Calendar No. 929

100TH CONGRESS
2D SESSION

S. 1626

[Report No. 100–505]

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.

IN THE SENATE OF THE UNITED STATES

AUGUST 7 (legislative day, AUGUST 5), 1987

Mr. DECONCINI (for himself and Mr. HEFLIN) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

SEPTEMBER 14 (legislative day, SEPTEMBER 7), 1988

Reported by Mr. BIDEN, with an amendment

[Strike out all after the enacting clause and insert the part printed in italic]

A BILL

To keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

~~That this Act may be cited as the "Intellectual Property Bankruptcy Protection Act of 1987".~~

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

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

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

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

"(2) Until and unless a trustee assumes an executory contract or unexpired lease under which the debtor has granted rights in intellectual property, the trustee may not interfere with the grantee's rights (A) to deal with the intellectual property, as provided in the contract or lease, (B) to gain access to or possession of any information or property in existence as of the time of the filing which the contract or lease provided would be made available to the grantee if the debtor failed to perform its affirmative obligations, and (C) in the case of a trademark, trade name, service mark, or similar intellectual property, to permit existing grantees to continue

in concert the quality assurance procedures of the licensor. If the trustee rejects such contract or lease, the trustee is relieved only from the specific performance of prospective obligations thereunder measured from the filing date and is prohibited from taking any action which would interfere with the grantee's rights set forth in subparagraphs (A), (B), and (C) of this paragraph. Subject to subsection (g) of this section and to section 553 of this title, if the grantee elects to exercise its rights under the contract or lease as set forth in this subsection, the grantee must satisfy its obligations under such contract or lease.

"(3) If the debtor was the grantee under an executory contract or unexpired lease which granted rights in intellectual property, prior to assumption or rejection and notwithstanding rejection of such contract or lease, the trustee, the debtor, and the grantor must maintain the confidentiality of any protected information obtained pursuant to the executory contract or unexpired lease to the extent required by applicable nonbankruptcy law. Prior to assumption or rejection, the grantor is entitled to adequate assurance of the continued confidential treatment of such protected information. If the contract or lease is rejected, upon request by the grantor including an offer of reimbursement of expenses, all materials embodying protected information shall be returned to the grantor. The trustee, after he has received actual notice of

~~the existence of the protected information in the bankruptcy estate, and the debtor, are not, by reason of the rejection, permitted to disclose protected information without the consent of the person to whom the obligation of confidentiality is owed.''.~~

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 applica-

ble 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 contract under this title or applicable nonbankruptcy law; and

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

"(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) 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 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.

Calendar No. 929

100TH CONGRESS
2D SESSION

S. 1626

[Report No. 100-505]

A BILL

To keep secure the rights of intellectual property licensors and licensees which come under the protection of title 11 of the United States Code, the bankruptcy code.

SEPTEMBER 14 (legislative day, SEPTEMBER 7), 1988

Reported with an amendment