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SOFTWARE LICENSES AS PERSONAL SERVICE CONTRACTS

By Terence W. Thompson*

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I. INTRODUCTION

Software licenses are executory contracts subject to rejection, assumption, or assignment in bankruptcy proceedings. The bankruptcy trustee (the "Trustee") can generally reject, assume, or assign the contract without the nondebtor's consent, notwithstanding any contract clause or nonbankruptcy law that prohibits or restricts the Trustee's action or that proposes termination or modification of the license as a result of the bankruptcy filing. However, the Bankruptcy Code does provide an exception where applicable law would "excuse" the nondebtor from rendering to, or accepting performance from, a party other than the debtor. This article addresses the Bankruptcy Code exception, in the context of software licenses, and seeks to identify the cir-

1. See infra text accompanying note 3.
2. See infra text accompanying note 8.
cumstances under which the filing of a bankruptcy petition excuses the nondebtor party to the software license from further performance.

II. SOFTWARE LICENSES IN BANKRUPTCY PROCEEDINGS

After a software company develops a software product, the company will generally attempt to capitalize on its efforts by licensing the software to others. These transactions may take a variety of forms. The typical software license provides that the software company will deliver a “finished” software product to the user. In many cases, the software company also agrees to correct any software defects or “bugs” that are discovered, and to periodically provide the user with improved, updated versions of the software. The software user, in return, pays one fee for the software, and may also agree to pay an additional fee, or royalty, if the software he licenses is incorporated into one of the products he (the user) manufactures. In addition, the software user often promises that he will not (1) disclose any of the confidential information the software company provides to the user, (2) reproduce or otherwise copy the software, and (3) assign or sublicense the software without the consent of the software company.

Thus, a software agreement generally contains continuing obligations on the part of both parties. As a result, most software licenses are likely to be deemed executory contracts for purposes of bankruptcy law. The federal Bankruptcy Code empowers the Trustee to reject or assume an executory license; if the Trustee assumes it, the code empowers the Trustee to assign the license to a third party.\(^3\)

Under most circumstances, a Trustee can assign the software license without the nondebtor’s consent.\(^4\) The assignment may be made notwithstanding any provision of applicable law or the license terms that would prohibit, restrict, or condition the assignment.\(^5\) Similarly, filing a petition under the Bankruptcy Code does not, in itself, usually result in the termination or modification of the software license;\(^6\) the license remains in full force and effect, despite any contract clause or

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4. 11 U.S.C. § 365(f)(1) (1982). If the trustee desires to assign the license, the trustee must first assume the license and provide adequate assurance of future performance. *Id.* § 365(f)(2).

5. *Id.* § 365(f)(1).

6. *Id.* § 365 provides:

(e)(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of
nonbankruptcy law that would permit the license to be terminated or modified under such circumstances.\textsuperscript{7}

### III. EXCUSABILITY OF PERFORMANCE

The Bankruptcy Code does provide an exception to the rules prohibiting license termination and permitting license assignment. Under this exception, a termination or modification provision triggered by the bankruptcy will remain operative, and an assignment will be impermissible, if "applicable law" would "excuse" the nondebtor from accepting performance from, or rendering performance to, a person other than the debtor.\textsuperscript{8} It is clear that the statute refers to applicable "nonbankruptcy" law.\textsuperscript{9} In this situation, the code requires the nondebtor's consent to prevent termination or to permit assignment.\textsuperscript{10} The nondebtor's consent is required even if the contract itself does not expressly require it.\textsuperscript{11} Furthermore, even if the license does require consent, the issue of consent must be resolved without respect to that

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\textsuperscript{7} Id.

\textsuperscript{8} Id. § 365(c) provides:

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—

\begin{enumerate}
  \item [(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
  \item [(B)] such party does not consent to such assumption or assignment; . . . .
\end{enumerate}


\textsuperscript{11} Id. §§ 365(c)(1)(A), 365(e)(2)(A)(i).
“Excused” performance can be viewed as referring to any case where the debtor has materially breached the software license. At the other extreme, it has been implied that the provisions are restricted to agreements contemplating a particular individual’s rendition of services. The former interpretation is too broad, since the statutory language is framed around the contractual concept of whether the nondebtor party can be required to accept performance from, or render performance to, anyone other than the debtor. On the other hand, the exception is not limited to agreements involving an individual’s performance of services. Indeed, the section’s legislative history does not mention that the exception is limited to any particular type of agreement or that the words of the statute are to be construed in one particular way.

Although the Bankruptcy Code expressly requires reference to applicable nonbankruptcy law, bankruptcy courts, for the most part, have not made extensive reference to such law in attempting to resolve the cases that have come before them. The bankruptcy courts should not be blamed for this analytical approach, inasmuch as nonbankruptcy authorities, perhaps from a lack of understanding of bankruptcy law, perceive general principles of contract law to be inapplicable in a bankruptcy setting. Nevertheless, assuming that the Bankruptcy Code does contemplate the use of applicable nonbankruptcy law, reference must be made to these common law principles.

Determining which laws constitute “applicable nonbankruptcy law” is especially difficult in the area of software licenses. Since most software licenses involve copyrighted material, one question is whether the Copyright Act constitutes “applicable nonbankruptcy law.”


14. 11 U.S.C. § 365(e)(2)(A)(i) (1982) (enforceability of insolvency clauses where applicable law excuses the nondebtor party from performance with respect to “the trustee or to an assignee”); Id. § 365(c)(1)(A) (impermissibility of assignment where applicable law excuses the nondebtor party from performance with respect to “an entity other than the debtor or the debtor-in-possession”).

15. In re Pioneer Ford Sales, Inc., 729 F.2d 27, 29 (1st Cir. 1984); In re Braniff Airways, Inc., 700 F.2d 935, 943 (5th Cir. 1983), reh’g denied, 705 F.2d 450 (5th Cir. 1983); In re Nitec Paper Corp., 43 Bankr. 492, 497 (Bankr. S.D.N.Y. 1984).


17. E.g., Restatement (Second) of Contracts § 316 comment d (1981) (bankruptcy assignments are not within the scope of the Restatement).

thereby superseding otherwise applicable state law. Generally, the Copyright Act should be deemed inapplicable. Under the Rules of Decision Act, a federal court must apply applicable state law unless the Constitution, United States' treaties or federal statutes "provide or require" a specific result. The Copyright Act does not prescribe what status licenses have upon bankruptcy, and thus should not be controlling. In addition, no federal common law rules are applicable, as evidenced by cases to be discussed later. Accordingly, the bankruptcy court must look to state law in addressing the excusability of software licenses. In most cases, the law of the state designated by the parties in the software license will control.

Having said this much, it is clear that the common law of contracts does not provide any real answer to the issue of excusing the nondebtor from rendering performance to, or accepting performance from, a third party. Instead, each situation must be judged on all the facts and circumstances. It is not necessarily unusual to delegate contract duties to perform. However, delegating contract duties that call for personal services, skill, or discretion is unusual. A particular contract can call for personal performance even where delegation is normal. Conversely, a contract may permit delegation even where personal performance is usually required. In any event, it should no longer make a difference that the party to the contract is a corporation or other entity

20. Id.
21. See 17 U.S.C. § 201(e) (1986) (while § 201(e) addresses involuntary transfers occurring by operation of law, it expressly provides that it does not apply to bankruptcy proceedings).
25. See, e.g., 4 A. CORBIN, CORBIN ON CONTRACTS § 856 (1951) ("It can also be stated with conviction that in no field of the law more than in assignment is greater profit to be obtained from a clear and detailed analysis of the operative facts and the legal relations resulting therefrom.").
26. U.C.C. § 2-210 comment 1 (1988); RESTATEMENT (SECOND) OF CONTRACTS § 318 comment c (1981). In passing, it should be noted that, in common law parlance, rights are "assigned," and duties are "delegated." Id. § 316 comment c.
27. Id. § 318 comment c. Cf. id. § 317 comment d (if duty depends on personal discretion, substituting another's personal discretion is likely to be a material change preventing assignment under the Restatement rules).
28. Id. § 318 comment c.
29. Id.
rather than an individual. Moreover, even if performance is personal and nondelegable, the condition of personal performance is waived by consent.

In light of these considerations, the Restatement of Contracts contemplates that, absent an agreement to the contrary, delegation should be prohibited only where the person to whom the performance is to be rendered has a "substantial interest" in having the particular person render or oversee the performance. Ultimately, the question of whether performance must be rendered by a particular person can be decided only by reference to the words of the software license, itself, and it must be recognized that reasonable people will differ as to the appropriate conclusion.

IV. FACTORS EVIDENCING EXCUSABILITY

Bankruptcy courts, which have addressed the question of excusability, seem to have done so against a background of extreme confusion as to the scope of the exception, as well as its interrelationship with the other provisions of the Bankruptcy Code. Nevertheless, a review of the cases indicates that there are several factors which the courts constantly turn to in the course of analysis, although no one court has considered all of these factors in a particular case. These

30. But cf. 4 A. Corbin, Corbin on Contracts § 865 n.4 (1951) (citing New England Iron Co. v. Gilbert Elec. R. Co., 91 N.Y. 153 (1883) (since contractor was a corporation, a construction contract did not involve a personal relationship or confidence)).

31. Id. § 865 (1951).

32. Restatement (Second) of Contracts § 318(2) (1981) provides: "Unless otherwise agreed, a promise requires performance by a particular person only to the extent that the obligee has a substantial interest in having that person perform or control the acts promised." Accordingly, in the absence of contrary agreement, the Restatement bars delegation of performance only where the delegated performance would not be as satisfactory as the performance by the original obligor. Id. § 318 comment c.

33. 4 A. Corbin, Corbin on Contracts § 866 (1951). A number of older cases illustrate that the common law has long viewed the potential nondelegability as being applicable to a broader variety of situations than merely employment agreements. E.g., Walker Elec. Co. v. N.Y. Shipbuilding Co., 241 F. 569 (3d Cir. 1917) (no assignment of contract for design and installation of electric switchboards on battleship); Sloan v. Williams, 138 Ill. 43, 27 N.E. 531 (1891) (no assignment of contract for legal services); Smith v. Board of Education, 115 Kan. 155, 222 P. 101 (1924) (no assignment of contract for county printing regarded as "art"); Eastern Advertising Co. v. McGaw, 89 Md. 72, 42 A. 923 (1899) (no assignment of contract for designing advertising cards); New England Cabinet Works v. Morris, 226 Mass. 246, 115 N.E. 315 (1917) (no assignment of contracts for designing and installing druggists' fixtures); Edison v. Babka, 111 Mich. 235, 69 N.W. 499 (1896) (no assignment of contract with nurseryman); Corson v. Lewis, 77 Neb. 446, 109 N.W. 735 (1906) (no assignment of contract with attorney); Wooster v. Crane & Co., 73 N.J. Eq. 22, 66 A. 1093 (1907) (no assignment of contract with printer and publisher); Deaton v. Lawson, 40 Wash. 486, 82 P. 879 (1905) (no assignment of contract for a doctor's services).
principal factors are: special relationship, reputation, skill, credit, and contract specific features.

A. SPECIAL RELATIONSHIP

Some courts have posited that the exception is concerned primarily with agreements that involve a "special relationship," but this position has been strongly criticized.\(^{34}\) While one criticism could be that nearly every contract, and surely all software licenses, create, more or less, a special relationship; clearly the courts have used this phrase in a narrower sense. This "special relationship" factor has been couched in terms of a relationship of "trust," and, thus, could be viewed in more workable terms as one requiring a "quasi-fiduciary" relationship.\(^{35}\) However, the cases which have utilized this phrasing, have used the word "trust" to connote a broader notion than just common-law fiduciary duty.\(^{36}\)

Regardless of the definition of trust used, an employment agreement, or perhaps even an investment banking relationship, could have certain fiduciary aspects,\(^{37}\) while car dealership and electric power agreements—which have also been found to be nonassignable—probably do not.\(^{38}\)

Thus, to say that this "trust" was present in all the cases holding for nonassignment, "trust" would have to be given its everyday meaning, suggesting "confidence." But then again, a certain amount of "confidence" in the other party is inherent in most software licensing agreements, even in the absence of a fiduciary relationship. Therefore, "trust and confidence" should not serve as an independent basis for barring assignment. Rather, the issue of assignability must be resolved using the other factors described below.

\(^{34}\) In re Nitec Paper Corp., 43 Bankr. 492, 497-98 (Bankr. S.D.N.Y. 1984) (citing In re Pioneer Ford Sales, Inc., 30 Bankr. 458, 459 (D.R.I. 1983)); Pioneer, 30 Bankr. 458, rev'd 729 F.2d 27 (Bankr. 1st Cir. 1984) (nonassignability should not be based on whether the contract is for personal service or pertains to a special relationship, but should be based on applicable nonbankruptcy law).

\(^{35}\) E.g., Villar & Co., Inc. v. Conde, 30 F.2d 588, 590 (1st Cir. 1929) (contract for personal services involved "trust"); Ford, Bacon & Davis, Inc. v. Holahan, 311 F.2d 901, 904 (5th Cir. 1962) (the important question is whether one party placed trust and confidence in the other).

\(^{36}\) Because the courts have used the word "trust" broadly, a true fiduciary relationship would, of course, come within the bounds of this exception.

\(^{37}\) E.g., Villar, 30 F.2d at 590 (employment service contract involved issue of trust and was nonassignable); Ford, 311 F.2d at 904 (contract for service involved confidence in the promoter's reputation for skill and was nonassignable).

\(^{38}\) Pioneer, 729 F.2d 27 (nonassignability of car dealership franchise based on applicable nonbankruptcy law); Nitec, 43 Bankr. 492 (Bankr. S.D.N.Y. 1984) (nonassignability of electrical power agreement based on applicable nonbankruptcy law).
B. Reputatio

Some courts have viewed the question of excusability as hinging upon whether the nondebtor party has reposed confidence in the reputation of the debtor. Again, in most cases, one party will have a certain amount of trust and confidence in the ability of the other party to perform before making the decision to enter into a software license with that party. The distinguishing feature, with regard to software licenses, is that the first party also has formed some opinion as to the reputation of the other party. Consequently, reputation becomes a separate fact, and whether the other party actually has the requisite skill or integrity can become irrelevant. For example, on the question of assignability, it is relatively unimportant whether the employees of the debtor who actually perform the work have evidenced any particular skill.

C. Skill

If the debtor evidenced some actual skill or acumen which constitutes an inducement to the contract, the courts tend to find the exception to be applicable. Again, nearly every software user enters into a software licensing agreement because he believes the software developer is a better programmer than himself. Likewise, many developers enter into licensing agreements believing that the users, because of their skill in a particular area, are better equipped than the developer to test and capitalize on the licensed software. These reliances are not limited to persons who are professionals or generally-recognized experts, but may also extend to people who have been successful in ex-

39. E.g., Ford, 311 F.2d at 904 ("The important inquiry is into the nature of the contract itself, to determine if it . . . rests upon the other party's placing trust and confidence in the reputation of the bankrupt").

40. Id. at 904 (it was not conclusive that the nondebtor party did not know precisely who the debtor would use to carry out the services; "to the extent that Gulf had a reputation for skill and integrity, that reputation would be partially based upon the past performance of its employees, so that one could rely upon Gulf's skill in selecting employees.") (emphasis by the court).

41. E.g., id. at 904 (the important question is whether the non-debtor placed trust and confidence in the bankrupt's reputation for "skill and integrity"); Miller v. Mutual Holding Co., 101 F.2d 323, 324 (6th Cir. 1939) (where debtor had "built up some knowledge of, and aptitude for" a certain business and "his acumen led to the discovery of" the asset on which the business was based and he offered to operate the business if the other party would finance the business, the debtor's rights depended on the "personal performance of his obligations" and the contract did not pass to his trustee in bankruptcy); Knipe v. Barkdull, 35 Cal. Rptr. 283, 285, 222 Cal. App. 2d 547, 551 (1963) ("where a contract calls for skill, credit or other personal qualities of the promisor, it is not assignable" (citing 1 B. Witkin, Summary of California Law 353 and the cases cited therein).

D. CREDIT

At least one court has suggested that excusability should also apply where reliance is placed on the debtor's credit.\footnote{In re D.H. McBride, 132 F. 285 (S.D.N.Y. 1904) (publisher of religious books).} In a bankruptcy proceeding, this basis for excusability presents at least two conceptual difficulties. First, since almost every software license involves delivery of software based on the user's credit, applying this rule would essentially permit the nondebtor to terminate or modify any software license, despite section 365(e)(1) and the Intellectual Property Bankruptcy Protection Act.\footnote{11 U.S.C. § 365(e)(1) (1982) (notwithstanding a provision in an executory contract, the contract may not be terminated or modified after commencement of a bankruptcy proceeding solely because of a provision that is conditioned on insolvency or financial condition of the debtor). Enacted as part of the Intellectual Property Bankruptcy Protection Act, supra note 3, § 365(n)(1) applies only to rejected licenses. A license that terminates by its own terms pursuant to an insolvency clause is incapable of assumption or rejection (as it no longer exists).} Moreover, the issue of assignability would be rendered moot. Second, the Bankruptcy Code provides an express, separate exception from the invalidation of insolvency clauses (and from assumption and assignment) where the contract is primarily financial in nature.\footnote{In re Nitec Paper Corp., 43 Bankr. 492, 497-98 (Bankr. S.D.N.Y. 1984) (the excusability exception under 365(c) refers to "non-delegable" duties); Knipe v. Barkdull, 222} One means of reconciling the Bankruptcy Code and the common law in this situation would be to undertake a two-step analysis:

Determine whether the arrangement is primarily financial in nature, and

(a) if the arrangement is primarily financial, determine whether it is encompassed by sections 365(c)(2) or 365(e)(2)(B); and

(b) if it is not primarily financial, determine whether it is excusable under sections 365(c)(1) or 365(e)(2)(A).

E. CONTRACT SPECIFIC FEATURES

The courts appear to recognize that there may be circumstances, other than the foregoing, that would justify excusability under the exception.\footnote{In re Nitec Paper Corp., 43 Bankr. 492, 497-98 (Bankr. S.D.N.Y. 1984) (the excusability exception under 365(c) refers to "non-delegable" duties); Knipe v. Barkdull, 222} This recognition is simply an acknowledgment that the test of excusability is dependent upon all the facts and circumstances en-
compassing the agreement and requires scrutiny of the inherent nature of the contract at issue.  

V. CASE LAW

While the foregoing factors, and excusability law in general, are relatively straightforward, difficulties arise when the courts attempt to apply them to the somewhat unique situation of software licenses. The issue of bankruptcy assignment of copyrights was first addressed in *In re D.H. McBride & Co.* In that case, an author had written a multi-volume work; its market was limited to Roman Catholic parochial schools and convents. The author entered into an agreement with a publisher, whereby she assigned her copyright in the book to the publisher. In return, the publisher was responsible for selling and advertising the work, paying sales royalties to the author, and providing the author with a full accounting of books manufactured and sold. If the publisher discontinued publication, or failed for any other reason to perform the agreement, the copyright would revert to the author. With regard to assignability, the agreement prohibited the publisher from assigning the author's copyright without her written consent, but reserved to the author the right to assign her royalties without the publisher's consent.

The court noted that the arrangement depended upon the character and relations of the publisher, since its religious affiliations, connections, goodwill and trade name were vital and important considerations "of which the claimant [could not] be deprived without her consent." Consequently, the court held that the contract was a personal agreement involving trust and confidence which could not be assigned or delegated to another without the author's consent.

The court acknowledged the argument that "assignments by opera-

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47. At least one court has suggested that this would permit finding nondelegability as a matter of law, if a nonbankruptcy federal or state law expressly prohibits assignment. *Nitec*, 43 Bankr. at 498. This approach appears to be in error for two reasons. First, the concept of excusability in contract law requires analysis of the inherent nature of the contract at issue and depends upon all the facts and circumstances of the case, whereas the existence of a federal or state statute prohibiting the assignment is external to the contract and is a matter of law. Second, such an approach ignores Section 365(f)(1), which permits assignment "notwithstanding a provision . . . in applicable law that prohibits, restricts or conditions the assignment." *Id.* It can be inferred that the *Nitec* court recognized these objections, since it went on to discuss the underlying policies that would recommend against delegation of the contractual duties in the case before it. *Id.* at 498-99.


49. *Id.* at 288.

50. *Id.* at 287-88.
tion of law" are normally an exception to the personal agreement rule, and assignable, despite contract language to the contrary, because such operations must be deemed to have been in contemplation of the parties at the time of contract. The court, however, held that, notwithstanding the parties' awareness of the possibility of bankruptcy, considerations of "personal trust and confidence" must override such awareness. The court based its decision, in part, on the rationale that a copyright license is quite similar to a patent license, and that unlike a lease—a type of contract that does normally pass to a bankruptcy trustee despite a provision barring assignment—a patent license does not pass to a receiver by operation of law.\textsuperscript{51} As a result, the contract was found to be controlling, and this contract involving personal trust and confidence was held to be nonassignable, even by operation of law.\textsuperscript{52}

\textit{In re Waterson, Berlin & Snyder Co.}\textsuperscript{53} involved a motion by certain song composers, whose songs had been transferred to the bankrupt corporation under a royalty agreement, to have the copyrights reassigned to the composers or to direct that any sale of the copyrights be subject to the royalty agreements. In granting the motion to have the copyright reassigned to the composers, the court observed that those who transfer original works to a publisher in consideration for royalties "should not be made the victims of the publisher's financial casualties."\textsuperscript{54} The court emphasized that a writer's agreement with a publisher is essentially a personal contract in which the author relies upon the skill, judgment, integrity, reputation, and credit of the publisher and, as such, the contract is nonassignable by either party without the other's consent.\textsuperscript{55} The court noted that these arrangements are essentially a transfer of property rights in exchange for a covenant for payment of royalties to be accounted for. Consequently, the court concluded that these arrangements sound in equity and thus involve fiduciary relationships.\textsuperscript{56} The court also noted that authors and patentees are among the "wards of chancery" because the value of their intangibles depends upon the protection afforded by equity courts, and, therefore, the publisher is in the position of a trustee.\textsuperscript{57} Consequently, the court held that such ar-

\textsuperscript{51} Id. at 288 (citing Oliver v. Rumford Chem. Works, 109 U.S. 76 (1883); Waterman v. Shipman, 55 F. 982 (2d Cir. 1893)).
\textsuperscript{52} Id. at 288 (referring to the English case, Griffith v. Tower Pub. Co., 1 Ch. 21). As to the separate objection of whether trust and confidence could be placed in a corporation as opposed to an individual, the court found no basis for this objection, since corporate management may generate a special confidence and may have a valuable reputation and client base. \textit{Id.}
\textsuperscript{53} 36 F.2d 94 (S.D.N.Y. 1929).
\textsuperscript{54} Id. at 95.
\textsuperscript{55} Id. at 96.
\textsuperscript{56} Id. at 98; see also \textit{id.} at 95.
\textsuperscript{57} Id. at 98.
arrangements involve personal elements of trust and confidence and are not assignable without the consent of the parties and that such contracts may be rescinded when the publisher does not fulfill its obligations.\(^{58}\)

*In re Little & Ives Co.*\(^{59}\) involved an agreement whereby a bankrupt American publisher agreed with an English publisher to adapt and revise a work to make it suitable for the American market. The agreement provided that if the American publisher became insolvent or bankrupt, the English publisher could terminate the agreement. In addition, the agreement provided that the American publisher could not assign it without the consent of the English publisher. Once the American publisher filed for bankruptcy, its trustee sought to assign the agreement with the English publisher.

Observing that equitable principles controlled,\(^{60}\) the court noted that the termination provision protected the interest of the English publisher by preventing its copyright and reputation from being "pirated" by others. In reaching this result, the court emphasized that the relationship was based on "trust and confidence" and "quality performance and production."\(^{61}\) The court also considered the following factors: (1) the English publisher's trademark, (2) the provisions for protection thereof, (3) the provisions for dismissal of personnel of the American publisher who might sully the English publisher's reputation, (4) the anti-assignment provisions, and (5) the termination provisions.\(^{62}\) Since equity is necessary to protect such a sensitive undertaking,\(^{63}\) the court concluded that the arrangement was personal and not assignable under traditional contract law.\(^{64}\)

The final case to be considered here is *Mills Music, Inc. v. Snyder.*\(^{65}\) *Mills Music* involved a bankrupt publisher and a bankruptcy trustee who assigned one of the publisher's copyrights to a third party. Without much comment, the Supreme Court stated that the third party had acquired ownership of the copyright from the bankruptcy trustee.\(^{66}\)

These cases illustrate the importance of analyzing the facts and circumstances peculiar to the software license at issue. In other words, the applicability of section 365(c)(1) or 365(e)(2)(A) must be determined on a case-by-case basis, and not as a matter of law. Nevertheless, one

\(^{58}\) Id. at 98-99.
\(^{60}\) Id. at 722.
\(^{61}\) Id. at 723.
\(^{62}\) Id.
\(^{63}\) Id.
\(^{64}\) Id. at 724.
\(^{66}\) Id. at 157.
court, finding an analogy between copyright and patent law, held that copyright licenses are not assignable as a matter of law.

In *Harris v. Emus Records Corp.*, a songwriter's wholly-owned company licensed a record company to duplicate a musical composition. The licensee subsequently filed a petition for bankruptcy, and the bankruptcy trustee sold parts of the debtor's assets to another person. The lower court held that, regardless of the fact that the contract was a license, the rights granted under the license were not assignable "as a matter of law" because the agreement involved personal services.

Affirming, the Ninth Circuit phrased the issue as whether copyright licenses could be transferred by a licensee, regardless of whether the arrangement involved "personal services." Believing the issue to be a "question of first impression" in the Ninth Circuit, the court stated that there was authority to support the proposition that copyright licenses are not transferable "as a matter of law." The court defended this position by quoting Melville Nimmer's contention that under the Copyright Act of 1909 "a licensee . . . had no right to re-sell or sublicense the rights acquired unless he [had] been expressly authorized to do so" by the licensor.

The court found further support for its position in two New York District Court cases, stating that a copyright licensee is a "bare licensee" who lacks the right to assign the privilege granted in the license.

However, the court found these authorities to be merely suggestive, not conclusive. The court went on to determine that where copyright precedent is lacking, it is appropriate to look to patent law "because of the historic kinship between patent law and copyright law." It then looked to cases involving patent law, and found that patent licenses had been characterized by the Supreme Court as naked licenses, and, as such, were personal and not transferable. In order to treat copyright and patent analogously, as suggested by the *Harris* court, it seems that copyright licenses must be considered nontransferable as well.

Finally, the court contended that policy considerations further support the notion that copyright licenses should not be transferable. Spe-

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67. 734 F.2d 1329 (9th Cir. 1984).
68.  Id. at 1332.
69.  Id. at 1333.
71.  *Harris*, 734 F.2d at 1333 (citing M. NIMMER, NIMMER ON COPYRIGHT § 10.01[c][4] (1983)).
73.  Id. (citing Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 439 (1984)).
74.  Id. (citing Hapgood v. Hewitt, 119 U.S. 226, 233 (1886); Unarco Indus. v. Kelley, Co., 465 F.2d 1303 (7th Cir. 1972), cert. denied, 410 U.S. 929 (1973)).
cifically, the court found that Congress had carefully balanced the needs of the copyright owners with the need to protect against monopoly, before granting to authors specific rights under the Copyright Act, and that the balance needed to be protected. The court felt that copyright owners’ rights could be jeopardized if licensees were allowed to sublicense the rights granted to them without the copyright owner’s consent.

The Harris court may or may not have reached the correct result, but the court’s view that the circumstances were irrelevant makes it difficult to analyze the court’s decision. Moreover, the rationale adopted in Harris is troublesome for several reasons. First, the reference to patent law seems inappropriate since relevant case law, albeit outside the Ninth Circuit, involving copyright existed at the time. Second, the court implicitly opts for a federal common law rule—an approach which is inappropriate in this context, not to mention its questionable merit in the patent law context. Third, to find a copyright license excusable from assignment as a matter of law contravenes section 365(f) of the Bankruptcy Code: The latter section expressly permits assignment notwithstanding a provision in “applicable law” that would prohibit the assignment, and nothing suggests that the phrase refers only to statutory law.

Also, the Harris court was not entirely correct in intimating that patent licenses are not assignable as a matter of law. In fact, patent law is in relative disarray on this topic. The current state of affairs can be best illustrated by starting with the exception that proves the point. In re Alltech Plastics, is a case that involved a patent license and bankruptcy. The case was decided subsequent to Harris, and seems to have confronted issues most analogous to those confronted by software developers when software users go bankrupt. In Alltech, a debtor had been granted a license to use a patented procedure in the manufacturing of a certain product. When a third party offered to purchase the debtor’s patent license rights, the patentee-licensor objected on the

75. Id. at 1334 (citing H.R. REP. NO. 2222, 60th Cong., 2d Sess. 7 (1909) (“The legislative history reveals an acute awareness of the needs to delicately balance competing interests. On the one hand, there is a strong reluctance to allow a monopolization of works or compositions; at the same time, there was an awareness of the necessity of preserving the rights of authors and composers in order to stimulate creativity.”)).
76. Id.
77. See supra text accompanying notes 48-66.
78. See supra text accompanying notes 18-24. As to the federal common law approach with respect to patent licenses, see infra text accompanying notes 80-86.
79. Permitting nonassignment on the basis of principles of “applicable law” regarding excusability, section 365(c)(1) operates as a specific exception to the more general rule of section 365(f).
grounds that, among other things, the license was nondelegable under applicable law. After reviewing sections 365(c) and 365(f) of the Bankruptcy Code, the court found that the right of the patent owner to license his invention, as well as the construction of the license, is a matter of "federal common law." Accordingly, the court concluded that questions regarding assignability of patent licenses were controlled by federal common law, and that the relevant rule was: patent licenses are "personal and not assignable." At no point in its analysis did the court address the specific facts and circumstances of the patent license at issue.

The conceptual flaw in *Alltech* and similar nonbankruptcy cases is that they rely primarily on a principle established in nineteenth-century federal cases and fail to consider the intervening decision of the U.S. Supreme Court in *Erie R.R. v. Tompkins*. Only one case has apparently seriously addressed the impact of *Erie* in this context. In *Farmland Irrigation Co. v. Doppelmaier*, the California Supreme Court concluded that assignability of a patent license is a question of state law under *Erie*, but that federal cases could provide a useful reference. The *Doppelmaier* court concluded that a fixed rule was unnecessary and unwise and that each case should entail scrutiny of the "purposes and provisions of the particular license," because nothing inherent in patent licenses causes them to be so personal as to be nonassignable.

VI. RAMIFICATIONS FOR SOFTWARE LICENSES

Given the diversity of the relationships among developer, publisher, distributor and user (both consumer and commercial) in the software...
industry, and in light of the case-by-case approach that the Bankruptcy Code requires, few generalizations can be made about the circumstances under which software licenses will or will not be viewed as excusable personal agreements. It seems clear that software licenses associated with mass-marketed software programs normally will not be excusable under section 365(c). Of course, in most instances, the software supplier will not be concerned with whether a particular user has gone bankrupt or is seeking to transfer the license, because the license fee typically takes the form of a one-time, up-front payment to the software supplier.\footnote{Indeed, many mass-market program licenses contemplate that the user can, in some manner, transfer the software license to another person, assuming the transfer is accompanied by the original media and documentation and the transferor does not retain a copy.}

At the other extreme is the individual software author who may have developed a program and licensed or sold it to one of the major software development companies. If the software development company subsequently files for bankruptcy, this situation would seem to present the classic case of a contract dependent upon the reputation, skills and other traits of the software development company. Assuming the agreement provides for payment of royalties to the author, the software development company's bankruptcy trustee should not be entitled to assign the company's rights to a third party, regardless of whether the agreement is structured as a license or in some other form.

The cases between these two extremes will present the greatest difficulty for courts. Ultimately, each case involving the excusability of a software license from assumption or assignment, or from the invalidation of insolvency clauses, must be decided on its own merits, considering all the facts and circumstances. One special factor, somewhat peculiar to and inherent in software licenses, will possibly affect the analysis of excusability in this context: licenses are currently the predominant vehicle for exploiting American technological development in software and related areas. Accordingly, bankruptcy courts need to be especially sensitive to the policy of promoting America's technological development when considering each particular case.

CONCLUSION

Software licenses encountered in bankruptcy proceedings arise from a variety of circumstances and will take myriad forms. While software licenses are often the result of a special relationship between the parties, there are many situations in which the license is executed without either party having any particular regard for the nature of the relationship. In determining the excusability of a software license
under section 365(c)(1) or 365(e)(2)(A) of the Bankruptcy Code, bankruptcy courts must be sensitive to the individual nature of each case and review each case accordingly. In this manner, the courts should not only be able to advance the policies underlying the Bankruptcy Code, but also assist in promoting the technological development of the United States.