

# Assignability of Contracts

**A**nother issue becoming more prevalent in ABCs is the ability to assign intellectual property assets transferred by reason of the making of the ABC. Many of the current high-tech and bio-tech firms that look at ABCs as a means of liquidating are what are best defined as “design and development” firms. These companies raise substantial sums of seed capital, which they spend on capital designing patents and other intellectual property related assets in support of the creation of the desired product line. The question becomes whether the making of the general assignment negatively impacts the transfer of the intellectual property portfolio.

A threshold question is whether the making of the ABC is an “assignment” of a contract right that may require the consent of some third party. The assignee upon accepting the ABC “holds the assets in trust for the benefit of all of the assignor’s creditors” and stands “in the shoes of the assignor,” allowing the “Assignee ... [to] properly assert any rights that the assignor had in the [assets].”<sup>104</sup>

Anti-assignment clauses in contracts are not usually applicable in the context of an ABC. “Unless the circumstances indicate the contrary, a contract term prohibiting assignment of ‘the contract’ bars *only* the delegation to an assignee of the performance by the assign-

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104 See *Sherwood Partners Inc. v. Stewart AP Inc.*, H025291, 2004 WL 363531, at \*23 (Cal. Ct. App. Feb. 27, 2004) (internal citations omitted).

or of a duty or condition.”<sup>105</sup> It does not limit an assignee’s right to recover monies or damages for breach-of-contract claims for failure to perform to contract terms.

An ordinary assignment and one for the benefit of creditors have nothing in common save a partial similarity of name. An assignment for the benefit of creditors requires a voluntary transfer by a debtor of all its property to an assignee for the payment of its debts. “The material and essential characteristic of a general assignment is the presence of a trust. The assignee is merely trustee, not an absolute owner. He buys nothing and pays nothing, but takes the title for the performance of trust duties.”<sup>106</sup> Courts have rejected the notion that an assignment for the benefit of creditors is merely a “voluntary assignment” and “has the same effect as would the sale and transfer of the lease to a purchaser in the ordinary way.”<sup>107</sup>

What about where the contract in question contains an *ipso facto* clause? As addressed in the section on “Effect of an Intervening Bankruptcy Proceeding” (p. 49), these clauses serve to terminate or void contracts upon the making of the ABC. Because the ABC transfers all right, title and interest in the assignor’s assets, even if the contract in question contains such a clause, the right, title and interest in the contract or intellectual property right held by the assignor would in theory revert to the assignor and still be subject to the assignee’s rights under the ABC, assuming the ABC agreement

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105 *SLMSoft.com Inc. v. Cross County Bank*, 2003 WL 1769770, at \*9 (Del. Super. 2003) (emphasis added); see also *Restatement (Second) of Contracts* § 322 (“A contract term prohibiting assignment of rights under the contract ... does not forbid assignment of rights for breach of the whole contract...”).

106 *John P. Kane Co. v. Kinney*, 35 Misc. 1, 3-4, 71 N.Y.S. 8, 9-10 (Sup. Ct. 1901), *rev’d*, 68 A.D. 163, 74 N.Y.S. 260 (App. Div. 1902) trial court *aff’d* in 174 N.Y. 69, 66 N.E. 619 (N.Y. 1903) (internal citation omitted).

107 *Paddell v. Janes*, 145 N.Y.S. 868, at 878-879 (N.Y. Sup. Ct. 1914).

contains a power of attorney where the assignee can act on behalf of the assignor.

Where state law is silent on issues such as this, states look to applicable bankruptcy law for guidance. For example, Ninth Circuit law on the assignability of executory contracts is covered by the decision in *In re Catapult Entertainment Inc.* wherein the court found that “where applicable nonbankruptcy law makes an executory contract nonassignable because the identity of the nondebtor party is material, a debtor-in-possession may not assume the contract without the consent of the nondebtor party.”<sup>108</sup> However, because the ABC is not an executory contract, the rights of the assignee to the assigned contract or intellectual property rights is not the real issue. But the transfer of the contract or intellectual property rights *by the assignee* may be subject to such consent.

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108 *In re Catapult Entertainment Inc.*, 165 F.3d 747 (9th Cir. 1999).