IT IS ORDERED as set forth below:

Date: January 10, 2012

W. Homer Drake
U.S. Bankruptcy Court Judge

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF GEORGIA
NEWNAN DIVISION

IN THE MATTER OF:	:	**CASE NUMBER**
	:	
DAVIDSON HYDRANT TECHNOLOGIES, INC.,	:	BANKRUPTCY CASE NO. 11-13349-WHD
	:	
	:	
Debtor.	:	
	:	
	:	IN PROCEEDINGS UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

<u>O R D E R</u>

Before the Court is the Motion to Reject Exclusive Marketing Agreement with Windsor Distribution Corporation, filed by Davidson Hydrant Technologies, Inc. (hereinafter the "Debtor"). Windsor Technologies Corporation, f/k/a Windsor Distribution Corporation (hereinafter "Windsor") objects to the Motion. Windsor asserts that section 365(n)(1) of the Bankruptcy Code applies to permit Windsor to retain certain rights allegedly provided under the agreement between the parties. This matter is a core proceeding, pursuant to 28 U.S.C. § 157(b)(2)(A), over which this Court has subject matter jurisdiction. *See* 28 U.S.C. § 1334.

BACKGROUND AND PROCEDURAL HISTORY

Debtor owns patents in fire hydrant technology and manufactures and sells the patented products to both end-users and manufacturers. Debtor signed marketing agreements in 2003 and 2005 with Windsor before entering into the current marketing agreement in 2007 (hereinafter the "Agreement"). By its terms, the Agreement will last through December 2018, with a five-year right of renewal granted to Windsor at the end of the stated term.

The pertinent aspects of the Agreement are as follows:

> - Davidson hereby engages Windsor, and Windsor hereby accepts such engagement, to market and promote the Products, Davidson's training, and installation services within the Territory, all strictly in accordance with the terms and conditions of this Agreement. Subject to Section 10, Davidson engages Windsor on an exclusive basis within the Territory during the Term. Agreement, § 2A.
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> -For all purposes and under all circumstances, Windsor will be considered an independent contractor of Davidson. . . . Under no circumstances shall Windsor be considered a partner or joint venturer of Davidson. Agreement, § 2B.
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> -Under no circumstance will Windsor, any of its employees or agents, have any authority to bind Davidson by any of its or their respective actions and Windsor will not attempt or otherwise purport to bind Davidson by any of its actions . . . . Agreement, § 2C.

-During the Term, Windsor will use its best efforts to create and distribute Promotional Materials and to engage in other appropriate promotional activities in order to facilitate the marketing and promotional efforts related to the Products . . . . Agreement, § 3B.

-Davidson hereby grants to Windsor the non-exclusive right and license to use the Davidson Marks [the trademarked name and logo of Davidson] during the Term solely in connection with Windsor's marketing and promotional obligations under the terms of this Agreement, including the creation and distribution of Promotional Materials. Windsor acknowledges and agrees that the Davidson Marks, and all right and title therein, belong exclusively to Davidson and further agrees that its use of the Davidson Marks inures solely to the benefit of Davidson and Windsor shall not at any time acquire any rights in any of the Davidson Marks by virtue of Windsor's use thereof, subject to the rights and license specifically granted in this Agreement. Agreement, § 3C; Exhibit A (Definitions).

-The term sheet . . . details the material terms on which Davidson will sell the Retro-fit Products to Customers. Windsor agrees to provide potential Customers a copy of the then current Term Sheet before submitting a Purchase Order to Davidson on behalf of such potential Customer. The Term Sheet shall be considered part of any Purchase Order placed by Windsor. Davidson reserved the right to modify the Terms Sheet in its sole discretion. . . . Agreement, § 6B.

"Customer" means any entity that purchases any Retro-fit Products from Davidson. Agreement, Exhibit A (Definitions).

-Davidson shall have sole and exclusive discretion and authority to accept or reject any Purchase Order [a form approved by Davidson that sets forth the material terms and conditions regarding the offer by a Customer to purchase from Davidson any Products] submitted by or on behalf of a potential Customer for the purchase and sale of the Retro-fit Products. Agreement, § 6E; Exhibit A (Definitions).

-Customers must provide to Davidson through a Purchase Order . . . Customer information. . . . . A Purchase Order will be binding on Davidson only after accepted in writing . . . by Davidson. Agreement, Exhibit B (Term Sheet), § 1.

-With the advice of Windsor, Davidson will establish the sales prices. Agreement, Exhibit B (Term Sheet), § 2.

-For and in consideration of Windsor's performance of its obligations under this Agreement and sale of the Products, Davidson will pay to Windsor the commissions described on Exhibit C. . . . Agreement, § 8A.

-The Commissions will become due and payable only after . . . a Customer has paid Davidson in full for the Retro-fit Products that Davidson has sold and shipped to such Customer. . . . Agreement, § 8B; see also Exhibit C.

-During the Term, Windsor shall meet or exceed the following minimum sales quotas with respect to the sales of Retro-fit Products (the "Performance Standards"). . . . Performance standards are included in this contract to provide both parties with reasonable goals. . . . <u>[P]erformance standards will be considered a guide and not a reason to</u> terminate this agreement. Agreement, § 9.

-Davidson shall retain all title to, interest in, and ownership of the Products, the Promotional Materials, and the intellectual property rights embodied in the Products and Promotional Materials. Agreement, § 14A.

-"Promotional Materials" means all marketing materials, advertisements, items, or scripts and any other communications that reference Davidson . . . that are from time to time directly or indirectly created, produced, distributed, disseminated, or otherwise used in connection with fulfilling Windsor's marking and promotional obligations under this Agreement . . . . Agreement, Exhibit A (Definitions).

-Windsor acknowledges and agrees to obtain Davidson's written consent and approval before creating, producing, disseminating, or otherwise using any Promotional Materials. Agreement, § 3D.

-All right, title, and interest to copyrights in all Works [copyrightable work of authorship, including . . . technical descriptions, user guides, graphical works, audiovisual works, sound recordings, advertising materials, computer programs, websites and content], which have been or will be prepared by Windsor within the scope of Windsor's engagement by Davidson

> will be the property of Davidson. Windsor further agrees that, to the extent the provisions of Title 17 of the United States Code do not vest the copyrights to any Works in Davidson, Windsor hereby assigns to Davidson all right, title, and interest to copyrights, which Windsor may have in the Works. Agreement, § 14C.
>
> -No amendment, modification, or alteration to the terms or provisions of this Agreement will be binding upon any party hereto unless the same shall be in writing and duly executed by both Parties. Agreement, § 18A.

As part of the relationship with Debtor, Windsor and its Chief Executive Officer, Michael Walden, signed assignment, non-disclosure, and work-product agreements in 2003 and 2005. For good and valuable consideration, Walden, Tom Davidson, Sr., and others assigned to Debtor their rights to at least five patents from 2006 to 2010. *See* Debtor's Brief in Opposition, Exhibits 10, 11, 12, 14, and 15 (Docket No. 35).

Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code on October 6, 2011. Shortly thereafter, Debtor filed the instant motion, seeking to reject the Agreement. Debtor asserts that Windsor's poor performance under the Agreement led to low revenues, despite Debtor having, in its view, a highly attractive product line. Debtor further believes that a new marketing and sales team would increase sales and provide the increased income necessary for an effective reorganization.[1] Windsor objects to the rejection and asserts that the Agreement provides Windsor with a right to use Debtor's intellectual

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[1] In its motion to reject the Agreement, Debtor also requested the Court order Windsor to turn over to Debtor customer lists and any documents relating to the Agreement or business of Debtor. Debtor has recognized that such a request must be made by way of a complaint and has determined not to pursue this relief at this time. *See* FED. R. BANKR. P. 7001(1).

property. Accordingly, Windsor submits that section 365(n)(1) permits it to elect to retain its rights under the Agreement, including the right to remain the exclusive marketer and promoter of Debtor's products. If the Court concludes that section 365(n)(1) applies to the Agreement, Debtor requests, in the alternative, that the Court defer its request to reject the Agreement to allow Debtor to proceed to terminate the Agreement for cause.

On October 21, 2011, the Court heard arguments on the Motion and took the matter under advisement. Both parties filed briefs, supporting briefs, and opposition briefs. Essentially, the parties disagree over whether Windsor is a licensee of a right to Debtor's intellectual property, either expressly under the Agreement, or by virtue of an implied license arising from the parties' conduct.

Debtor argues that Windsor's sole duty and right under the Agreement was to market and promote Debtor's products and services, which did not require or result in a license of a right to use, sell, or offer to sell Debtor's intellectual property. In support of its position, Debtor states that the Agreement provided Debtor the right to accept or reject any purchase order submitted by Windsor, and the Agreement only provided Windsor with a license to use Debtor's trademarks, which are excluded from the Bankruptcy Code's definition of intellectual property. The Debtor further submits that no implied license to offer the products for sale arose because Debtor lacked the requisite intent to grant Windsor a license and Windsor gave no consideration for the alleged implied license.

In response, Windsor argues that the Agreement grants Windsor a right to use intellectual property because it permits Windsor to offer for sale Debtor's products and gives Windsor the right to use and create works of authorship owned by Debtor. In the alternative, Windsor submits that the parties mutually departed from the written terms of the Agreement, thus resulting in a modified contract, under which Windsor had the authority to directly sell products to customers, or that Debtor's conduct gave rise to an implied license of the right to offer for sale and sell Debtor's products.

CONCLUSIONS OF LAW

Under section 365(a), a debtor-in-possession may, with court approval, reject an executory contract. 11 U.S.C. § 365(a); *In re Exide Technologies*, 607 F.3d 957, 962 (3d Cir. 2010). Since both parties' performance remains due under the Agreement, the Agreement is an executory contract and is subject to rejection. *See id.; see also In re Penn Traffic Co.*, 524 F.3d 373 (2d Cir. 2008).

In determining whether to approve a debtor-in-possession's decision to reject an executory contract, the Court applies the business judgment rule, giving a large degree of deference to the debtor-in-possession's business decision. *See id.* at 383. As part of this analysis, however, the Court must consider Windsor's anticipated election to retain any rights to intellectual property granted under the Agreement. *See* 11 U.S.C. § 365(n)(1); *see also In re Ron Matusalem*, 158 B.R. 514 (Bankr. S.D. Fla. 1993). If Windsor is permitted to retain its rights under the Agreement, rejection of the Agreement would be futile. In recognition of this fact, Debtor has requested the Court defer ruling on its request to reject the Agreement in the event the Court agrees with Windsor that section 365(n)(1) applies. Accordingly, the Court must first determine whether the Agreement includes a license of a right to intellectual property within the meaning of section 365(n)(1).

A. Section 365(n)(1)(B)

Section 365(n)(1) burdens a debtor-in-possession's ability to reject an executory contract by providing additional rights to the licensee of a right to intellectual property. If a party to an executory contract is a licensee of the debtor's intellectual property, section 365(n)(1) gives the licensee two options with regard to the contract. The licensee can elect to treat the contract as terminated and file a claim for breach of the contract, or the licensee can elect to retain its rights under the contract and to continue paying the estate any payments due under the contract. Windsor has asserted its rights under section 365(n)(1)(B), which provides:

> (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 . . .
>
> (B) to retain its rights (including a right to enforce any exclusivity provision of such contract) under such contract and under 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-
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> (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."

11 U.S.C. § 365(n)(1)(B). Therefore, if section 365(n)(1)(B) applies here, rejection would not permit Debtor to terminate Windsor's rights under the Agreement, including Windsor's exclusive right to market and promote Debtor's products.

Congress enacted section 365(n)(1) in response to decisions of bankruptcy courts allowing the rejection of executory contracts which contained licenses of a debtor's intellectual property. *See* S. Rep. No. 100-505, at 5, reprinted in 1988 U.S.C.C.A.N. at 3204. Congress believed that prohibiting the rejection of these contracts would encourage technological development or, at least, prevent the threat of bankruptcy from discouraging development. *Id.* According to the Senate Report, allowing the rejection of these contracts would discourage licensees from sharing the risks inherent in technological advancement and development. *Id.* In furtherance of this goal, section 365(n)(1) applies only if the debtor is a "licensor of a right to intellectual property" under the executory contract. *See* 11 U.S.C. § 365(n)(1).

The Bankruptcy Code does not define the terms "licensor" or "license." According to federal law applicable to patents, a "license" is essentially permission to use, make, or sell intellectual property and a "promise by the licensor not to sue the licensee." *A. Nattermand & CIE Gmbh v. Bayer Corp.*, 428 F.Supp. 2d 253, 258 (E.D. Pa. 2006); *In re Spansion, Inc.*, 2011 3268084, * 7 (D. Del. July 26, 2011). Under the Bankruptcy Code, "intellectual property" includes a trade secret; invention, process, design, or plant protected under title

35; patent application; plant variety; work of authorship protected under title 17; or mask work protected under chapter 9 of title 17, "to the extent protected by applicable nonbankruptcy law." 11 U.S.C. § 101(35A). Accordingly, a "licensor of a right to intellectual property" within the meaning of section 365(n)(1), is a party who has been authorized to use, make, or sell a trade secret, a patented invention, process, design, or plant, a plant variety, a copyrighted work of authorship, or a mask work. *Spansion*, 2011 WL 3268084 at *7.

Further, under federal patent law, a patent is considered to be a "bundle of rights." *See Carborundum Co. v. Molten Metal Equip. Innovations*, 72 F.3d 872, 878 (Fed. Cir. 1995). Each "stick" in the bundle can be licensed to another party. Here, Windsor asserts that the right to offer for sale a patented product is such a "stick" in the bundle of rights. This assertion is consistent with patent law, which permits the holder of a patent to sue a party for patent infringement if the party offers to sell a product using the patent holder's patent without authorization. *See* 35 U.S.C. § 271(a).

Windsor contends that the Agreement permits Windsor to offer Debtor's products for sale. If so, the authorization to offer the products for sale without being subject to suit for infringement of Debtor's patent constitutes the license of a right in the patent. For purposes of determining whether particular conduct constitutes an "offer to sell," the term "offer to sell" is "interpreted according to its ordinary meaning in contract law, as revealed by traditional sources of authority." *Rotec Indus., Inc. v. Mitsubishi Corp.*, 215 F.3d 1246 (Fed.

Cir. 2000); *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1308 (Fed. Cir. 2010); *EBS Automotive Services v. Illinois Tool Works, Inc.*, 2011 WL 4021323, * 13 (S.D. Cal. Sept. 12, 2011) (finding that company that sent out brochures describing and depicting a product did not "offer to sell" within the meaning of § 271(a) because "none of the distributors that received the advertisements could contractually bind [the defendant] without further negotiation."). "These authorities include the Uniform Commercial Code ("UCC"), the Restatement Second of Contracts and the case law interpreting these works." *Designing Health, Inc. v. Erasmus,* 2002 WL 34536686, *11 (C.D. Cal. Feb. 26, 2002). The ordinary meaning of an "offer" is "'the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it.'" *Rakusin v. Radiology Associates of Atlanta, P.C.*, 699 S.E.2d 384, 388 (Ga. App. 2010) (quoting Rest. (2nd) Contracts § 24 (1981)); *Linear Technology Corp. v. Micrel, Inc.*, 275 F.3d 1040 (Fed. Cir. 2001); *EBS Automotive Services v. Illinois Tool Works, Inc.*, 2011 WL 4021323, * 12 (S.D. Cal. Sept. 12, 2011) ("To constitute an offer to sell under § 271(a), 'an offer must create a power of acceptance in the offeree.'").

B. Whether the Agreement Grants a License of Intellectual Property

Under federal patent law, a license of intellectual property can be either express or implied. *See Bayer Corp.*, 428 F.Supp. at 258. "An express license is merely '[o]ne which is granted in direct terms.'" *Id*, n.8 (quoting BLACK'S LAW DICTIONARY 920 (6th ed. 1990)). Whether a contract includes a license to intellectual property is a matter of contract interpretation. *Wisconsin Alumni Research Foundation v. Intel Corp.*, 656 F.Supp. 2d 898, 910 (W.D. Wis. 2009) (citing *State Contracting & Engineering Corp. v. Florida*, 258 F.3d 1329, 1339 (Fed. Cir. 2001)). Here, the parties agree that Georgia contract law applies.

Under Georgia law, "the cardinal rule of contract interpretation is to determine the intent of the parties. . . ." *Flynt v. Life of the South Ins. Co.*, 2011 WL 5305431, *4 (Ga. App. 2011) (citations omitted). To ascertain the intent of the parties, the Court must first determine "'if the contract language is unambiguous, and if so the court enforces the contract's clear terms.'" *NW Parkway, LLC v. Lemser*, 709 S.E.2d 858, 861 (Ga. App. 2011) (quoting *Eckerd Corp. v. Alterman Properties, Ltd.*, 589 S.E.2d 660 (Ga. App. 2003)). In determining a contract's nature, a court looks at the plain meaning of the contract provisions. *Id.* (quoting *Ga. Real Estate Properties, v. Lindwall*, 692 S.E.2d 690 (Ga. App. 2010)). "'[A]ll the contract terms must be considered together in arriving at the construction of any part, and a construction upholding the contract in whole and every part is preferred.'" *Flynt,* 2011 WL 5305431 at *4 (citations omitted). "'Words generally bear their usual and common signification; but technical words, words of art, or words used in a particular trade or business will be construed, generally, to be used in reference to this peculiar meaning. The local usage or understanding of a word may be proved in order to arrive at the meaning intended by the parties[.]'" *NW Parkway*, 709 S.E.2d at 861 (quoting O.C.G.A. § 13-2-2(2)).

The plain language of the Agreement does not grant a license of intellectual property protected under section 365(n)(1). Windsor first asserts that the Agreement includes an express license of a right to intellectual property, either in the form of a right to offer for sale and to sell a patented product, or the right to use works of authorship. While the Agreement expressly grants to Windsor a non-exclusive license to use Debtor's trademarked name and logo, it is silent as to a right to use Debtor's patents or patents pending.

The Agreement authorizes Windsor "to market and promote" Debtor's products. Windsor asserts that the use of the word "market" is the grant of an authorization to offer for sale Debtor's products. Windsor submits that the terms "market" and "promote" must have different meanings in order for each term in the Agreement to have meaning. Thus, relying on one dictionary definition of the verb "to market," Windsor asserts that "to promote" means to advertise and "to market" means to sell or offer for sale. However, the verb "to market" is also defined as "to expose for sale in a market." WESBTER'S THIRD NEW INTERNATIONAL DICTIONARY, Merriam-Webster (1993). Exposing a product for sale is more akin to advertising than to offering a product for sale. Read as whole, the Agreement suggests a more synonymous meaning for the words "market" and "promote," as if they form one phrase - to make the products known to customers in the market for the purchase of Debtor's products.

This interpretation is supported by the rights actually granted to Windsor under the Agreement. Every provision of the Agreement suggests Debtor intended to engage Windsor for the sole purpose of generating interest in the product and finding customers, rather than concluding sales on Debtor's behalf. If the parties intended Windsor to have the right to sell or offer the products for sale, one would expect Windsor to have the right to bind Debtor to the sale. To the contrary, the Agreement does not give Windsor authority to bind Debtor to any sales. Furthermore, customers were on notice of this relationship, as Debtor's Term Sheet, which was provided to Debtor's customers, expressly states that "[a] Purchase Order will be binding on [Debtor] only after accepted in writing . . . by [Debtor]." Agreement, Exhibit B, § 1. Therefore, under Georgia contract law and general principles of patent law, Windsor could not offer the products for sale. The Agreement incorporated and required the use of the Term Sheet in any transaction, and the Term Sheet provided notice to the customer that Windsor lacked authority to enter into a bargain. The customer was, therefore, on notice that its mere submission of the purchase order to Windsor or Debtor would not conclude the bargain. Essentially, the Agreement gave Windsor only the power to invite the customer to make an offer, which, the customer was clearly informed, Debtor could have accepted or rejected.

Windsor relies on the holding of *Viam Mfg., Inc. v. Iowa Export-Import Trading Co., et al.*, 243 F.3d 558 (Table) (Fed. Cir. 2000), a non-published decision, for support of its argument that the word "market" should be read in the Agreement to mean "sell" or "offer to sell." In *Iowa Export-Import*, the court found that a co-plaintiff had standing to sue for patent infringement because it was the exclusive distributor of a patented product and, therefore, held a patent license. 243 F.3d at * 2. In that case, the co-plaintiff's rights were, as in this case, established by a document titled "marketing agreement." While the complete details of the *Iowa Export-Import* agreement are not available for comparison with the provisions of the Agreement, it does appear that the marketing agreement at issue in *Iowa Export-Import* differed from the Agreement in at least one key way. The *Iowa Export-Import* agreement clearly used the word "sale," whereas the Agreement does not. The *Iowa Export-Import* agreement stated that the patent holder agreed "to supply Products to [the co-plaintiff] for sale in North America." *Id*. at *2. Further, in that case, the patent holder was a foreign corporation. Presumably, the patent holder did not itself sell the product in North America, thus making it more reasonable to assume that the co-plaintiff was the seller of the patented product, rather than simply an advertiser or promoter. That is not the case here.

Contrary to Windsor's second argument, the Agreement does not provide Windsor with a license to Debtor's works of authorship. Although the Agreement discusses works of authorship protected under Title 17, *see* Agreement, § 14C, the Agreement merely clarifies that any works of authorship created by Windsor during the course of its work for Debtor would either become Debtor's property as a matter of law, or were assigned by Windsor to Debtor pursuant to the Agreement. The Agreement does not explicitly permit Windsor to use any such works once created and assigned. In fact, the Agreement clearly requires Debtor's express written consent and approval before distributing, disseminating, or otherwise using any Promotional Materials. *See* Agreement, § 3D. If the Agreement itself granted Windsor a license to use works of authorship created for the purpose of marketing and promoting Debtor's products, Debtor's prior written consent and approval would not be required before Windsor could use any Promotional Materials. Thus, the Court concludes the Agreement does not license to Windsor any rights to "works of authorship," defined as intellectual property under section 101(35A) of the Bankruptcy Code.

Finally, with regard to Windsor's third argument, the Bankruptcy Code's definition of "intellectual property" does not include trademarks. *See* 11 U.S.C. § 101(35A). Accordingly, the fact that the Agreement grants Windsor the right to use Debtor's trademark and logo does not bring the Agreement within the ambit of section 365(n).[2]

Windsor has also asserted that the written terms of the Agreement were modified by the parties' mutual departure from those terms or, alternatively, that Windsor had an implied license to sell Debtor's products. In response, Debtor asserts that the agreement between the parties could not have been altered other than in writing, as Section 18A of the Agreement

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There is a split of authority as to whether such rights are terminated upon rejection or whether a bankruptcy court has equitable power to allow the holder of such rights to continue using the marks. *Compare In re Old Carco, LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) ("Trademarks are not 'intellectual property' under the Bankruptcy Code . . . [, so] rejection of licenses by [a] licensor deprives [the] licensee of [the] right to use [a] trademark . . . ."), *and In re Centura Software Corp.*, 281 B.R. 674-75 (Bankr. N.D. Cal. 2002), *with In re Exide Technologies*, 607 F.3d 957, 966-68 (3d Cir. 2010) (reasoning that "[c]ourts may use § 365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization[, but] [t]hey should not . . . use it to let a licensor take back trademark rights it bargained away"). This issue is not currently before the Court. Even if the Court were to find that Windsor's rights to use Debtor's marks might survive the rejection of the Agreement, the fact that the right to use the marks is contained within the Agreement is not sufficient to trigger the application of section 365(n) to the Agreement itself.

provides that "[n]o amendment, modification, or alteration to the terms or provisions of this Agreement will be binding upon any party hereto unless the same shall be in writing and duly executed by both Parties." Agreement, § 18A. It is undisputed that no further written agreement exists between Windsor and Debtor. As Windsor asserts, under Georgia law, a contractual provision may be waived by the parties' conduct, even if, as in this case, the contract contains a provision against waiver. *See Vakilzadeh Enter., Inc. v. The Housing Authority of County of DeKalb,* 281 Ga. App. 203 (2006) ("Moreover, 'a provision in a contract against waiver of contractual rights may itself be found by the jury to have been waived.'").

Under Georgia law, "[w]here parties, in the course of the execution of a contract, depart from its terms and pay or receive money under such departure, before either can recover for failure to pursue the letter of the agreement, reasonable notice must be given to the other of intention to rely on the exact terms of the agreement. The contract will be suspended by the departure until such notice." O.C.G.A. § 13-4-4. "Mutual departure requires the receipt or payment of money or some other sufficient consideration, however slight, to support a departure from the contractual terms." *AAF-McQuay, Inc. v. Willis*, 308 Ga. App. 203, 220, 707 S.E.2d 508, 522 (Ga. App. 2011) (citing O.C.G.A. § 13–4–4; *Turem v. Sinowski & Jones*, 195 Ga. App. 829, 829–30, 395 S.E.2d 60 (1990); *Southwest Plaster & Drywall Co. v. R.S. Armstrong & Bros. Co*., 166 Ga. App. 373, 374, 304 S.E.2d 500 (1983); *Lester v. Trust Co. of Ga.*, 144 Ga. App. 526, 527, 241 S.E.2d 633 (1978)).

Alternatively, Windsor asserts that Debtor's conduct resulted in an implied license to sell or offer for sale Debtor's products. A license by implication is a second method of gaining a license to intellectual property under patent law. "In patent law, the term 'implied license' has been used to refer to 'different categories of conduct which lead to the same conclusion,' namely, 'a patentee's waiver of the statutory right to exclude others from making, using, or selling the patented invention.'" *Id.* (quoting *Wang Labs., Inc. v. Mitsubishi Electronis Am., Inc.* 103 F.3d 1571, 1580 (Fed. Cir. 1997)). Indeed, "[n]o formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent, or any conduct on his part exhibited to another from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license and a defense to an action for a tort." *De Forest Radio Tel. & Tel. Co. v. United States*, 273 U.S. 236, 241 (1927); *see also Wang Labs., Inc.*, 103 F.3d at 1580.

The requirements for an implied license by conduct are as follows:

> 1) A relationship between the patent holder and the licensee exists;
> 2) Within the relationship, the patent holder grants the licensee a right to use the invention;
> 3) The patent holder receives valuable consideration for the grant of the right;.
> 4) The patent holder denies the licensee an implied license;
> 5) The patent holder's conduct and statements create an impression that the patent holder consents to the licensee's making, using, or selling the patent holder's patented inventions.

In re Nu-Corp International Technologies, Inc. v. Greene, 362 B.R. 308, 315 (Bankr. N.D. Miss. 2007) (citing *Wang Labs., Inc.* 103 F.3d at 1579).

If Windsor prevails in showing that the parties modified the Agreement to grant Windsor a right to sell or offer for sale, even if that right was not an exclusive right, the existence of such a right would be sufficient to make Debtor a licensor of Debtor's intellectual property, and Windsor would be permitted to retain its rights under the Agreement. This would include the exclusive right to market and promote Debtor's products and the nonexclusive right to sell or offer for sale Debtor's products. Alternatively, if Windsor succeeds in demonstrating the existence of an implied license and that such license was not terminated prior to the filing of the bankruptcy case, Windsor would likewise be protected by section 365(n)(1).

In support of its mutual departure and implied license theories, Windsor alleges that Debtor had full knowledge of the fact that Windsor was offering for sale and selling Debtor's products and actually participated in Windsor's conduct throughout a five-year period. Windsor alleges that it and its distributors sold Debtor's products directly to customers, by accepting purchase orders and payment for products and then paying Debtor for the products. Windsor relies on the declaration of Walden to establish that Windsor completed this type of transaction seventy-seven times from February 2008 through the petition date. Also attached to the Walden declaration are invoices from Debtor to Windsor that appear to support that contention, as Windsor is listed as the party to be billed, even in cases in which an end customer is listed as the party to whom the product should be shipped, as well as purchase orders from customers to Windsor and purchase orders from Windsor to Debtor for the same products. Walden's declaration states that Debtor was aware of Windsor's conduct and never objected to this arrangement. In support of this contention, Windsor points to the fact that Debtor assisted Windsor in making sales directly to customers by providing "sole source" letters that enabled Windsor to satisfy various government water authorities that Windsor, or its distributor, was the "sole source" of Debtor's product in the customer's area.

The Court notes that these letters, signed by Tom Davidson and Diane Davidson, indicate Debtor's awareness of the fact that Windsor was doing more than simply advertising and promoting Debtor's products. One such letter, dated August 2010, informs the customer that Water Anti Terrorism Valve, LLC is "the exclusive distributor" of Debtor's product in the customer's area and that Windsor and Debtor look forward to working with the customer. Another letter, dated April 2008, describes Windsor as the "exclusive marketing agent," as opposed to sales agent or distributor, but also states that Debtor was prepared to be a source of supply for any product "negotiated by Windsor" with the customer. The letters support the conclusion urged by Windsor that Debtor was aware that Windsor and its distributors were at least holding themselves out to customers as having the authority to accept purchase orders on Debtor's behalf.

Debtor relies, however, on the affidavit of Diane Davidson, an employee of Debtor, that essentially claims that Debtor never assented to the new arrangement, but was forced, on each separate occasion, to go along with Windsor's methods due to Debtor's need for income and fear of losing customers. Davidson avers that Debtor had no choice but to accept the purchase orders as presented because, by the time the purchase order was submitted to Debtor, Windsor had proceeded too far with the customer to back out. This appears to be the manner in which the GSA sale occurred. Davidson avers that Debtor was unaware of Windsor's overtures to the GSA until it was too late, while Walden suggests that Debtor was aware of the GSA contract and assisted Windsor in its efforts by providing the "sole source" letter. While Davidson claims she informed Windsor that Debtor would not tolerate future deviations from the terms of the Agreement, Walden contends that Windsor received no objections from Debtor or any notice that Debtor intended to rely on the written terms of the contract until October 26, 2011, after Debtor had filed for bankruptcy.

In a like manner, the parties also dispute whether Windsor gave Debtor any consideration to support the modification of the Agreement. This dispute centers on the timing and reasons for the assignments of various rights by Walden to Debtor.

At the time of the hearing on Debtor's motion, which was filed as an emergency motion immediately following the filing of Debtor's petition, it appears that the parties had conducted little discovery with regard to the parties' conduct following the execution of the Agreement. The documents discussed above were not tendered or explained by a witness, and neither side produced witnesses to testify as to the parties' course of dealing following the execution of the Agreement. At that time, Windsor requested that, if the Court did not rule in its favor with regard to the plain language of the Agreement, the Court defer its ruling on Debtor's motion to reject and allow Windsor an opportunity to conduct further discovery in support of its theory of an implied license.

The Court appreciates Debtor's urgency in rejecting the Agreement and concluding its relationship with Windsor. However, the Court has considered the applicable law as to whether the parties' conduct resulted in a mutual departure from the contract or whether it resulted in an implied license. The evidence regarding the relevant facts comes to the Court in the form of an affidavit and a declaration, and the evidence is contradictory. Neither party has had an opportunity to subject these statements to cross examination, and the Court has had no opportunity to judge the credibility of the witnesses with regard to the further statements made in the affidavit and declarations. At this point, the Court cannot properly weigh the evidence to resolve the disputed facts without a further evidentiary hearing. Given the emergency nature of the motion itself, the Court cannot penalize Windsor by ruling on the motion without allowing Windsor an opportunity to further develop the evidentiary record.

CONCLUSION

For the reasons stated above, the Court concludes that Debtor is not a licensor of intellectual property under the express terms of the Agreement. The Court requires further evidence as to whether the course of dealings between the parties following the execution of the Agreement resulted in a modification of the Agreement or in an implied license.

IT IS ORDERED that, within no later than seven (7) days from the date of the entry of this Order, the parties shall submit, if possible, a joint discovery schedule for completing discovery on these issues and a proposed time frame when the parties would be available to hold a second evidentiary hearing. If the parties cannot agree on a joint discovery schedule, the parties shall submit a joint statement detailing each parties' contentions as to the time needed to conduct further discovery and the facts and materials the parties believe remain to be discovered. The Court will resolve any dispute regarding the necessity for further discovery and will schedule a further hearing on an expedited basis within reason, so as not to prejudice either party.

The Clerk is **DIRECTED** to serve this Order on the Debtor, Debtor's counsel, Windsor, Windsor's counsel, the United States Trustee, and all creditors.

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