INTELLECTUAL PROPERTY AND TECHNOLOGY ISSUES IN DISTRESSED SITUATIONS —2015 YEAR IN REVIEW

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The law governing intellectual property and technology in distressed situations continued to evolve during 2015. Part I of this article discusses decisions from last year relating to section 365 of the United States Bankruptcy Code as applied to intellectual property licenses. Four particular issues are analyzed: (i) an opinion exploring whether a group of contracts constituted a unitary whole or separate, distinct agreements for purposes of "executory contract" analysis; (ii) an opinion following the "hypothetical" test rather than the "actual test" in evaluating the ability of a debtor to assume a trademark license as part of its reorganization effort; (iii) an opinion on the rights of a trademark licensee under a trademark license rejected by a debtor licensor; and (iv) an opinion determining that certain exclusivity rights claimed by a distributor were not "rights to . . . intellectual property" protected by section 365(n).

Part II of the Article discusses an opinion issued last year concluding that certain social media assets constituted property of an entity's bankruptcy estate and not the individual property of the company's former majority owner. Part III summarizes developments in the chapter 11 proceedings of Radio Shack concerning the disposition of certain personally identifiable information. Finally, Part IV discusses the ABI Commission report recommending changes to section 365, which report was released in December of 2014.

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I. Section 365

A. Contract Analysis

As insolvency practitioners well know, the Bankruptcy Code does not contain a definition of the term "executory contract." Courts generally adopt the famous test described by Professor Vern Countryman: an executory contract is "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other."[1]

In many cases, the determination of "executoriness" is rather simple. In other cases, the determination is quite complex. Because a debtor's ability to assume, assign or reject a contract is dependent on the existence of an "executory" contract, significant litigation can occur in bankruptcy cases over that basic issue.[2]

Even when all parties agree that the test of executoriness is satisfied, disputes can still arise about a debtor's right of assumption. In 2015, the United States District Court for the District of Delaware issued an opinion demonstrating this point. In *Huron Consulting Services, LLC v. Physiotherapy Holdings, Inc. et al. (In re Physiotherapy Holdings, Inc.)*,

[1]Countryman, Executory Contracts in Bankruptcy: Part I, 57 Minn. L. R. 439, 460 (1973).

[2]For example, in *In re Exide Technologies,* the Third Circuit determined that a perpetual, royalty-free trademark license was not an executory contract and thus not subject to assumption or rejection by the licensor debtor. *In re Exide Technologies*, 607 F.3d 957, 53 Bankr. Ct. Dec. (CRR) 57, 95 U.S.P.Q.2d 1405, Bankr. L. Rep. (CCH) P 81779 (3d Cir. 2010), as amended, (June 24, 2010). In contrast, in *In re Interstate Bakeries Corporation*, the Eighth Circuit determined that a similar license was executory and thus could be assumed or rejected by the licensor debtor. *In re Interstate Bakeries Corp.*, 690 F.3d 1069, 56 Bankr. Ct. Dec. (CRR) 256, 68 Collier Bankr. Cas. 2d (MB) 519 (8th Cir. 2012), reh'g en banc granted, opinion vacated, (June 18, 2013) and on reh'g en banc, 751 F.3d 955, 59 Bankr. Ct. Dec. (CRR) 172, 71 Collier Bankr. Cas. 2d (MB) 1878 (8th Cir. 2014). However, the Eighth Circuit subsequently vacated that panel decision and reheard the matter en banc in September of 2013. After rehearing, the Eighth Circuit ruled that the license at issue was not executory after all and thus could not be rejected by the debtor/licensee. *In re Interstate Bakeries Corp.*, 751 F.3d 955, 59 Bankr. Ct. Dec. (CRR) 172, 71 Collier Bankr. Cas. 2d (MB) 1878 (8th Cir. 2014).

various agreements between the debtor and a service provider were acknowledged by the parties to be executory.[3] However, the debtor sought to assume only one particular contract (a license), which it deemed most favorable. The nondebtor service provider argued that the other agreements (which the debtor sought to reject) were integral to the license to be assumed — and that the debtor could not pick and choose among the agreements but rather needed to assume or reject all the agreements together. The bankruptcy court agreed with the debtor and allowed the assumption of just the license agreement and the rejection of the other agreements.[4] The district court reversed — holding that as a matter of law all of the agreements constituted a single integrated agreement.[5]

The *Physiotherapy Holdings* opinion is worth further analysis as it reveals how the fundamental debtor right of assumption and rejection is often dependent on very fact specific circumstances as well as subjective perspectives of a reviewing court. The case involved a dispute between the debtor, a provider of outpatient physical therapy services throughout the United States, and a service provider hired by the debtor pre-bankruptcy to help improve the company's management of its revenue cycle.[6] As part of its engagement, the service provider licensed proprietary software to the debtor and also entered into various other agreements. Thereafter, the debtor commenced chapter 11 and filed a reorganization plan. The service provider objected to the proposed plan as it sought to allow the debtor to assume the license agreement, but sought approval for the debtor to reject the parties' other agreements, which contained more burdensome terms for the debtor. The parties resolved the objection to confirmation by allowing the plan to be confirmed

[3] *In re Physiotherapy Holdings, Inc.*, 538 B.R. 225, 61 Bankr. Ct. Dec. (CRR) 85 (D. Del. 2015), appeal dismissed, (3rd Cir. 15-2971, 15-3042) (Dec. 17, 2015).

[4] Physiotherapy Holdings, Inc., 538 B.R. at 229.

[5] Physiotherapy Holdings, Inc., 538 B.R. at 237.

[6] Physiotherapy Holdings, Inc., 538 B.R. at 228.

and postponing the dispute over assumption to the post-confirmation period.[7]

After hearings, the bankruptcy court determined that the debtor could assume the license agreement and simultaneously reject the other agreements. The service provider appealed the decision to the district court. The provider alleged that the parties intended for all agreements to constitute one complete contract and that the debtor could not enjoy the benefits of assuming the license agreement without also assuming the other agreements between the parties. The debtor argued that the bankruptcy court correctly determined that the Bankruptcy Code did not require assumption of all the agreements and that the assumption of the license agreement alone was proper.[8]

The district court summarized the bankruptcy court's determination as resting on three factors: (i) that the parties signed the agreements at three different times; (ii) certain clauses in the license agreement contradicted clauses in other agreements; and (iii) one agreement appeared to take a "back seat" in some circumstances to other agreements. The debtor argued that the bankruptcy court reached the wrong conclusion on these factors and that the parties did not intend to create a unified contract.

After consideration, the district court agreed with the debtor and reversed the bankruptcy court's ruling. In so doing, the district court found that the parties intended their various agreements to constitute one complete contract under applicable state law. The court determined that the bankruptcy court committed reversible error in allowing the debtor to obtain the benefits of the license agreement through assumption but avoid the burdens of other agreements through an attempted rejection.[9]

In reaching its decision, the district court noted that applicable state law "recognizes that separately drafted agreements can embody a single contract."[10] The court then focused its analysis on whether the parties intended for their

[7]Physiotherapy Holdings, Inc., 538 B.R. at 228.

[8]Physiotherapy Holdings, Inc., 538 B.R. at 228–228

[9]Physiotherapy Holdings, Inc., 538 B.R. at 234.

[10]The parties agreed that Pennsylvania law governed.

agreements to "establish one unitary contract or several independent agreements."[11] The court concluded that the agreements were intended by the parties to form one unitary contract. In reaching that conclusion, the court noted that the fact that the agreements were not signed simultaneously was irrelevant.[12]

Further, the court based its conclusion on the various provisions of the agreements described as "entire agreement clauses" which the court believed reflected the parties intent to treat the various agreements as a unitary contract.[13] Finally, the court evaluated various clauses designated as "conflict clauses" and concluded that those clauses too supported its conclusion.[14]

The district court's decision was not a complete loss for the debtor. Rather than forcing the debtor to accept all provisions of the related agreement, the court elected to remand the matter to the bankruptcy court with instructions to provide the debtor with the opportunity to assume or reject the collection of contracts as a whole.[15]

B. Actual Versus Hypothetical Test

The specific language of section 365 contains a drafting ambiguity that has injected a level of complexity into the analysis of assumption and assignment issues — and the rights of nondebtor licensors facing a counterparty's licensee's bankruptcy case. Specifically, section 365(c) provides that a debtor or trustee cannot "assume or assign" an executory contract when applicable law would prevent assignment. Courts have determined in certain cases that patent, copyright and trademark law constitute "applicable law" which preclude a debtor licensee from attempting to force its

[11] Physiotherapy Holdings, Inc., 538 B.R. at 234.

[12] Physiotherapy Holdings, Inc., 538 B.R. at 234 ("Simultaneous execution of multiple agreements is not required for those agreements to establish a single contract.").

[13] Physiotherapy Holdings, Inc., 538 B.R. at 235.

[14] Physiotherapy Holdings, Inc., 538 B.R. at 236.

[15] Physiotherapy Holdings, Inc., 538 B.R. at 237.

counterparty licensor from accepting performance from a new third party licensee.[16]

Some courts have opted to read the three words "assume or assign" literally. That is, such courts have refused to allow a debtor licensee to merely assume a nonexclusive intellectual property license on the grounds that such a license is non assignable under applicable nonbankruptcy law. Four Circuit Courts of Appeal (the Third, Fourth, Ninth and Eleventh) have adopted the hypothetical test and ruled that if a contract cannot be assigned under applicable nonbankruptcy law, then it cannot be assumed <u>or</u> assigned by the debtor licensee.[17]

Two other Circuit Courts of Appeal (the First and Fifth)

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[16]Courts have determined that patent, copyright and trademark law constitute "applicable law" which preclude a debtor from attempting to force its counterparty licensor from accepting performance from a third party licensee. Cases reaching this conclusion include:

(1) Patent cases such as *Gilson v. Republic of Ireland*, 787 F.2d 655, 658, 229 U.S.P.Q. 460 (D.C. Cir. 1986) ("[i]t is well settled that a nonexclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."); See also *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 750, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999) (nonexclusive patent licenses cannot be assigned by a debtor licensee);

(2) Trademark cases such as *In re N.C.P. Marketing Group, Inc.*, 337 B.R. 230, 237, 78 U.S.P.Q.2d 1853, Bankr. L. Rep. (CCH) P 80431 (D. Nev. 2005), aff'd, 279 Fed. Appx. 561 (9th Cir. 2008); *In re XMH Corp.*, 647 F.3d 690, 695, 55 Bankr. Ct. Dec. (CRR) 56, 99 U.S.P.Q.2d 1393 (7th Cir. 2011) (holding that trademarks are personal and thus not assignable under trademark law without the consent of the trademark owner/licensor); and

(3) Copyright cases such as *In re Patient Educ. Media, Inc.*, 210 B.R. 237, 240–43, 31 Bankr. Ct. Dec. (CRR) 49 (Bankr. S.D. N.Y. 1997); *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 311, 314 (Bankr. D. Del. 2001); *ITOFCA, Inc. v. MegaTrans Logistics, Inc.*, 322 F.3d 928, 941, 40 Bankr. Ct. Dec. (CRR) 266, 66 U.S.P.Q.2d 1014 (7th Cir. 2003) (determining that nonexclusive copyright licenses are personal to transferees who cannot assign it to a third party absent the copyright owner's consent).

[17]*Matter of West Electronics Inc.*, 852 F.2d 79, 18 Bankr. Ct. Dec. (CRR) 287, Bankr. L. Rep. (CCH) P 72351, 34 Cont. Cas. Fed. (CCH) P 75526 (3d Cir. 1988); *In re Sunterra Corp.*, 361 F.3d 257, 42 Bankr. Ct. Dec. (CRR) 222, 51 Collier Bankr. Cas. 2d (MB) 1276, Bankr. L. Rep. (CCH) P 80068 (4th Cir. 2004); *In re Catapult Entertainment, Inc.*, 165

have rejected that view.[18] Instead, these two Circuits have adopted an alternative test knows as the actual test. Under the actual test, a debtor licensee is prevented from assuming a license only if it actually intends to assign the license without the consent of the licensor. If the debtor merely plans to assume the license without attempting to assign, then the debtor license is authorized to do so.

The implication of this split between the circuits is significant. In "hypothetical test" jurisdictions, a debtor licensee is not just precluded from assigning a license, it is also precluded from merely attempting to assume such license for its own benefit as a reorganized company. In contrast, in "actual test" jurisdictions, a debtor licensee who does not intend to assign is free to at least assume a license. The split is likely to be resolved by the Supreme Court at some point. In 2009, Justice Kennedy was joined by Justice Breyer in describing the division in the courts as "an important one to resolve for Bankruptcy Courts and for businesses that seek reorganization" and that in a different case "the Court should consider granting certiorari on this significant question."[19]

The 2015 decision of the United States Bankruptcy Court for the District of Delaware in *In re Trump Entertainment*

F.3d 747, 33 Bankr. Ct. Dec. (CRR) 1058, 41 Collier Bankr. Cas. 2d (MB) 858, Bankr. L. Rep. (CCH) P 77886 (9th Cir. 1999); *In re James Cable Partners, L.P.*, 27 F.3d 534, 25 Bankr. Ct. Dec. (CRR) 1499, 31 Collier Bankr. Cas. 2d (MB) 1104 (11th Cir. 1994). See also *In re Taylor Investment Partners II, LLC*, 533 B.R. 837, 61 Bankr. Ct. Dec. (CRR) 70 (Bankr. N.D. Ga. 2015) (bankruptcy court granted a franchisor relief from stay to pursue its state court termination action against a debtor franchisee upon franchisor successfully arguing that binding 11th Circuit precedent following the hypothetical test, the debtor franchisee was legally barred from assuming its franchise agreements without the franchisor's consent).

[18] See *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 30 Bankr. Ct. Dec. (CRR) 221, 37 Collier Bankr. Cas. 2d (MB) 588, 41 U.S.P.Q.2d 1503, Bankr. L. Rep. (CCH) P 77242 (1st Cir. 1997); *In re Mirant Corp.*, 440 F.3d 238, 46 Bankr. Ct. Dec. (CRR) 13, 55 Collier Bankr. Cas. 2d (MB) 1050, Bankr. L. Rep. (CCH) P 80453 (5th Cir. 2006).

[19] *N.C.P. Marketing Group, Inc. v. BG Star Productions, Inc.*, 556 U.S. 1145, 129 S. Ct. 1577, 173 L. Ed. 2d 1028 (2009).

Resorts, Inc. highlights this important issue.[20] That case involved the ability of a debtor licensee to assume a trademark licensing agreement it had entered into before declaring bankruptcy. The debtor, which ran three hotel casinos, had entered into a pre-petition trademark license agreement with Trump AC Casino Marks, LLC, the licensor. The license granted the licensee the exclusive right to use the Trump name, likeness and other "Trump Marks" in connection with the operation of certain hotel casinos located in Atlantic City. The license was perpetual, but subject to termination if the licensee failed to use the Trump Marks in a manner consistent with certain quality standards.

Finding a deficiency in quality, the licensor initiated a state court action to terminate the agreement. Upon the licensee's subsequent bankruptcy filing, the state court action was stayed. The debtor licensee filed a plan seeking to assume the license agreement so as to continue use of the marks in its operations. The licensor promptly filed for relief from the automatic stay in order to proceed with the state court action in an effort to terminate the license agreement.

In granting the licensor's motion, the bankruptcy court noted that it was guided by the Third Circuit's *West Electronics* decision.[21] As discussed above, that decision set forth the "hypothetical test" as the correct interpretation of section 365(c)(1) in the Third Circuit. Under that test, whether a debtor licensee may assume an executory contract depends on the debtor licensee's hypothetical ability to assign the contract. If the debtor could hypothetically assign the contract, regardless of actual intention, the Third Circuit interprets section 365(c)(1) as precluding assumption if "applicable law" excuses the nondebtor party from accepting or rendering performance. In *West Electronics*, the Third Circuit held that applicable federal trademark law excused the nondebtor licensor from accepting performance from a third party without the consent of the licensor. Relying on that decision, the Delaware bankruptcy court held the nondebtor licensor was entitled to relief from the automatic stay in or-

[20] *In re Trump Entertainment Resorts, Inc.*, 526 B.R. 116, 60 Bankr. Ct. Dec. (CRR) 179 (Bankr. D. Del. 2015).

[21] *Matter of West Electronics Inc.*, 852 F.2d 79, 18 Bankr. Ct. Dec. (CRR) 287, Bankr. L. Rep. (CCH) P 72351, 34 Cont. Cas. Fed. (CCH) P 75526 (3d Cir. 1988).

der to continue proceedings to terminate the contract with the debtor.[22]

Specifically, the bankruptcy court determined that "under federal trademark law, trademark licenses are not assignable in the absence of some express authorization from the licensor."[23] Furthermore, the court found that assignment of trademark licenses is prohibited "under circumstances where it is clear that the identity of the licensee is crucial to the agreement."[24] Finding both criteria met, the court granted the licensor's motion and lifted the automatic stay, despite the fact that the debtor licensee had no intention of actually assigning the license.[25] The exact opposite result would occur in any court following the "actual test".

C. Rights of NonDebtor Trademark Licensee Upon Rejection by Debtor Licensor

The power granted to a debtor to assume, assume and assign or reject is fundamental to the bankruptcy process. The impact of the power on the rights of intellectual property licensees was highlighted in the 1985 Fourth Circuit decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc*.[26] In that case, pre bankruptcy, the debtor granted a nonexclusive license of certain patents to Lubrizol. After filing for bankruptcy, the debtor rejected the license agreement. The Fourth Circuit held that under the Bankruptcy Code as it then existed, when the debtor rejected the license, *Lubrizol*, as the patent licensee, lost its rights under the license.[27]

In response to this decision, Congress enacted section 365(n) to the Bankruptcy Code in 1988 expressly granting

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[22]Trump Entertainment Resorts, 526 B.R. at 127.

[23]Trump Entertainment Resorts, 526 B.R. at 123.

[24]Trump Entertainment Resorts, 526 B.R. at 125.

[25]Licensors who may otherwise benefit from the hypothetical test should be careful not to waive their rights. In the *Physiotherapy Holdings* case, the court determined that the nondebtor licensor waived its right to withhold consent to an assignment. Of course, as the *Physiotherapy Holdings* case arose in the First Circuit (an actual test jurisdication) the issue of assignability would not be relevant to the rights of a debtor to assume.

[26]*Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 12 Bankr. Ct. Dec. (CRR) 1281, 12 Collier Bankr. Cas. 2d (MB) 310, 226 U.S.P.Q. 961, Bankr. L. Rep. (CCH) P 70311 (4th Cir. 1985).

[27]Lubrizol, 756 F.2d at 1043.

licensees of "intellectual property" an option to elect to either (i) treat a rejected agreement involving intellectual property as terminated or (ii) retain all rights, including rights to enforce any exclusivity provisions in the license and related or ancillary agreements, for the duration of the license and any extensions.[28] At the same time, Congress amended the Bankruptcy Code to define the term "intellectual property" — a definition that includes patents and copyrights but specifically does not include trademarks.[29]

Thus, as a result of section 365(n), when a debtor is a licensor and seeks to reject a license of "intellectual property" as defined by the Bankruptcy Code, the nondebtor licensee has the statutory right to continue to retain its rights if it so elects. Specifically, section 365(n) provides the nondebtor licensee with the right to continued usage as long as the licensee continues to pay royalties that are due and waives any right to setoff. However, the licensee making the election will not obtain any future updates, support or protection from infringement from the licensor. Upon the rejection, the debtor licensor is relieved of its obligations to perform.

As noted above, the defined term "intellectual property" in the Bankruptcy Code does not include trademarks. Accordingly, the amendments enacted in response to *Lubrizol* did not specifically grant a nondebtor trademark licensee the right to elect to retain its rights in the event of an executory license rejection by a debtor trademark licensor.[30]

Recently, courts have begun to analyze further the rights of nondebtor trademark licensees when a debtor licensor rejects. For example, in *Sunbeam Products v. American Manufacturing*, the Seventh Circuit held that the rejection of a trademark license did not constitute a termination of

[28] 11 U.S.C.A. § 365(n).

[29] 11 U.S.C.A. § 101(35A).

[30] Legislation introduced to the United States Senate in 2015 (S. 1137) sought to amend the Bankruptcy Code to expand the definition of "intellectual property" to include trademarks, service marks, or trade names. Beyond introduction, no further legislative action took place on the bill.

the nondebtor licensee's rights under the rejected contract.[31] This result, of course, contrasts with the analysis of *Lubrizol*. The decision has given trademark licensees newfound hope for retention of their licensee rights in the event of a rejection by a debtor licensor — despite the omission of trademarks from the definition of "intellectual property" in the Bankruptcy Code.

The analysis of *Sunbeam Products v. American Manufacturing* was followed in the 2014 case of *Crumbs Bake Shop, Inc.*, a manufacturer, supplier and retailer of cupcakes and other baked goods.[32] To capitalize on its success, Crumbs entered into a representation agreement with Brand Squared Licensing ("BSL"). Under that agreement, BSL was to procure and manage license agreements with third parties where the third parties obtained permission to use the Crumbs' trademark and trade secrets in exchange for the payment of royalties. Collectively, BSL procured and managed six licensing agreements on behalf of Crumbs.

After Crumbs filed for Chapter 11 bankruptcy, it sought to sell substantially all of its assets to a buyer. The agreements with BSL were specifically excluded from the assets proposed to be sold and a provision in the proposed sale order stated ". . . title and interest in and to the Purchased Assets shall pass to the Purchaser at Closing free and clear of all liens, claims, interests, and encumbrances, including, but not limited to . . . any leasehold interest, license or other right, in favor of a third party".[33] Thereafter, the bankruptcy court approved the sale free and clear of liens, claims, encumbrances and interest.

After the bankruptcy court approved the sale, BSL filed a motion asserting that under section 365(n) of the Bankruptcy Code licensees could elect to retain rights granted under the licenses. BSL additionally sought any royalties that would be due under the contracts. The buyer filed a motion for an

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[31] *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*, 686 F.3d 372, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012).

[32] *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 60 Bankr. Ct. Dec. (CRR) 92, 72 Collier Bankr. Cas. 2d (MB) 1099 (Bankr. D. N.J. 2014).

[33] Crumbs Bake Shop, 522 B.R. at 776.

order in aid of the court's prior sale order asking for a further determination of the parties' respective rights.[34]

In its decision, the bankruptcy court declined to adhere to a narrow construction of section 365(n). Instead, it found that trademark licensing agreements did not fall outside the scope of section 365(n) simply because trademarks are not specifically included in the definition of "intellectual property" found in section 101(35A) of the Bankruptcy Code.[35] Based on the legislative history surrounding the adoption of section § 365(n), the bankruptcy court found trademark licensees' rights were to be determined on a case by case basis.[36] Examining the facts of the case, the court found that stripping licensees of contractual rights would result in an inequitable outcome.[37]

The bankruptcy court additionally held that section 363(f) does not trump section 365(n) where the consent of the licensee is absent.[38] The court disagreed with the buyer's argument that the licensees gave implied consent in failing to object to the sale motion finding that the ten words of the proposed order, which extinguished the licensees' rights, were so vague and so deeply buried within the twenty-nine page document that it would be inequitable to presume the licensees had adequate notice.[39] Thus, lacking adequate notice, the licensees' failure to object did not constitute implied consent. Since consent was not granted, section 363(f) did not override section 365(n). Therefore, the licensees could retain their rights under their respective licensing agreements if they chose to do so. Finally, the court held that because the license agreements were specifically excluded from the sale, any royalties due under the license belonged to the debtor, not to the buyer.[40]

The buyer initiated an appeal of the decision but then reached a settlement with the debtor before briefs were filed. Consequently, the appeal was dismissed.

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[34] Crumbs Bake Shop, 522 B.R. at 778.

[35] Crumbs Bake Shop, 522 B.R. at 780.

[36] Crumbs Bake Shop, 522 B.R. at 772.

[37] Crumbs Bake Shop, 522 B.R. at 772.

[38] Crumbs Bake Shop, 522 B.R. at 773.

[39] Crumbs Bake Shop, 522 B.R. at 776.

[40] Crumbs Bake Shop, 522 B.R. at 779.

D. Examining the Extent of Rights under Section 365(n)

In the latter half of 2015, the United States Bankruptcy Court for the District of New Hampshire rendered a decision on an issue not commonly litigated. Specifically, in *In re Tempnology, LLC,* the court was confronted with the need to determine the extent of rights afforded by section 365(n) to a nondebtor licensee in light of a debtor' rejection of various agreements.[41] The debtor licensor manufactured cooling fabrics marketed under the brand "Coolcore." Pre-bankruptcy, the debtor entered into a co-marketing and distribution agreement granting exclusive distribution rights to a distributor together with rights to a non-exclusive license to use the Coolcore trademark and logo. Post-bankruptcy, the debtor moved to reject the agreement. In addition, the debtor filed a motion seeking a determination that the distributor's rights under section 365(n) were limited to only the grant of the non-exclusive license. The distributor objected, asserting that section 365(n) also protected its exclusive distribution rights.[42]

The debtor conceded that section 365(n) protected the distributor's rights under the non-exclusive license upon rejection. The dispute concerned other provisions of the agreement concerning various "exclusivity rights". The debtor alleged that the exclusivity rights provisions did not constitute rights protected under section 365(n) which specifically applies only to "intellectual property."[43]

In contrast, the distributor pointed to language in section 365(n) which permits a licensee of intellectual property to retain its rights "including a right to enforce any exclusivity provision of such contract."[44] The distributor argued that its exclusivity rights constituted an exclusive license. Specifcally, the distributor pointed to language in the agreement in which the debtor agreed that it would not license or sell the relevant products during the term of the agreement. The distributor then argued that because it would be impossible

[41] *In re Tempnology, LLC*, 541 B.R. 1, 61 Bankr. Ct. Dec. (CRR) 206, 2015 BNH 11 (Bankr. D. N.H. 2015), appeal pending.

[42] Tempnology, 541 B.R. at 13.

[43] 11 U.S.C.A. § 365(n)(1)(B).

[44] 11 U.S.C.A. § 365(n)(1)(B).

to sell the products without a license, the intent of the agreement was to afford the distributor an exclusive license, the rejection of which should invoke rights under section 365(n).

The bankruptcy court resolved the dispute in favor of the debtor. The court relied on both the statutory text of section 365(n) and the section's legislative history in noting that protection afforded to licensees by Congress is solely limited to intellectual property rights. The court stated that "not all rights under an executory contract that licenses intellectual property will necessarily be retained postrejection."[45] The court framed the central question as whether the rights claimed by the distributor were "rights to . . . intellectual property" as required by the statute.[46] The court concluded that exclusivity rights did not constitute intellectual property rights.

The distributor appealed the bankruptcy court ruling to the Bankruptcy Appellate Panel for the First Circuit. As of the date this article was submitted for publication, no decision had issued on the appeal.

II. Social Media as Property of the Estate

In 2015, the United States Bankruptcy Court for the Southern District of Texas issued a decision determining that certain disputed social media accounts constituted property of a company's bankrupt estate not property of the former individual majority owner of the company.[47]

The case concerned social media accounts created by the former owner of a gun store and range known as Tactical Firearms. After declaring Chapter 11 bankruptcy, Tactical Firearms reorganized under control of a new owner, the former minority stakeholder of the debtor.[48] After confirmation, the new owner sought to compel the turnover of passwords for the business debtor's social media accounts. The former majority owner refused to comply with a court order compelling turnover, arguing that the social media accounts at issue were his personal accounts, not property of the business.

[45] Tempnology, 541 B.R. at 6.

[46] 11 U.S.C.A. § 365(n)(1)(B).

[47] *In re CTLI, LLC*, 528 B.R. 359, 60 Bankr. Ct. Dec. (CRR) 243, 73 Collier Bankr. Cas. 2d (MB) 703 (Bankr. S.D. Tex. 2015).

[48] CTLI, 528 B.R. at 362.

The court rejected this claim, analogizing the "likes" to the social media account to traditional subscriber or customer lists.[49]

In its opinion, the court acknowledged the potential difficulty of distinguishing between personal and business social media accounts where small business owners' personal identities are closely intertwined with the identity of the business.[50] In holding the accounts property of the debtor, not the former owner, the court considered a variety of factors. The fact that that one social media account (which controlled a Facebook page) linked directly to the company's webpage, the page was used to post status updates relating to, and promoting the business, and that the former owner granted other employees access to the page for the purpose of posting business related status updates, convinced the court the account was property belonging to the reorganized debtor.[51]

The court weighed similar factors to decide that a Twitter account was also property of the reorganized debtor, not personal property of the former owner.[52] The account was named after the business, had a reorganized description of the business, and was linked to the business's web page. These facts, the court said, raised the presumption that the Twitter account was property belonging to the debtor. A further discussion of the case was published in the fall of 2015.[53]

III. Customer Information

As part of RadioShack's bankruptcy proceedings, the debtor sought bankruptcy court approval of the sale of

[49] CTLI, 528 B.R. at 367.

[50] CTLI, 528 B.R. at 367.

[51] CTLI, 528 B.R. at 367–8.

[52] CTLI, 528 B.R. at 372.

[53] See John G. Loughnane, Like This: Evaluating Social Media Accounts as Property of the Estate, Norton Journal of Bankruptcy Law and Practice, Vol. 24 No. 6 (discussing the CTLI opinion and suggesting other factors that courts may want to consider when evaluating whether a social media account constitutes estate property).

certain intellectual property and related assets.[54] The related assets of the proposed sale included 67 million customers' personally identifiable information (PII). The PII consisted of the customer's full name, physical address, phone number, email address (if on file), and twenty-one other categories of transaction data. Seventeen State Attorney Generals raised objections to the proposed sale due to the nature of the related assets. On May 14, 2015, the debtors, the Attorney Generals, and the proposed purchaser, General Wireless Operations Inc., commenced mediation.[55]

As a result of the mediation, an agreement was reached that may have implications for any future sale of personally identifiable information. The most salient point of the agreement is that the purchaser agreed to only purchase email addresses that have been active within two years prior to the sale. In addition, the purchaser agreed to notify by email all customers whose email addresses were purchased within 60 days of the sale. The agreement requires that the notification clearly explains how General Wireless came to be in possession of the customer's email address and information and provides an opportunity for the customer to opt out of receiving further communications. Any customer who opts out within 7 days, or any customer whose email bounces back, will not have their personally identifiable information transferred to General Wireless.

Additionally, of the twenty-one original categories up for sale, General Wireless agreed to purchase only seven: the store number, the ticked date and time, the SKU number, the SKU description, the SKU selling price, the tender type, and the tender amount. The Debtor specifically agreed not to sell customer phone numbers and credit or debit card numbers. The RadioShack case is just the most recent example of personally identifiable information encountering

[54]Bankruptcy Judge Approves Sale of RadioShack Name and Data, The New York Times (May 20, 2015).

[55]RadioShack Agrees to Mediation Over Sale of Customer Data, The Dallas Morning News (April 28, 2015).

a distressed situation, a trend that is sure to continue in the future.[56]

IV. ABI Commission Report Recommendations

The ABI Commission to Study the Reform of Chapter 11 published its Final Report and Recommendations on Dec. 8, 2014. The Commission's recommendations included certain provisions addressing intellectual property issues.

Part V.A.4 of the Report focuses on "intellectual property licenses," while Part V.A.5 of the Report concentrates on trademark licenses.

In Part V.A.4, the Commission set forth the following "Recommended Principles":

- A trustee should be able to assume an intellectual property license in accordance with section 365(a) of the Bankruptcy Code notwithstanding applicable non bankruptcy law or a provision to the contrary in the license or any related agreement.
- The trustee should be able to assign an intellectual property license to a single assignee in accordance with section 365(f) notwithstanding applicable non bankruptcy law or a provision to the contrary in the license or any related agreement. If the trustee seeks to assign an intellectual property license under which the debtor is a licensee to a competitor of the nondebtor licensor or an affiliate of such competitor, the court may deny the assignment if the court determines, after notice and a hearing, that the harm to the nondebtor licensor resulting from the proposed assignment significantly outweighs the benefit to the estate derived from the assignment. The nondebtor licensor should bear the burden of proof in any such hearing.
- Foreign patents and copyrights should be included within the definition of "intellectual property" set forth in section 101(35A) and subject to section 365, including section 365(n). In addition, foreign trademarks should also be included in this definition, subject to the limitations and conditions imposed on domestic trademarks under the recommended principles in Section V.A.5, Trademark Licenses.

[56] http://www.nytimes.com/2015/06/29/technology/when-a-company-goes-up-for-sale-in-many-cases-so-does-your-personal-data.html?_r=0.

In Part V.A.5, the Commission set forth the following "Recommended Principles":

- "Trademarks," "service marks," and "trade names," as defined in section 1127 of title 15 of the U.S. Code, should be included in the definition of "intellectual property" under the Bankruptcy Code. Section 101(35A) of the Bankruptcy Code should be amended accordingly.
- If a debtor is a licensor under a trademark, service mark, or trade name license and the trustee elects to reject that license under section 365, section 365(n) should apply to the license, with certain modifications. The nondebtor licensee should be required to comply in all respects with the license and any related agreements, including with respect to (i) the products, materials, and processes permitted or required to be used in connection with the licensed trademark, service mark, or trade name; and (ii) any of its obligations to maintain the sourcing and quality of the products or services offered under or in connection with the licensed trademark, service mark, or trade name. The trustee should maintain the right to oversee and enforce quality control for such products or services and should not be under any continuing obligation to provide products or services to the rejected licensee. In addition, the concept of "royalty payments" under section 365(n) should be expanded to include "other payments" contemplated by the trademark, service mark, or trade name license.

V. Conclusion

In conclusion, the law governing intellectual property in distressed situations continued to evolve along a relatively predictable path during 2015. As discussed above, the courts continued to consider issues arising under section 365. Noteworthy decisions include the opinion of the United States District Court for the District of Delaware in *Huron Consulting Services, LLC v. Physiotherapy Holdings, Inc. et al. (In re Physiotherapy Holdings, Inc.)* determining that the bankruptcy court committed reversible error in allowing a debtor to obtain the benefits of a license agreement through assumption but avoid the burdens of other agreements through an attempted rejection where the various agreements were intended by the parties to be unitary.

The year also saw a decision from the United States Bankruptcy Court for the District of Delaware in *In re Trump Entertainment Resorts, Inc.* which highlights the Circuit split on the hypothetical versus actual test under section 365. The court, following the hypothetical test that controls in the Third Circuit, refused to allow a debtor to assume a trademark license as part of its reorganization effort even though it had no intention of actually assigning the license to a third party.

There were no major decisions in 2015 concerning the rights of trademark licensees under trademark licenses rejected by debtor licensors. Discussed above is the most recent case (from 2014), *Crumbs*, which followed *Sunbeam Products v. American Manufacturing*, a Seventh Circuit decision holding that the rejection of a trademark license did not constitute a termination of the nondebtor licensee's rights under the rejected contract. That result, of course, is at odds with the Fourth Circuit's famous decision in *Lubrizol*. Legislation was introduced into Congress in 2015 to amend the definition of "intellectual property" to remove the circuit split and also dramatically increase the rights of trademark licensees. The legislation failed to progress beyond its introduction.

The final section 365 decision of note in 2015 was rendered by the United States Bankruptcy Court for the District of New Hampshire in *In re Tempnology, LLC*. The decision determined that certain exclusivity rights claimed by a distributor were not "rights to . . . intellectual property" protected by section 365(n), a decision on appeal as of the date of this article's submission to the publisher.

The Article also discussed the treatment of social media assets in the 2015 decision of the United States Bankruptcy Court for the Southern District of Texas. In the decision, the court determined that certain disputed social media accounts constituted property of a company's bankrupt estate not property of the former individual majority owner of the company.

The Article also briefly summarized the resolution of disputes concerning personally identifiable information sought to be sold in the RadioShack proceedings. Finally, the Article summarized the relevant provisions of the ABI Commission report recommending changes to section 365, which report was released in December of 2014.