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Trademark Licenses: Even in a Hypothetical or Actual World, *Footstar* Got It Right

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Editor's Note: *ABI's Bankruptcy Litigation Committee sponsored and conducted ABI's Third Annual Bankruptcy Law Student Writing Competition during the first semester of 2011. Fourteen law students submitted papers for the competition, which focused on bankruptcy sales, plan confirmation and other topics that involve jurisdiction, litigation or evidence in the bankruptcy courts. All papers were reviewed by a law professor prior to submission and were then judged by a panel of bankruptcy experts, including a bankruptcy judge, former U.S. Trustee and several practitioners, on style, substance and relevance. Saul Ehrenpreis of the University of Maryland School of Law won first place in the competition. As the winner of the competition, he received a $1,000 cash prize, a one-year ABI membership and publication of the paper in the* Journal. *Prior to submission, Prof.* ***Michelle Harner*** *of the University of Maryland School of Law reviewed Ehrenpreis' paper.*

About the Author

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The core of many companies' business model depends heavily on access to a trademark license. Unfortunately, despite possessing a license and turning a profit, some of these companies run into difficulties and are forced to file for chapter 11. This article analyzes the legal issues faced by a company in this situation.[1] First, it explores the existing tension at the intersection of bankruptcy and trademark law, then discusses the three approaches courts have taken to resolving this tension. It concludes with the proposal that only one of these approaches appropriately balances the competing interests at stake.

Conflict between Trademark Licenses and Bankruptcy Law

11 U.S.C. § 365(n)

In 1988, Congress enacted the Intellectual Property Licenses in Bankruptcy Act (IPLBA),[2] which was intended to resolve the issues of intellectual property (IP) licensees in bankruptcy. The IPLBA amended the Bankruptcy Code to include § 365(n), which "allows a...licensee to override the...licensor's option to reject the intellectual property license agreement."[3] Under this section, a debtor licensee can override the licensor's objection to assumption despite the nondebtor licensor determining that objection to continued performance of the license is beneficial. After overriding the objection, the licensee continues completing all duties under the license, including making all necessary payments.[4]

The purpose of § 365(n) was "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to § 365 in the event of the [licensee's] bankruptcy."[5] Prior to enactment of the IPLBA, many court decisions read the Bankruptcy Code to allow an IP licensor to strip the licensee of its ability to continue using the licensed property "under the auspices of rejecting the license as an executory contract."[6] Congress determined that this result was counter to the purposes of bankruptcy law and implemented the IPLBA.[7]

Special Feature

Section 365(n) accomplishes Congress' goal of reversing results similar to those in previous cases for nearly all kinds of IP. However, § 365(n), although intended to provide assistance to all IP licensees, provides no assistance to trademark licensees.[8] The text of § 365(n) states that it applies where "the

1 Throughout this article, the term "debtor" will refer to the licensee who needs to continue performing under the license in order to have any chance at successfully completing a chapter 11 reorganization.

2 Intellectual Property in Bankruptcy Act, Pub. L. No. 100-506; 102 Stat. 2538 (1988); John P. Musone, "Note & Comment: Crystallizing the Intellectual Property Licenses in Bankruptcy Act: A Proposed Solution to Achieve Congress' Intent," 13 *Bank. Dev. J.* 509, 509-10 (1997).

3 Musone, *supra*, n. 2, at 510.

4 *Id.*

5 S. Rep. No. 100-505 at 1 (1988).

6 *Id.* at 2. Unfortunately, the Code does not define what qualifies a contract as an executory. *In re Exide Techs.*, 607 F.3d 957, 962 (3d Cir. 2010) (quoting 11 U.S.C. § 365(a)). The leading definition states that "a contract under which the obligations of both the bankrupt and the other party to the contract are so unperformed that the failure of either to complete performance would constitute a material breach" is an executory contract. Vernon Countryman, "Executory Contracts in Bankruptcy: Part I," 57 *Minn. L. Rev.* 439, 460 (1973). Under this definition, licenses to use IP are generally held to be executory. *See, e.g., In re CFLC Inc.*, 89 F.3d 673, 677 (9th Cir. 1996) (patent licenses); *In re HQ Global Holdings Inc.*, 290 B.R. 507, 511 (Bankr. D. Del. 2003) (trademark licenses); *In re Patient Educ. Media Inc.*, 210 B.R. 237, 241 (Bankr. S.D.N.Y. 1997) (copyright licenses).

7 S. Rep. No. 100-505 at 1 (1988).

8 *In re Exide Techs.*, 340 B.R. 222, 249-50 (Bankr. D. Del. 2006).

debtor is a [licensee] *of a right to intellectual property*."[9] On its face, the statute appears to cover trademark licensees as trademarks are typically included in the definition of IP. However, this is not the case in the Code.[10]

The bankruptcy definition of IP can be found in 11 U.S.C. § 101(35A).[11] Noticeably absent from this definition are trademarks, which are not afforded the protections of § 365(n). Thus, if a trademark licensee wants to continue to use a license after the nondebtor licensor objects to assumption of the license in bankruptcy, the licensee is forced to rely on the courts' interpretations of 11 U.S.C. § 365(c)(1).

11 U.S.C. § 365(c)(1)

Section 365 of the Bankruptcy Code generally allows a debtor in possession (DIP) to assume licenses that were the property of the debtor prior to bankruptcy.[12] However, subsection (c)(1) provides an exception to this ability. Section 365(c)(1), in relevant part, 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...from accepting performance from...an entity other than the debtor or the debtor in possession...and (B) such party does not consent to such *assumption or assignment*.[13]

This section operates as an exception to the rule that a trustee or DIP may not assume executory contracts, such as trademark licenses, if the licensor objects.[14] The DIP's ability to use this exception turns on the court's interpretation of § 365(c)(1).[15] Specifically, this determination centers around the interpretation of the word "or" in subsection (1)(B).[16] Some courts read the "or" as disjunctive,[17] some read it as the functional equivalent of "and,"[18] and a third, more recent group states that the issue does not center around the meaning of "or" but rather centers around whether Congress intentionally included only trustee and not DIP in the opening sentence of § 365(c).[19]

Interpretations of § 365(c)(1)

The circuits are decidedly split as to which of the three interpretations of § 365(c)(1) is correct,[20] and resolving this split is an issue that the Supreme Court believes should be completed as soon as possible.[21] The three tests are known as the hypothetical, actual and *Footstar* tests.

The Hypothetical Test

The hypothetical test was first described in 1986 by the Third Circuit in *In re West Electronics*.[22] In a bankruptcy proceeding, West attempted to have the court order the government to allow it to assume a license contract.[23] The bankruptcy court denied West's motion to assume based on the court's reading of § 365(c)(1) as meaning "if nonbankruptcy law provides that the [licensor] would have to consent to an assignment of the West contract to a third party, *i.e.*, someone other than the debtor or the DIP, then West, as the DIP, cannot assume that contract."[24] Both the bankruptcy and district courts declined to allow the government to object to performance of the license.[25] On appeal, the Third Circuit reversed the lower courts and determined that the government should have been able to object to performance under the license.[26] The basis for this decision was the court's holding that "11 U.S.C. § 365(c)(1) creates a hypothetical test—*i.e.*, under the applicable law, could the government refuse performance from an entity other than the debtor or the DIP?"[27]

Since the Third Circuit's ruling in *West Technologies*, two additional circuit courts and several bankruptcy courts have adopted this hypothetical test.[28] These courts believe that § 365(c)(1)(B) should be read literally and the "or" should be read as a disjunctive. Therefore, the debtor cannot assume nor assign an executory contract when the licensor objects to continued performance.[29] The Ninth Circuit simply states that § 365(c)(1)(B)'s language means that "a [DIP] may assume an executory contract only if hypothetically it [may] assign that contract to a third party."[30] If the DIP, hypothetically, could not either assume or assign a license, then it does not have the ability to assume the license.[31] This is true even if the DIP has no intention of doing anything other than assuming the license and continuing to go about its business in order to complete the reorganization plan.[32]

This strict fidelity to the language of the statute is the main reason that courts have adopted, and commentators have supported, the hypothetical test.[33] Proponents of the hypothetical test insist that this reading makes the courts' job easier by removing other possible interpretations and results in more consistent application of the law.[34]

While this fidelity is the only reason for adopting the hypothetical test, there are many reasons to reject it. First, this test can—and often does—produce results that make the goals of bankruptcy unattainable.[35] Many companies in chapter 11 need to continue acting under certain licenses in order to survive. Under the hypothetical test, these rights can be taken away if the nondebtor licensor determines—in its business judgment—that continuing to perform under the license would not be in the licensor's best interest.[36] Secondly, when the licensor decides to object to assumption of the license, it regains possession of a potentially valuable asset that it would not have possessed if not for the objection. If the licensee was performing well under the license, the value of this license will have risen since the execution of the license agreement. The licensor will now be able to license the use of its IP for a higher fee, thus receiving a windfall that it would not have had if not for the

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9 11 U.S.C. § 365(n) (2006) (emphasis added).

10 *See In re Exide Techs.*, 340 B.R. at 249-50; *In re HQ Global Holdings Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003) (finding that trade names, trademarks and other proprietary marks are not included within definition of IP); *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660, 669-70 (Bankr. N.D. Cal. 2002) (noting that "Congress has...expressly withheld § 365(n) protection from rejected executory trademark licenses").

11 11 U.S.C. § 101(35A) (2006).

12 *N.C.P. Mktg. Group Inc. v. BG Star Prods.*, 129 S.Ct. 1577, 1577 (2009).

13 *Id.*; 11 U.S.C. § 365(c)(1) (2006) (emphasis added).

14 Laura D. Steele, "Comment, Actual or Hypothetical: Determining the Proper Test for Trademark Licensee Rights in Bankruptcy," 14 *Marq. Intell. Prop. L. Rev.* 411, 430 (2010) (citing *In re NCP Mktg. Group Inc.*, 337 B.R. 230, 233 (Bankr. D. Nev. 2005)).

15 *Id.* at 430-31.

16 Jay R. Indyke, et al., "Ending the 'Hypothetical' vs. 'Actual' Test Debate: A New Way to Read Section 365(c)(1)," 16 *J. Bankr. L. & Prac.* 2 Art. 3, p. 1 (2007).

17 *See infra* Part II.a.

18 *See infra* Part II.b.

19 Indyke, et al., *supra*, n. 16 at 4.

20 Robert L. Eisenbach III, "The Section 365(C)(1)(A) Debate: 'Actual' or 'Hypothetical'? A Circuit-by-Circuit Look," (2007), http://bankruptcy.cooley.com/Section_365_c__1__Chart(1).pdf.

21 Justice Kennedy, joined by Justice Breyer, stated in the Supreme Court's decision to deny review in *N.C.P. Marketing*: "The division in the courts over the meaning of § 365(c)(1) is an important one to resolve." *N.C.P. Mktg. Group Inc. v. BG Star Prods.*, 129 S.Ct. 1577, 1578 (2009).

22 *In re West Electronics Inc.*, 852 F.2d 79 (3d Cir. 1988) (rejected by *In re James Cable Partners LP*, 154 B.R. 813 (M.D. Ga. 1993)); Indyke, et al., *supra*, n. 6 at 3.

23 *West*, 852 F.2d at 79.

24 *Id.* at 83 (internal quotations omitted).

25 *Id.* at 82.

26 *Id.*

27 *Id.* at 83.

28 *See In re Footstar Inc.*, 323 B.R. 566, 571 (Bankr. S.D.N.Y. 2005); *see also In re Sunterra Corp.*, 361 F.3d 257 (4th Cir. 2004) (adopting hypothetical test); *In re Catapult Entertainment Inc.*, 165 F.3d 747 (9th Cir. 1999) (same); *In re Neuhoff Farms Inc.*, 258 B.R. 343, 350 (Bankr. E.D.N.C. 2000) (same); *In re TechDyn Systems Corp.*, 235 B.R. 857 (same).

29 Indyke, et al., *supra*, n. 16 at 3.

30 *N.C.P. Mktg. Group Inc. v. BG Star Prods.*, 129 S.Ct. 1577, 1577 (2009) (citing *In re Catapult Entertainment Inc.*, 165 F.3d 747 (9th Cir. 1999)).

31 *Id.*

32 *Id.*

33 Indyke, et al., *supra*, n. 16 at 3.

34 *See id.*

35 *N.C.P. Mktg. Group*, 129 S.Ct. at 1577.

36 *Id.*

objection permitted under the hypothetical test.[37] Thus, although this test makes the courts' job easier, it frustrates the purpose of chapter 11 and provides the licensor with benefits to the detriment of the licensee.

The Actual Test

One circuit court and "the great majority of lower courts" reject the hypothetical test in favor of the actual test.[38] This test reads § 365(c)(1)(B)'s "assume *or* assign" language as "assume *and* assign." Thus, as long as the DIP does not have any actual intention to assign the license to a third party, it may assume and continue performing under the license.[39] The seminal case regarding the actual test is *Institut Pasteur v. Cambridge Biotech Corp.*[40] According to the First Circuit in *Institut Pasteur*:

> Subsection...365(c)... contemplate[s] a case-by-case inquiry into whether the [licensor] *actually* was being forced to accept performance under its [license] from someone other than the [licensee] with whom it originally contracted. Where the particular transaction envisions that the debtor-in-possession would assume and continue to perform under [a license], the bankruptcy court cannot simply presume as a matter of law that the [DIP] is a legal entity *materially* distinct from the...debtor with whom the nondebtor...contracted.[41]

Courts that have followed the First Circuit and adopted the actual test look to what the licensee actually plans to do with the license rather than what the licensee could hypothetically do under circumstances that may arise in the future.[42] Looking to what the licensee actually intends to do allows the debtor licensee to get the most value out of its licenses. This ability to maximize the value greatly increases the chances of successfully completing a chapter 11 reorganization. It also eliminates the unearned windfall received by the nondebtor licensor under the hypothetical test.[43]

Additionally, courts and commentators that support the actual test believe that Congress did not intend for courts to have to complete an abstract analysis in order to determine hypothetically whether a debtor could assume or assign a license.[44] Instead, these supporters believe that Congress intended that the courts complete a case-by-case inquiry into the effects on the licensor and the licensee of allowing the licensee to continue performance under the license.[45]

Although the actual test does not force courts to determine what could hypothetically occur and will not frustrate the purposes of chapter 11, it too has drawbacks. The main criticism is that the actual test is only able to align with the goals of chapter 11 by "departing from at least one interpretation of the plain text of the law."[46] This criticism leaves the law open to debate and asks for a different interpretation of § 365(c)(1).

The *Footstar* Test

In 2005, the U.S. Bankruptcy Court for the Southern District of New York introduced a third method for evaluating the meaning of § 365(c)(1) in *In re Footstar Inc.*[47] The court began by stating that it agreed with courts that follow the actual test when evaluating the assumption of licenses under § 365(c)(1).[48] Despite the court agreeing with the actual test, it believed there was a better way to analyze the assumption of licenses under § 365(c)(1) while coming to the same conclusion.[49] Section 365(c)(1) "can and should be construed in accordance with its 'plain meaning' to reach a conclusion which is entirely harmonious with both the objective sought to be obtained in Section 365(c)(1) and the overall objectives of the Bankruptcy Code, without construing 'or' to mean 'and.'"[50] This new test achieved the results of the actual test while following the literal reading of § 365(c)(1) used in the hypothetical test.

This result was accomplished by focusing on a different word, or lack thereof, in the text of § 365(c)(1). "The key word is 'trustee.' The statute *does not* say that the debtor or [DIP] may not assume or assign—the prohibition applies on its face to the 'trustee.'"[51] Courts applying the actual and hypothetical tests read the term "trustee" in § 365(c)(1) as synonymous with DIP. Yet such a reading runs counter to the plain meaning of the statute that proponents of the hypothetical test hang their hats on.[52] Although DIPs and trustees have many of the same rights under the Code, "[n]owhere does the Bankruptcy Code define trustee as synonymous with debtor or [DIP]."[53] In actuality, by referring separately to both a trustee and a debtor (or DIP) within many provisions, Congress indicated that the two terms are meant to have different meanings. This is perfectly demonstrated through Congress' careful attempt to specifically include one term and not the other when it amended § 365(c)(1) in 1984.[54]

Additionally, the difference between a trustee and DIP is demonstrated through the progression of a bankruptcy case. A debtor remains in possession "unless and until a trustee is appointed by court order under Section 1104."[55] If a trustee is appointed, he or she takes possession of the debtor's assets as well as all of the debtor's rights. The appointment of a trustee affects a statutory transfer of all property and rights from the debtor to a third party, the trustee. Thus, a DIP and trustee in a chapter 11 case are different entities.[56] Despite not explicitly addressing § 1107(a) of the Bankruptcy Code, the *Footstar* court sufficiently explained why a trustee and DIP, while possessing many of the same powers, are in fact distinct entities.[57] This is contradictory to the premise that the courts following the hypothetical and actual tests start from—that the term "trustee" in § 365(c)(1) is meant to include a DIP.[58]

This new test states that the term "trustee," as used in § 365(c)(1), does not include within its meaning DIP.

37 *Id.*
38 *In re Footstar Inc.*, 323 B.R. 566, 569 n. 2 (Bankr. S.D.N.Y. 2005); *see also* Eisenbach, *supra*, n.20.
39 *N.C.P. Mktg. Group*, 129 S.Ct. at 1578 (applying actual test); *In re Catapult*, 165 F.3d 747, 749 n. 2 (9th Cir. 1999) (collecting bankruptcy court decisions favoring actual test).
40 *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir 1997); Eisenbach, *supra*, n. 20.
41 *Institut Pasteur*, 104 F.3d at 493 (internal citations and quotations omitted) (emphasis in original).
42 Indyke, et al., *supra*, n. 16, at 4.
43 *Id.*
44 *Id.*
45 *Summit Inv. & Development Corp. v. Leroux*, 69 F.3d 608, 613 (1st Cir. 1995).
46 *N.C.P. Mktg. Group Inc. v. BG Star Prods.*, 129 S.Ct. 1577, 1578 (2009) (citing *In re Catapult*, 165 F.3d 747, 751-55 (9th Cir. 1999)).
47 *In re Footstar Inc.*, 323 B.R. 566, 571 (Bankr. S.D.N.Y. 2005); Steele, *supra*, n. 14, at 439.
48 *In re Footstar Inc.*, 323 B.R. at 571.
49 *Id.* at 570.
50 *Id.*
51 *Id.*
52 *Id.* at 570-71.
53 *Id.* at 571.
54 *Id.* The 1984 amendment, which added the phrase "debtor or the debtor in possession" to § 365(c), appears to state that the DIP can "stand in the shoes of the debtor" and continue to perform under the executory contract, but that any other entity, including a bankruptcy trustee, is not able to continue performance. As such, unless Congress intended to permit a DIP to assume otherwise nonassignable contracts, it appears that the 1984 amendment would serve no purpose. Thomas M. Mackey, "Post-*Footstar* Balancing: Toward Better Construction of §365(c)(1) and Beyond," 84 *Am. Bankr. L. J.* 405, 426 (2010).
55 *In re Footstar Inc.*, 323 B.R. at 571.
56 *Id.*
57 *See supra*, n. 51-56 and accompanying text. For additional evidence that, despite the language of § 1107(a), a trustee and DIP are distinct entities, *see also* 11 U.S.C. § 365(c) (explicitly referring to trustee and DIP separately); *In re Aerobox Composite Structures LLC*, 373 B.R. 135, 141-42 (Bankr. D. N.M. 2007) (adopting *Footstar* reading that despite § 1107(a), trustee and DIP are distinct entities); *In re Adelphia Commc'ns Corp.*, 359 B.R. 65, 72 (Bankr. S.D.N.Y. 2007) (following *Footstar* analysis that trustee and DIP are distinct and further explaining that since debtor and DIP are essentially same, trustee and DIP must be distinct entities); David R. Kuney, "Restructuring Dilemmas for the High Technology Licensee: Will 'Plain Meaning' Bring Order to the Chaotic Bankruptcy Law of Assumption and Assignment of Technology Licenses?," 44 *Gonz. L. Rev.* 123, 154-55 (2008/2009) (examining *Footstar* reasoning and distinction between DIP and trustee); Mackey, *supra*, n. 54 at n. 115 ("It would be more precise not to say that debtor in possession stands in the shoes of the debtor, but rather to note that debtor in possession is the debtor 'in possession' of additional trustee-like functions, rights, powers and duties.").
58 *In re Footstar Inc.*, 323 B.R. at 571 (citing *In re Catapult Entertainment Inc.*, 165 F.3d 747, 750 (9th Cir. 1999)).

Thus "the proscription of assumption and assignment is limited to situations where a trustee, rather than a [DIP], seeks to assume an executory contract."[59] A DIP is prohibited from assigning its executory contracts or licenses because this assignment would force the licensor to accept performance from a third party other than the debtor. However, the debtor can assume the executory contract or license because "unlike a bankruptcy trustee, the DIP is 'not an entity other than itself.'"[60] Therefore, the *Footstar* test achieves the same results of the actual test while eliminating the objections to the actual test.

Which Test Is Correct?

"[T]he basic policy goal in place in [§] 365 is attempting to allow the debtor to realize the correct value of its estate, while also providing some protection to the nondebtor."[61] Each of the three tests for analyzing § 365(c)(1) helps and hinders the ability to meet this goal.

The hypothetical test stays true to the rules of statutory construction. It reads the statute literally and allows all persons involved to know what is expected. However, this positive aspect of the hypothetical test is clearly outweighed by its many disadvantages. First, the hypothetical test requires that the court undergo a difficult, and sometimes complicated, abstract analysis of what the debtor hypothetically could or could not do. This removes the clarity of the literal reading and forces all involved to guess what the court will determine.

Next, the hypothetical test can, and usually does, utterly frustrate the purpose of chapter 11, which occurs because some executory contracts or licenses that are trying to be assumed are the lifeblood of the entity in chapter 11. If the entity cannot assume and continue to perform under the license, then there is no point in chapter 11 because the company will not be able to reorganize successfully and all involved would have been better served by chapter 7 liquidation.

Third, the hypothetical test can provide the nondebtor licensor with a windfall that it would not have had outside of bankruptcy and comes from the nondebtor's ability to deny assumption. By denying assumption, the license is eliminated and the nondebtor can once again market the license for sale. If the license is profitable, the nondebtor can negotiate more favorable terms in a new license, either with the debtor (because the debtor needs the license to survive) or with one or more new third parties (because the license is now more desirable).

Finally, although this is the test that has been adopted by the most circuit courts, it is not the most-used test within the courts that have the greatest expertise in bankruptcy—the federal bankruptcy courts.[62] This fact, along with the other ways in which the hypothetical test's results are contrary to the goals of the bankruptcy system, indicates that the hypothetical test should not be used.

The actual test has more positive characteristics than the hypothetical test, but it is not without flaws. The primary positive aspect is that the actual test follows the purpose of chapter 11 by allowing a debtor to continue its business and successfully complete reorganization. It accomplishes this by allowing the debtor to continue performing under the license. Without the ability to continue performance, the debtor would not be able to complete its reorganization and all creditors would leave funds on the table, because property in a chapter 11 is usually more valuable as used by the debtor than if sold on the open market during chapter 7 liquidation.

A second positive aspect of the actual test is that it focuses on what the debtor actually wants to do. This has two beneficial impacts: (1) Courts simply need to determine what the debtor wants to do and do not need to undertake a complicated analysis to discover hypothetically what the debtor could do; and (2) if the debtor changes its mind during or post-bankruptcy, then the actual test will block the assignment. Finally, this is the test that is followed by the majority of the federal bankruptcy courts.[63]

Despite these positive results, the actual test is not perfect. For example, it departs from the plain text of the law, which forces the courts to determine what Congress intended when it drafted § 365(c)(1) rather than reading the text literally as written. Similarly, it forces the courts to undertake an expensive, expertise-requiring case-by-case analysis. If there was a bright-line rule, the courts' decisions would be easier and all involved could more generally predict the outcome. However, the simplicity of a bright-line rule is a result that cannot properly be achieved in all areas of the law. Although the positive aspects of the actual test outweigh the negative, it is still not the best interpretation.

The test outlined in *Footstar* is clearly the best of the three available interpretations of § 365(c)(1). It combines the positive aspects of the hypothetical and actual tests, while eliminating most of the negatives. The *Footstar* test follows the literal reading of "assume or assign," like the hypothetical test. It also allows the debtor to assume a license and accomplish the goal of chapter 11. Additionally, the *Footstar* test does not permit the nondebtor to receive a windfall that it would not have been able to without bankruptcy. It also follows Congress' intentions by using a case-by-case analysis and prevents a third party from taking over a license without the approval of the nondebtor licensor.

Moreover, the *Footstar* test is the most consistent and straightforward of the three tests because it reads the text of § 365(c)(1) literally and avoids the confusion about whether a trustee and DIP are one and the same. The only negative aspect is that it has not yet gained traction in the courts. Only time will tell if courts and commentators alike see the benefits of the *Footstar* test and begin to follow it. ■

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59 Mark G. Douglas, "IP Perspective: Actual Test and *Footstar* Approach Govern DIP's Ability to Assume Patent and Technology License," 86 *Corporate Counsel's Licensing Letter*, May 2008, at 1, 3, www.jonesday.com/files/Publication/5c89e094-3cff-4a51-a426-9f9c984b6980/Presentation/PublicationAttachment/77620fab-2293-4010-928f-a86f3dfc87bf/40598776indesign.pdf.

60 *Id.*

61 *Pa. Elec. Co. v. United Foundry Co.*, No 06-200, 2009 US. Dist LEXIS 80399 (W.D. Pa. Aug. 11, 2009).

62 *See supra*, n. 38 and accompanying text.

63 *See supra,* n. 38 and accompanying text.