

## APPENDIX 9 - IN RE SSE INTERNATIONAL CORP.

*In re SSE International Corp.*<sup>1</sup> involved a contest between the trustee and a secured creditor of the licensor/debtor over the funds collected under a settlement agreement between the debtor and a third party/licensee who owed money *prior to the petition* under a license of the debtor's "know how."<sup>2</sup> The secured creditor's security agreement described and therefore reached the debtor's "accounts" but not the debtor's "general intangibles." The secured creditor argued unsuccessfully that the pre-petition license debt was an "account" because it was a "right to payment for goods sold or leased or for services rendered . . . ."<sup>3</sup> However, the Bankruptcy Court concluded that the license covering know-how was neither a sale of goods nor the sale of a service, taking the pre-petition right to payment outside the current U.C.C. section 9-106 definition of an "account."<sup>4</sup> The licensed know-how was not treated as "goods" because it was primarily ideas and concepts.<sup>5</sup> Know-how was an intangible, like the *content* of a computer program or the *content* of a book, according to the Court in *SSE International*. The actual software and books, on the other hand, are media for ideas. These media can be "goods" if they are tangible, moveable and available in the marketplace.<sup>6</sup> The Court also rejected the secured party's argument that in furnishing its know-how, the debtor rendered a "service." A service, explained the court, implied an undertaking to perform a "[d]uty or labor."<sup>7</sup> For the debtor to have "served" the licensee, it would have had to *utilize* its know how for the licensee's benefit. Under the license in *SSE International*, the debtor provided no additional labor or assistance. Furnishing the licensee with know-how alone was not a service according to the Court because "the

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<sup>1</sup> 198 B.R. 667 (Bankr. W.D. Pa. 1996).

<sup>2</sup> 198 B.R. at 668.

<sup>3</sup> *Id.*; See also U.C.C. § 9-106.

<sup>4</sup> If the pre-petition debt itself was collateral covered under the security agreement, the settlement paid to the trustee should go to the secured party as "proceeds" of the secured party's pre-petition collateral. In fact, unless the settlement money was "proceeds" of pre-petition collateral, section 552(a) of the Bankruptcy Code would prevent the secured party from claiming it or any other property acquired by the debtor or by the bankruptcy estate after the petition was filed, even where the post-petition property is duly described in the security agreement. 11 U.S.C. § 552(a)&(b) (1994). See *In re Specialty Foods of Pittsburgh, Inc.*, 98 B.R. 734, 736-37 (Bankr. W.D. Pa. 1989).

<sup>5</sup> 198 B.R. at 669-70.

<sup>6</sup> *Id.* at 670.

<sup>7</sup> *Id.* at 671.

debtor's initial act of creating its 'know how' was undertaken for its own benefit rather than to satisfy a duty to [the licensee], or anyone else . . . ."<sup>8</sup> The Court explained that "[f]or an act of creating know how to constitute a rendering of services, or an account generating performance, it must be undertaken for the benefit and/or at the behest of someone else (i.e., one cannot render services to oneself.)"<sup>9</sup> The *SSE International* Court fails to distinguish the act of creating know how from the act of sharing that know how with the licensee. However, its predicate requirement that service be in some sense servile would seem to prevent even the sharing of know how from being classified as a service. Other licenses of know how might be more proactive in terms of the licensor's obligation than the license in *SSE International*, however. If the licensor's advisory role is more hands on, the licensee's resulting payment obligation could arguably be viewed as an "account" under the *SSE International* test. The moral of the story for a secured party financing a debtor who is licensing intellectual property is that the security agreement should include the debtor's "accounts" and "general intangibles" as well as the proceeds of both.<sup>10</sup>

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<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> It is not enough to include both accounts and general intangibles when they are described as "rights to the payment of money" because that kind of limitation in the description covers only the various income streams that may be generated by licensing; it does not cover the ownership right in the intellectual property proper (i.e., the ownership of the exclusivity right, itself). If the intellectual property right itself is not included in the security agreement description, the proceeds of a post-bankruptcy assignment or license of that right will not go to the secured party even though the after-acquired income from the assignment does fall within the "right to payment" description in the security agreement. Section 552 of the Bankruptcy Code makes after-acquired property clauses unenforceable after the petition is filed, except when the property acquired is also the "proceeds of collateral that was covered by the security agreement prior to the petition." See *In re Specialty Foods of Pittsburgh, Inc.*, 98 B.R. 734, 736-37 (Bankr. W.D. Pa. 1989).