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CONGRESSIONAL RECORD

PROCEEDINGS AND DEBATES OF THE 100TH CONGRESS

SENATE

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ACTION:

SENATE PASSED

Intellectual Property and Bankruptcy Protection Act: Senate passed S. 1626, to keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code, after agreeing to a committee amendment in the nature of a substitute, and the following amendment proposed thereto:

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Byrd (for DeConcini) Amendment No. 3170, of a technical nature.

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PROTECTION OF INTELLECTUAL PROPERTY

Mr. BYRD. Mr. President, I ask unanimous consent that the Senate proceed to the immediate consideration of Calendar Order No. 929, S. 1626.

The PRESIDING OFFICER. The clerk will state the bill by title.

The assistant legislative clerk read as follows:

A bill (S. 1626) to keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code.

The PRESIDING OFFICER. Is there objection to the immediate consideration of the bill?

There being no objection, the Senate proceeded to consider the bill which had been reported from the Committee on the Judiciary, with an amendment to strike all after the enacting clause and insert in lieu thereof the following:

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

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

(1) in paragraph (50) by striking "and" at the end,

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

(3) by adding at the end the following:

"(52) 'intellectual property' means—

"(A) trade secret;

"(B) invention, process, design, plant, or plant variety, including patents or patent applications thereon;

"(C) confidential research or development information;

"(D) work of authorship, including copyrights therefor; or

"(E) mask work;

to the extent protected by applicable nonbankruptcy law; and

"(53) 'mask work" has the meaning given it in section 901(a)(2) of title 17.".

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

"(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

"(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

"(B) to retain its rights (other than a right under applicable nonbankruptcy law to specific performance of the future affirmative obligations under such contract, except those affirmative obligations retained in paragraphs (2) and (3) under such contract, and any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

"(i) the duration of such contract; and

"(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

"(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

"(A) the trustee shall allow the licensee to exercise such rights;

"(B) the licensee shall make all payments with respect to such rights due under such contract with respect to the rights retained for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

"(C) the licensee shall be deemed to waive—

"(i) any right of setoff it may have with respect to such contact under this title or applicable nonbankruptcy law; and

"(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

"(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

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

"(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

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

"(A) to the extent provided in such contract or any agreement supplementary to such contract—

"(i) perform such contract; or

"(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

"(B) non interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from a third entity.".

SEC. 2. EFFECTIVE DATES; APPLICATION OF AMENDMENTS.

(a) EFFECTIVE DATE.—Except as provided in subsection (b), this Act and the amendments made by this Act shall take effect on the date of the enactment of this Act.

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

AMENDMENT NO. 3170

Mr. BYRD. Mr. President, I offer an amendment on behalf of Mr. DECONCINI.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from West Virginia (Mr. BYRD), for Mr. DECONCINI, proposes an amendment numbered 3170.

Mr. BYRD. Mr. President, I ask unanimous consent that the reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

1. On page 2, line 7, strike out "s" at the end of "patents";

2. On page 2, line 8, strike out "s" at the end of "applicants";

3. On page 2, line 12, strike out "s" at the end of "copyrights";

4. On page 3, line 12, strike out "," before "under";

5. On page 3, line 13, strike out "," after "contract";

6. On page 3, line 13, strike out "under" before "any agreement supplementary";

7. On page 4, line 3, strike out "royalty" before "payments";

8. On page 4, lines 3-4, strike out "with respect to such rights";

9. On page 4, lines 4-5, strike out "with respect to the rights retained";

10. On page 5, line 19, strike out "third" and insert in lieu thereof "another".

Mr. DECONCINI. I am pleased that the Senate consented to proceed to the immediate consideration of S. 1626 and then voted to pass the bill as reported by the Judiciary Committee with technical amendments.

Mr. President, this legislation will correct a major problem facing intellectual property licensees by clarifying the rights of parties if a licensor declares bankruptcy. Under recent court decisions such as *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), cert. denied, 106 S.Ct. 1285 (1986) a debtor may reject as an executory contract any license agreement involving intellectual property. This effectively terminates the licensee's use of one-of-a-kind technology without regard to the business that has been built around the technology. Intellectual property is inherently unique—by definition it cannot be replaced or purchased elsewhere.

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

In addition, this quirk in the bankruptcy law threatens American licensors competing in the international marketplace. Uncertainty over the law jeopardizes American technology licenses in the world market. I am pleased that the Senate is acting now to encourage full development of intellectual property in the worldwide marketplace.

S. 1626 amends section 365 of the Bankruptcy Code to permit a licensee of intellectual property to elect to continue to use that property, after a trustee rejects the license agreement, to the extent that the use existing immediately before the bankruptcy case commenced. The protection afforded by S. 1626 would be similar to that given by the code to lessees under real estate licenses. S. 1626 affects only the status of executory contracts for licenses of intellectual property, which is clearly defined in the bill.

This legislation has received wide support from the National Bankruptcy Conference, the business bankruptcy and intellectual property sections of the American Bar Association, the American Bankruptcy Institute, the Intellectual Property Bar and the Intellectual Property Owners. The House is expected to act soon on a companion measure and I am confident that the Congress will send a bill to the President to sign before we adjourn in October.

The PRESIDING OFFICER. The question is on agreeing to the amendment.

The amendment (No. 3170) was agreed to.

The PRESIDING OFFICER. The bill is open to further amendment. If there be no further amendment to be proposed, the question is on agreeing to the committee amendment in the nature of a substitute, as amended.

The committee amendment in the nature of a substitute, as amended, was agreed to.

The PRESIDING OFFICER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed.

(The text of the bill, S. 1626 will be printed in a future edition of the RECORD.)

Mr. BYRD. Mr. President, I move to reconsider the vote by which the bill passed.

Mr. DOLE. I move to lay that motion on the table.

The motion to lay on the table was agreed to.