a merger, or to an affiliate entity. In these cases, the licensor has contractually agreed to the assignment. However, in the bankruptcy context, the *Sunterra* structure would prevent the trustee from assuming the license and thus from assigning the license as allowed by the license. More seriously, *Sunterra* prevents a reorganizing debtor from retaining its license rights over the licensor's objection—even where no assignment is contemplated. In other words, the debtor just wants to retain its rights but cannot. In the *Sunterra* case, this is the exact fact pattern. Not only could Sunterra not retain its rights, but it could not do so even where its use of the license as a reorganized debtor could not have any negative effect on the licensor.

All this because of what is, quite clearly, a drafting error. History tells us that section 365(c)(1) was not intended to prevent assumption, even if the applicable legislative history is too generic to make this clear. Since Congress seems at this point unwilling or unable to correct the problem,⁸² the onus rests with the courts to interpret the Bankruptcy Code in a way that helps it achieve the necessary commercial results. To do otherwise is, in a word, absurd.

1. The American Heritage Dictionary of the English Language, 4th Ed. (Houghton Mifflin Company 2000).

2. In re CFLC, Inc., 89 F.3d 673, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996).

3. In re Sunterra Corp., 361 F.3d 257, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

4. This article refers to this common law rule as the “nonassignability doctrine.”

5. Hereafter referred to simply as “Sunterra” and “RCI.”

6. David R. Kuney, *Intellectual Property Law In Bankruptcy Court: The Search For A More Coherent Standard In Dealing With A Debtor's Right To Assume And Assign Technology Licenses*, 9 Am. Bankr. Inst. L. Rev. 593 (2001); Gregory G. Hesse, *The Risk Of An Offensive Use Of Catapult*, 20-APR Am. Bankr. Inst. J. 14 (2001); Joshua C. Tate, *Case Note: Game Over Perlman v. Catapult Entertainment*, 109 Yale L.J. 1709 (2001); Carole A. Quinn & R. Scott Weide, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability*, 32 Creighton L. Rev. 1121 (1999).

7. In re Sunterra Corp., 361 F.3d 257, 260-61, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

8. See In re Sunterra Corp., 298 B.R. 549, 551 (D. Md. 2003) (Sunterra II).

9. Sunterra did, in fact, serve Resort Condominium International, LLC with a notice of termination on May 17, 2002, subject to bankruptcy court approval. It filed a motion for authority to termination and reject the contract on May 31, 2002. See In re Sunterra Corp., 298 B.R. 549, 551 (D. Md. 2003).

10. After Sunterra rejected the Master Services Agreement, RCI's parent, Resort Condominium International, LLC, filed a proof of claim for approximately \$28,000,000. Sunterra objected to the claim's allowance and counter-claimed for breach of contract based

on the parent's role in RCI's attempt to have the software license deemed rejected. Sunterra alleged that RCI's purpose in filing the motion was to punish Sunterra for its decision to change service suppliers. Those counterclaims were eventually dismissed by the district court because Sunterra failed to state a viable cause of action. See *In re Sunterra* (Sunterra II), 298 BR 549, 551 (D. Md. 2003).

11. Starting with *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999).

12. 11 U.S.C.A. § 365.

13. Although Section 365 refers to "trustees," that term also includes a debtor-in-possession of a chapter 11 bankruptcy estate where no trustee has been appointed. William L. Norton, Jr., *Norton Bankruptcy Law And Practice 2d*, § 39:1 (2003).

14. The debtor must obtain court approval of the decision to assume or reject. 11 U.S.C.A. § 365(a). Most courts use a business judgment standard when reviewing a trustee's decision to assume or reject an executory contract. This test is identical to that used in judicial review of corporate decisions outside of the bankruptcy court context. Courts using the business judgment rule will allow a debtor or trustee to assume or reject if the desired action will benefit the bankruptcy estate. See generally, William L. Norton, Jr., *Norton Bankruptcy Law And Practice 2d*, § 39:16 (2003). Courts largely defer to the estate representative's decision, and generally will deny an election only where the trustee is acting in bad faith or abusing his discretion. See, e.g., *In re Southern California Sound Systems, Inc.*, 69 B.R. 893, 15 Bankr. Ct. Dec. (CRR) 579, Bankr. L. Rep. (CCH) P 71674 (Bankr. S.D. Cal. 1987).

15. The rejection is treated as a pre-petition breach, giving the nondebtor party a general unsecured claim for damages. The other party may also have an administrative claim to the extent the estate benefited from its postpetition performance under the contract. The nondebtor party may also have other rights provided by the Bankruptcy Code, particularly, in the case of intellectual property licenses, rights under 11 U.S.C.A. § 365(n).

16. 11 U.S.C.A. § 365(f). See William L. Norton, Jr., *Norton Bankruptcy Law And Practice 2d*, §§ 39:22 (West Group. 2003).

17. 11 U.S.C.A. § 365(c)(1)(A).

18. 11 U.S.C.A. § 365(c)(1)(B).

19. *In re O'Connor*, 258 F.3d 392, 38 Bankr. Ct. Dec. (CRR) 32 (5th Cir. 2001) (partnership agreement); *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999) (patent license); *In re Pioneer Ford Sales, Inc.*, 729 F.2d 27, 11 Bankr. Ct. Dec. (CRR) 1303, 10 Collier Bankr. Cas. 2d (MB) 524, Bankr. L. Rep. (CCH) P 69740 (1st Cir. 1984) (state law governing assignment of automobile franchises); *In re TechDyn Systems Corp.*, 235 B.R. 857, 34 Bankr. Ct. Dec. (CRR) 825 (Bankr. E.D. Va. 1999) (government contract governed by Antiassignment Act); *In re Tomer*, 128 B.R. 746, 25 Collier Bankr. Cas. 2d (MB) 22 (Bankr. S.D. Ill. 1991), *aff'd*, 147 B.R. 461 (S.D. Ill. 1992) (agency contract with characteristics of personal services contract).

20. William L. Norton, Jr., *Norton Bankruptcy Law And Practice 2d*, §§ 39:20 (West Group. 2003).

21. *In re Sunterra Corp.*, No. 00-5-6931-JS (Bankr. D. Md. 2002).

22. The court did not write a more formal decision due to a pending criminal trial. *RCC Technology Corp. v. Sunterra Corp.*, 287 B.R. 864 n. 1, 49 Collier Bankr. Cas. 2d (MB) 1945 (D. Md. 2003), *rev'd and remanded*, 361 F.3d 257, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

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23. The court also held, without real discussion, that the license was an executory contract.

24. *RCC Technology Corp. v. Sunterra Corp.*, 287 B.R. 864, 866, 49 Collier Bankr. Cas. 2d (MB) 1945 (D. Md. 2003), rev'd and remanded, 361 F.3d 257, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

25. *Troy Iron & Nail Factory v. Corning*, 55 U.S. 193, 14 How. 193, 14 L. Ed. 383, 1852 WL 6762 (1852).

26. *Troy Iron & Nail Factory v. Corning*, 55 U.S. 193, 14 How. 193, 14 L. Ed. 383, 1852 WL 6762 (1852). A later case, *Hapgood v. Hewitt*, 119 U.S. 226, 7 S. Ct. 193, 30 L. Ed. 369 (1886), is often cited for the principle. In that case, an employee of a company invented a new plow, and received a patent for his invention. The employer, which had manufactured the invented plow, eventually dissolved, assigning all of its assets to another business. A dispute arose between the employee and the asset buyer over the asset buyer's right to the invention. The Supreme Court held that the employee, not the employer, held the patent. As to any implied license that would have allowed the employer to use the invention, "it could not pass to the assignee."

27. *Oliver v. Rumford Chemical Works*, 109 U.S. 75, 82, 3 S. Ct. 61, 27 L. Ed. 862 (1883).

28. *Oliver v. Rumford Chemical Works*, 109 U.S. 75, 82, 3 S. Ct. 61, 27 L. Ed. 862 (1883).

29. *Stenograph Corp. v. Fulkerson*, 972 F.2d 726, 729 n. 2 (7th Cir. 1992) ("Patent licenses are not assignable in the absence of express language."); *Gilson v. Republic of Ireland*, 787 F.2d 655, 658, 229 U.S.P.Q. (BNA) 460 (D.C. Cir. 1986) ("It is well settled that a non-exclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."); *Unarco Industries, Inc. v. Kelley Co., Inc.*, 465 F.2d 1303, 1306, 175 U.S.P.Q. (BNA) 199 (7th Cir. 1972) ("...the question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question"); *Rock-Ola Mfg. Corp. v. Filben Mfg. Co.*, 168 F.2d 919, 922, 78 U.S.P.Q. (BNA) 175 (C.C.A. 8th Cir. 1948) ("The mere granting of a license to make, use or sell a patented article does not confer upon the licensee the right to transfer his license unless the patentee has consented thereto.").

30. *In re CFLC, Inc.*, 89 F.3d 673, 679-80, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996).

31. *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 30 Bankr. Ct. Dec. (CRR) 221, 37 Collier Bankr. Cas. 2d (MB) 588, 41 U.S.P.Q.2d (BNA) 1503, Bankr. L. Rep. (CCH) P 77242 (1st Cir. 1997) (abrogated by *Hardemon v. City of Boston*, 1998 WL 148382 (1st Cir. 1998)); *In re Hernandez*, 285 B.R. 435 (Bankr. D. Ariz. 2002); *In re Supernatural Foods, LLC*, 268 B.R. 759, 798 (Bankr. M.D. La. 2001); *In re Access Beyond Technologies, Inc.*, 237 B.R. 32, 34 Bankr. Ct. Dec. (CRR) 919 (Bankr. D. Del. 1999); also see *In re Alltech Plastics, Inc.*, 71 B.R. 686, 689, 3 U.S.P.Q.2d (BNA) 1024 (Bankr. W.D. Tenn. 1987).

32. *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 300, 309 (Bankr. D. Del. 2001); *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 242-43, 31 Bankr. Ct. Dec. (CRR) 49 (Bankr. S.D. N.Y. 1997); also see *Harris v. Emus Records Corp.*, 734 F.2d 1329, 222 U.S.P.Q. (BNA) 466 (9th Cir. 1984) (holding that a copyright licensee's interest is nonassignable absent a contractual term allowing assignment); see *Gardner v. Nike, Inc.*, 279 F.3d 774, 779-81, 61 U.S.P.Q.2d (BNA) 1529 (9th Cir. 2002), for additional opinion, see 30 Fed. Appx. 726 (9th Cir. 2002).

33. The use of the term "assume or assign" instead of just "assume" allows the estate to assume with the nondebtor party's consent, without affecting the nondebtor's ability to

object to a later assignment of the contract. Again, the language recognizes the two-step nature of the assignment process.

34. In re Sunterra Corp., 361 F.3d 257, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004) (copyright license); In re O'Connor, 258 F.3d 392, 38 Bankr. Ct. Dec. (CRR) 32 (5th Cir. 2001) (partnership agreement); In re Catapult Entertainment, Inc., 165 F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999) (patent license); In re James Cable Partners, L.P., 27 F.3d 534, 25 Bankr. Ct. Dec. (CRR) 1499, 31 Collier Bankr. Cas. 2d (MB) 1104 (11th Cir. 1994); Matter of West Electronics Inc., 852 F.2d 79, 18 Bankr. Ct. Dec. (CRR) 287, Bankr. L. Rep. (CCH) P 72351, 34 Cont. Cas. Fed. (CCH) P 75526 (3d Cir. 1988) (rejected by, In re James Cable Partners, L.P., 154 B.R. 813, 24 Bankr. Ct. Dec. (CRR) 530, 28 Collier Bankr. Cas. 2d (MB) 1677, Bankr. L. Rep. (CCH) P 75313 (M.D. Ga. 1993)); In re Catron, 158 B.R. 629 (E.D. Va. 1993), aff'd, 25 F.3d 1038 (4th Cir. 1994); In re Hernandez, 285 B.R. 435 (Bankr. D. Ariz. 2002); In re Access Beyond Technologies, Inc., 237 B.R. 32, 34 Bankr. Ct. Dec. (CRR) 919 (Bankr. D. Del. 1999). Another line of cases concludes that restricting assumption merely because applicable law prohibits assignment is nonsensical; applying an "actual" test, the cases hold that 11 U.S.C.A. § 365(c) limits assumption only when the trustee intends to later assign the assumed contract. See *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 30 Bankr. Ct. Dec. (CRR) 221, 37 Collier Bankr. Cas. 2d (MB) 588, 41 U.S.P.Q.2d (BNA) 1503, Bankr. L. Rep. (CCH) P 77242 (1st Cir. 1997) (abrogated on other grounds by, *Hardemon v. City of Boston*, 1998 WL 148382 (1st Cir. 1998)); In re Footstar, Inc., 323 B.R. 566 (Bankr. S.D. N.Y. 2005); In re Cajun Elec. Power Co-op., Inc., 230 B.R. 693, 705 (Bankr. M.D. La. 1999); In re Lil' Things, Inc., 220 B.R. 583, 587, 32 Bankr. Ct. Dec. (CRR) 793, 40 Collier Bankr. Cas. 2d (MB) 54 (Bankr. N.D. Tex. 1998); Matter of GP Exp. Airlines, Inc., 200 B.R. 222, 232, 38 Collier Bankr. Cas. 2d (MB) 1725, 30 U.C.C. Rep. Serv. 2d 583 (Bankr. D. Neb. 1996); Matter of American Ship Bldg. Co., Inc., 164 B.R. 358, 363, 25 Bankr. Ct. Dec. (CRR) 438, Bankr. L. Rep. (CCH) P 75740, 39 Cont. Cas. Fed. (CCH) P 76632 (Bankr. M.D. Fla. 1994); In re Ontario Locomotive & Indus. Ry. Supplies (U.S.) Inc., 126 B.R. 146, 147-48, 37 Cont. Cas. Fed. (CCH) P 76194 (Bankr. W.D. N.Y. 1991); In re Cardinal Industries, Inc., 116 B.R. 964, 978-81, 20 Bankr. Ct. Dec. (CRR) 1264, Bankr. L. Rep. (CCH) P 73586 (Bankr. S.D. Ohio 1990).

35. In re Catapult Entertainment, Inc., 165 F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999).

36. Decisions following *Catapult* in restricting assumption of patent licenses include In re Hernandez, 285 B.R. 435 (Bankr. D. Ariz. 2002) and In re Access Beyond Technologies, Inc., 237 B.R. 32, 34 Bankr. Ct. Dec. (CRR) 919 (Bankr. D. Del. 1999).

37. In re Catapult Entertainment, Inc., 165 F.3d 747, 753, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999).

38. In re CFLC, Inc., 89 F.3d 673, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996).

39. However, in *Institut Pasteur*, the First Circuit Court of Appeals applied a results based analysis, called the actual test. *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 493, 30 Bankr. Ct. Dec. (CRR) 221, 37 Collier Bankr. Cas. 2d (MB) 588, 41 U.S.P.Q.2d (BNA) 1503, Bankr. L. Rep. (CCH) P 77242 (1st Cir. 1997) (abrogated by, *Hardemon v. City of Boston*, 1998 WL 148382 (1st Cir. 1998)); see *Summit Inv. and Development Corp. v. Leroux*, 69 F.3d 608, 28 Bankr. Ct. Dec. (CRR) 200, 34 Collier Bankr. Cas. 2d (MB) 1351, Bankr. L. Rep. (CCH) P 76695 (1st Cir. 1995). The court suggested using a case-by-case inquiry into whether the licensor was being forced to do business with someone other than its original licensee. This approach adopts some sensitivity toward the rights of the licensee to make sure it receives the full benefit of the license. The court's approach allowed the debtor, Cambridge Biotech Corporation, to—in effect—circumvent the *Everex* prohibition on

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assignment by assuming the rights under its patent license from Institut Pasteur and then selling its stock to an acquirer. The acquirer was a subsidiary of bioMerieux, Institut Pasteur's direct competitor. Institut Pasteur argued this transaction was the equivalent of an assignment. The First Circuit differentiated a stock sale from a merger. The court noted that, under Massachusetts state law, Cambridge Biotech Corporation was a separate legal entity from its stockholders; that the debtor intended to continue its prior business operations within that legal entity; and that the change in ownership did not require it to treat the transaction as an assignment of the license to the new owner.

40. Following established Fourth Circuit precedent. *Gloria Mfg. Corp. v. International Ladies' Garment Workers' Union*, 734 F.2d 1020, 1022, 12 Bankr. Ct. Dec. (CRR) 25, 116 L.R.R.M. (BNA) 2567, Bankr. L. Rep. (CCH) P 69888, 101 Lab. Cas. (CCH) P 11053 (4th Cir. 1984).

41. *Vern Countryman, Executory Contracts in Bankruptcy: Part I*, 57 Minn. L.Rev. 439, 460 (1973). The Countryman test is the majority rule, applied in almost all jurisdictions. A few courts use an alternative test called the functional analysis approach to determine whether a particular contract is executory. It is more flexible than the Countryman test and looks to the nature of the parties, the goals of reorganization, and whether acceptance or rejection will benefit the bankruptcy estate. William L. Norton, Jr., *Norton Bankruptcy Law And Practice 2d*, § 39:7 (2003); See Olin McGill & Francis G. Conrad, *Exorcising Executory-ness: Functionalist Arguments and Incantations to Avoid Meeting the Devil in the Woods*, 1995-96 Norton Ann. Surv. Bankr. L. 137, 144 n.22 (1996); Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 282-83 (1989); see also, *In re Drexel Burnham Lambert Group, Inc.*, 138 B.R. 687, 703, 26 Collier Bankr. Cas. 2d (MB) 1128 (Bankr. S.D. N.Y. 1992); *In re Waldron*, 36 B.R. 633, 637-38 (Bankr. S.D. Fla. 1984). The functional approach eschews fitting a contract to a specific definition of "executory contract," but instead looks to the functional effect of the rejection. In short, "the ability of the trustee to assume or reject contracts should turn on whether the estate will benefit from assumption or rejection." Laura B. Bartell, *Revisiting Rejection: Secured Party Interests in Leases and Executory Contracts*, 103 Dick. L. R. 497, 505 (1999). It should be quite clear that the Fourth Circuit could have held the RCI license nonexecutory through application of the functional approach, had it only desired to do so.

42. The actual license may have had other continuing obligations of each party, but the Fourth Circuit did not discuss the provisions and their existence was clearly not necessary to make the contract executory. The court also did not consider whether the license clauses—the continuing grant by each party of a perpetual right to use its intellectual property—were continuing obligations for purposes of the Countryman test. See *In re CFLC, Inc.*, 89 F.3d 673, 679-80, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996); *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 511, 40 Bankr. Ct. Dec. (CRR) 262 (Bankr. D. Del. 2003); *In re Access Beyond Technologies, Inc.*, 237 B.R. 32, 43, 34 Bankr. Ct. Dec. (CRR) 919 (Bankr. D. Del. 1999); but see *In re Gencor Industries, Inc.*, 298 B.R. 902 (Bankr. M.D. Fla. 2003) (licensor's continuing obligation to allow use of the intellectual property was held not a material on-going obligation).

43. *In re CFLC, Inc.*, 89 F.3d 673, 679-80, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996); *In re Qintex Entertainment, Inc.*, 950 F.2d 1492, 1496, 26 Collier Bankr. Cas. 2d (MB) 143, 21 U.S.P.Q.2d (BNA) 1775, Bankr. L. Rep. (CCH) P 74396 (9th Cir. 1991); *In re Kmart Corp.*, 290 B.R. 614, 618 (Bankr. N.D. Ill. 2003); *In re Access Beyond Technologies, Inc.*, 237 B.R. 32, 42-43, 34 Bankr. Ct. Dec. (CRR) 919 (Bankr. D. Del. 1999).

44. A proposition that Sunterra did not contest.

45. *Caminetti v. U.S.*, 242 U.S. 470, 485, 37 S. Ct. 192, 61 L. Ed. 442 (1917).

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46. *Sigmon Coal Co., Inc. v. Apfel*, 226 F.3d 291, 304, 24 Employee Benefits Cas. (BNA) 2830 (4th Cir. 2000), *aff'd*, 534 U.S. 438, 122 S. Ct. 941, 151 L. Ed. 2d 908, 27 Employee Benefits Cas. (BNA) 1545, 197 A.L.R. Fed. 689 (2002) and judgment *aff'd*, (Feb. 19, 2002) *Barnhart v. Sigmon Coal Co., Inc.*, 534 U.S. 438, 122 S. Ct. 941, 151 L. Ed. 2d 908, 27 Employee Benefits Cas. (BNA) 1545, 197 A.L.R. Fed. 689 (2002).

47. *Sigmon Coal Co., Inc. v. Apfel*, 226 F.3d 291, 304, 24 Employee Benefits Cas. (BNA) 2830 (4th Cir. 2000), *aff'd*, 534 U.S. 438, 122 S. Ct. 941, 151 L. Ed. 2d 908, 27 Employee Benefits Cas. (BNA) 1545, 197 A.L.R. Fed. 689 (2002) and judgment *aff'd*, (Feb. 19, 2002); *Barnhart v. Sigmon Coal Co., Inc.*, 534 U.S. 438, 122 S. Ct. 941, 151 L. Ed. 2d 908, 27 Employee Benefits Cas. (BNA) 1545, 197 A.L.R. Fed. 689 (2002).

48. 11 U.S.C.A. § 365(f)(1).

49. 11 U.S.C.A. § 365(c)(1).

50. *In re Sunterra Corp.*, 361 F.3d 257, 267, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004); *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 752, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999); *In re James Cable Partners, L.P.*, 27 F.3d 534, 538, 25 Bankr. Ct. Dec. (CRR) 1499, 31 Collier Bankr. Cas. 2d (MB) 1104 (11th Cir. 1994); *In re Magness*, 972 F.2d 689, 27 Collier Bankr. Cas. 2d (MB) 862, 695, Bankr. L. Rep. (CCH) P 74808 (6th Cir. 1992).

51. *In re Sunterra Corp.*, 361 F.3d 257, 267, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004), citing *In re Hartec Enterprises, Inc.*, 117 B.R. 865, 871-72 (Bankr. W.D. Tex. 1990), judgment vacated on other grounds, 130 B.R. 929 (W.D. Tex. 1991).

52. *In re Sunterra Corp.*, 361 F.3d 257, 267, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004); *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 752, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999). If these arguments—on both sides—reek of sophistry, this is likely because the relevant statutory provisions of section 365, in this context, really don't work well together. The language is, in short, inartful. However, less than perfect statutory drafting is nothing new and one would have to question a court rewriting a statute merely because some of the language is hard to parse. As the circuit court said itself, “. . . the Statute may be read literally without creating an irreconcilable conflict within itself or with its neighboring statutory provisions.” *In re Sunterra Corp.*, 361 F.3d 257, 267, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004). The court seems to acknowledge the existence of a conflict, but remains unwilling to rewrite the language of the statute to “remove” the conflict. The essential problem with Sunterra's inconsistency argument is that while some interpretation problems appear to exist in the statute, little exists to suggest that applying the “hypothetical” test provides the appropriate remedy or that the statutory provisions suddenly burst into clarity when the phrase “assume or assign” is rewritten to “assume and assign.”

53. The court of appeals started by stating that the district court had applied the wrong standard. The district court had stated that the result reached by a literal interpretation was “quite unreasonable.” This was not the standard, the court of appeals pointed out. The correct standard was whether the result from a plain reading of a statute would be absurd. *In re Sunterra Corp.*, 361 F.3d 257, 268, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004), citing *Maryland State Dept. of Educ. v. U.S. Dept. of Veterans Affairs*, 98 F.3d 165, 169 (4th Cir. 1996).

54. *In re Sunterra Corp.*, 361 F.3d 257, 268, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

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55. As examples, the court referenced the automatic stay exceptions and provisions in sections 555-557, 559 and 560 providing special protections to nondebtor parties to securities contracts, commodities contracts, grain storage contracts, repurchase agreements and swap agreements.

56. In re Sunterra Corp., 361 F.3d 257, 268, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

57. U.S. v. Ron Pair Enterprises, Inc., 489 U.S. 235, 242, 109 S. Ct. 1026, 103 L. Ed. 2d 290, 18 Bankr. Ct. Dec. (CRR) 1150, Bankr. L. Rep. (CCH) P 72575, 89-1 U.S. Tax Cas. (CCH) P 9179, 63 A.F.T.R.2d 89-652 (1989). This was a decision that so well interpreted the “drafters’ intentions” in applying the plain meaning rule to 11 U.S.C.A. § 506(b), that Congress later amended the Bankruptcy Code to address the outfall from the decision. See *Rake v. Wade*, 508 U.S. 464, 113 S. Ct. 2187, 124 L. Ed. 2d 424, 24 Bankr. Ct. Dec. (CRR) 533, 28 Collier Bankr. Cas. 2d (MB) 983, Bankr. L. Rep. (CCH) P 75275 (1993) (using the *Ron Pair* interpretation of 11 U.S.C.A. § 506(b) to hold that interest due an oversecured creditor should, for the period between the filing of a petition and the confirmation of a plan, be calculated based on the entire amount of the “claim” rather than according to the loan documentation); *Telfair v. First Union Mortg. Corp.*, 216 F.3d 1333, 1338, 36 Bankr. Ct. Dec. (CRR) 96, Bankr. L. Rep. (CCH) P 78220 (11th Cir. 2000) (noting that the *Rake v. Wade* decision was overruled by the 1994 amendments to the Bankruptcy Code).

58. In re Sunterra Corp., 361 F.3d 257, 269, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

59. While the court does not discuss the issue, the court’s language suggests that it was aware of the fact that section 365(c)(1) addresses only one of five types of contracts affected by the “assume or assign” language. The others are notes and other financial accommodations, contracts to sell securities of the debtor, leases of non-residential real estate that were terminated prepetition, and aircraft gate leases (and then only when the debtor wants to assume or assign some, but not all, of its gate leases at a particular airport). In each of these other cases it is easy to see, either from the context or the legislative history, why the debtor-in-possession should not be allowed to even assume the contract. In other words, in these four other situations Congress clearly intended section 365(c) to read “assume or assign.” Applying the actual test, does, as a result, reinterpret the statute for one sub-section of the statute but not for others.

60. Bankruptcy Amendments and Federal Judgeship Act of 1984 (“BAFJA”), Pub.L. No. 98-353, 98 Stat. 333 (1984), reprinted in Appendix 1, L. King, *Collier on Bankruptcy* 1585 (15th ed. 1989).

61. In re Sunterra Corp., 361 F.3d 257, 270, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004); see In re Cardinal Industries, Inc., 116 B.R. 964, 978, 20 Bankr. Ct. Dec. (CRR) 1264, Bankr. L. Rep. (CCH) P 73586 (Bankr. S.D. Ohio 1990) (“Given the urgency with which BAFJA was passed, its legislative “history” is comprised solely of statements inserted rather than actually read into the Congressional Record. . . . Consequently there is no authoritative legislative history for BAFJA as enacted in 1984. Likewise there is no authoritative legislative history for its component acts as enacted in 1984.”)

62. H.R. 1195, 96th Cong., 2d Sess. § 27(b) (1980).

63. Which is an interesting concept. After all, the 1984 amendment to the Bankruptcy Code was enacted without any meaningful legislative history because of the urgency of its passage. The primary motivator to enactment were two Supreme Court decisions which threatened the efficacy of the bankruptcy process (*Northern Pipeline Const. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 102 S. Ct. 2858, 73 L. Ed. 2d 598, 6 Collier Bankr. Cas. 2d (MB) 785, Bankr. L. Rep. (CCH) P 68698 (1982) and *N.L.R.B. v. Bildisco and Bildisco*, 465 U.S. 513, 104 S. Ct. 1188, 79 L. Ed. 2d 482, 11 Bankr. Ct. Dec. (CRR) 564, 9 Collier Bankr. Cas.

2d (MB) 1219, 5 Employee Benefits Cas. (BNA) 1015, 115 L.R.R.M. (BNA) 2805, Bankr. L. Rep. (CCH) P 69580, 100 Lab. Cas. (CCH) P 10771 (1984)). In re Cardinal Industries, Inc., 116 B.R. 964, 978, 20 Bankr. Ct. Dec. (CRR) 1264, Bankr. L. Rep. (CCH) P 73586 (Bankr. S.D. Ohio 1990). In 1984, Congress took the opportunity to make a large number of technical changes that had been contemplated for several years. These changes included the current language for section 365(c)(1). In fact, as the 1980 committee report demonstrates, the 1984 changes in section 365(c) were designed to correct a recognized problem with the prior language to section 365(c)—that it did not clearly allow the debtor in possession to assume its contracts. In a 1999 article, this was confirmed by Richard Levin, who, as counsel for the Subcommittee on Civil and Constitutional Rights of the House Judiciary Committee, drafted the original version of section 365(c) in 1978, and Gerald K. Smith, who was instrumental in drafting what later became the 1984 amendment. Levin commented that “. . . everybody agreed from the time we enacted § 365(c), that it was not meant to prevent the debtor in possession from assuming, but we didn’t write it right, and then Charles Vihon came in and tried to rewrite it.” Gerald Smith stated “how I understood the 1984 amendment. . . what it did was make it clear that (c) dealt with the trustee and the trustee’s attempt to assign, and it very inartfully carved out debtor and debtor-in-possession. I think this was simply a technical amendment to this flawed drafting, the original § 365 . . . I certainly had the understanding at the time that this amendment was being discussed and being promoted and after it actually passed that what they were trying to do was to carve out the debtor so that it didn’t preclude a debtor from assuming its own contract.” Randolph J. Haines, *Origins Of § 365 And Its 1984 Amendment*, 8 Norton Bankr. L. Adviser 7 (1999).

64. In re Sunterra Corp., 361 F.3d 257, 270, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

65. In re Sunterra Corp., 361 F.3d 257, 271, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004). Another argument against Sunterra’s position, relevant here, is that when the consent is built into the contract, the consent required is not consent to the particular transaction contemplated, but a consent to “accepting performance from or rendering performance to an entity other than the debtor.” See In re Hernandez, 285 B.R. 435, 440 (Bankr. D. Ariz. 2002).

66. See In re Centura Software Corp., 281 B.R. 660, 39 Bankr. Ct. Dec. (CRR) 249 (Bankr. N.D. Cal. 2002). This might explain why, almost a year after entry of the circuit court of appeals’ decision, the parties were still unable to agree on a form of order on remand to present the district court.

67. Although this is not necessarily the case. It is possible that the license, not having been rejected or assumed, has passed through the bankruptcy case unaffected. See In re Hernandez, 287 B.R. 795 (Bankr. D. Ariz. 2002); also, In re O’Connor, 258 F.3d 392, 38 Bankr. Ct. Dec. (CRR) 32 (5th Cir. 2001); In re Boston Post Road Ltd. Partnership, 21 F.3d 477, 484, 25 Bankr. Ct. Dec. (CRR) 737, 30 Collier Bankr. Cas. 2d (MB) 1528, Bankr. L. Rep. (CCH) P 75793 (2d Cir. 1994); Matter of Greystone III Joint Venture, 995 F.2d 1274 (5th Cir. 1991), on reh’g, (Feb. 27, 1992); In re Public Service Co. of New Hampshire, 884 F.2d 11, Bankr. L. Rep. (CCH) P 73168 (1st Cir. 1989).

68. After the court of appeals entered its decision, Sunterra filed a petition for rehearing en banc, which was denied on April 14, 2004. The district court then requested that the parties submit a proposed form of order on remand. On December 10, 2004, the parties sent the court a letter stating that they had not yet been able to agree on a form of order, but were continuing to work on it. After the parties, in early May 2005, informed the court that they could not agree on a form of order, the district court entered an order remanding the matter to the bankruptcy court for “further proceedings consistent with the Fourth Circuit’s Decision and Order.” As of September 6, 2005, Sunterra and RCI were arguing to the bankruptcy court whether or not the contract rejection should date back to the date of the

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bankruptcy court's original order. RCI took the position that the rejection should relate back and that it should have a claim against Sunterra for its "unauthorized" use of the software during the pendency of the appeal. Sunterra argued that any rejection should not relate back and, notwithstanding the circuit court's decision, Sunterra had actually assumed the license through provisions in its chapter 11 reorganization plan. In a related matter, RCI's affiliate filed a \$28.6 million dollar breach claim for Sunterra's rejection of the master services agreement. That matter was settled, with Resort Condominium International, LLC receiving an allowed unsecured claim for \$10 million.

69. Albert Camus.

70. *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 30 Bankr. Ct. Dec. (CRR) 221, 37 Collier Bankr. Cas. 2d (MB) 588, 41 U.S.P.Q.2d (BNA) 1503, Bankr. L. Rep. (CCH) P 77242 (1st Cir. 1997) (abrogated by, *Hardemon v. City of Boston*, 1998 WL 148382 (1st Cir. 1998)).

71. *In re Sunterra Corp.*, 361 F.3d 257, 262, n. 7, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004).

72. *In re CFLC, Inc.*, 89 F.3d 673, 679-80, 29 Bankr. Ct. Dec. (CRR) 520, 36 Collier Bankr. Cas. 2d (MB) 297, 39 U.S.P.Q.2d (BNA) 1518 (9th Cir. 1996). A prior decision of the same court applied the nonassignability rule to copyright licenses. *Harris v. Emus Records Corp.*, 734 F.2d 1329, 222 U.S.P.Q. (BNA) 466 (9th Cir. 1984).

73. "There is no federal general common law." *Erie R. Co. v. Tompkins*, 304 U.S. 64, 78, 58 S. Ct. 817, 82 L. Ed. 1188, 114 A.L.R. 1487 (1938). See *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388, 21 Cal. Rptr. 3d 404 408-09 (4th Dist. 2004) (noting that the nonassignability doctrine arose from *Hapgood v. Hewitt*, 119 U.S. 226, 233-234, 7 S. Ct. 193, 30 L. Ed. 369 (1886), and prior Supreme Court decisions, all of which predated *Erie*.) See David R. Kunev, *Intellectual Property Law In Bankruptcy Court: The Search For A More Coherent Standard In Dealing With A Debtor's Right To Assume And Assign Technology Licenses*, 9 Am. Bankr. Inst. L. Rev. 593, 625 (2001); Carole A. Quinn & R. Scott Weide, *Violation of the Erie Doctrine: Application of a Rule of Federal Common Law to Issues of Patent License Transferability*, 32 Creighton L. Rev. 1121 (1999); Daniel A. Wilson, *Patent License Assignment: Preemption, Gap Filling, and Default Rules*, 77 B.U. L. Rev. 895 (1997).

74. *Farmland Irr. Co. v. Dopplmaier*, 48 Cal. 2d 208, 308 P.2d 732, 113 U.S.P.Q. (BNA) 88, 66 A.L.R.2d 590 (1957); *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388, 21 Cal. Rptr. 3d 404 (4th Dist. 2004).

75. See *Harris v. Emus Records Corp.*, 734 F.2d 1329, 222 U.S.P.Q. (BNA) 466 (9th Cir. 1984) (holding that a copyright licensee's interest is nonassignable absent a contractual term allowing assignment.); also *Gardner v. Nike, Inc.*, 279 F.3d 774, 779-81, 61 U.S.P.Q.2d (BNA) 1529 (9th Cir. 2002), for additional opinion, see 30 Fed. Appx. 726 (9th Cir. 2002); *Ilyin v. Avon Publications, Inc.*, 144 F. Supp. 368, 372, 110 U.S.P.Q. (BNA) 356 (S.D. N.Y. 1956); *Mills Music v. Cromwell Music*, 126 F. Supp. 54, 103 U.S.P.Q. (BNA) 84 (S.D. N.Y. 1954).

76. See *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 300, 309 (Bankr. D. Del. 2001); *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 242-43, 31 Bankr. Ct. Dec. (CRR) 49 (Bankr. S.D. N.Y. 1997).

77. *Troy Iron & Nail Factory v. Corning*, 55 U.S. 193, 14 How. 193, 14 L. Ed. 383, 1852 WL 6762 (1852).

78. *Hapgood v. Hewitt*, 119 U.S. 226, 234, 7 S. Ct. 193, 30 L. Ed. 369 (1886) ("Whatever license resulted to the Missouri corporation, from the facts of the case, to use the invention, was one confined to that corporation, and not assignable by it."); *Troy Iron & Nail Factory v. Corning*, 55 U.S. 193, 216, 14 How. 193, 14 L. Ed. 383, 1852 WL 6762 (1852) ("A mere license to a party. . . is only the grant of a personal power to the licensees, and is not transferable by him to another."); *Stenograph Corp. v. Fulkerson*, 972 F.2d 726, 729 n. 2 (7th Cir. 1992) ("Patent licenses are not assignable in the absence of express language."); *Gilson v. Repub-*

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lic of Ireland, 787 F.2d 655, 658, 229 U.S.P.Q. (BNA) 460 (D.C. Cir. 1986) (“ . . . a non-exclusive licensee of a patent has only a personal and not a property interest in the patent and . . . this personal right cannot be assigned.”); *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1333, 222 U.S.P.Q. (BNA) 466 (9th Cir. 1984) (“It has been held that a copyright licensee is a “bare licensee . . . without any right to assign its privilege.”).

79. See *Superbrace, Inc. v. Tidwell*, 124 Cal. App. 4th 388, 408-09, 21 Cal. Rptr. 3d 404 (4th Dist. 2004) (analyzing transferability of a copyright license under California state law governing contracts.)

80. *Ulead Systems, Inc. v. Lex Computer & Management Corp.*, 351 F.3d 1139, 1154, 69 U.S.P.Q.2d (BNA) 1097 (Fed. Cir. 2003) (“A non-exclusive licensee does not have a property interest in the patent.”)

81. *De Forest Radio Telephone & Telegraph Co. v. U.S.*, 273 U.S. 236, 242, 47 S. Ct. 366, 71 L. Ed. 625 (1927) (“As a license passes no interest in the monopoly, it has been described as a mere waiver of the right to sue by the patentee”, citing *Henry v. A.B. Dick Co.*, 224 U.S. 1, 32 S. Ct. 364, 56 L. Ed. 645 (1912) (overruled in part on other grounds by, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917))); *Medtronic AVE, Inc. v. Advanced Cardiovascular Systems, Inc.*, 247 F.3d 44, 59, 58 U.S.P.Q.2d (BNA) 1596 (3d Cir. 2001); *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753, 42 U.S.P.Q.2d (BNA) 1467 (11th Cir. 1997); *Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081, 4 U.S.P.Q.2d (BNA) 1044 (Fed. Cir. 1987) (“a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee.”)

82. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 does not include any changes to 11 U.S.C.A. § 365(c)(1).