How to Identify and Manage Intellectual Property Rights in Bankruptcy

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About Me

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What It Is
There is no such thing as “intellectual property”
Copyright

○ “including”:
  ○ (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works

○ Exists at the moment of fixation - **No registration required!**
Patent

- Granted by the government as a United States Patent
Trademark

◦ “any word, name, symbol, or device used by a person to identify and distinguish his or her goods or services from those manufactured or sold by others and to indicate the source of the goods”

◦ *No registration required!*
“The mark consists of the color brown applied to the vehicles used in performing the services.”

“The mark consists of the configuration of a goldfish”
Trademark

- A “service mark” is a trademark
- A “trade name” is *not* a trademark
- A “business entity name” is *not* a trademark
Every company has at least one trademark, its business name
Other types (sometimes)

- Trade secrets
- Domain names
- Right of publicity
Who Owns It
Who cares?

Courts care.

As a rule of thumb, only the owner of the asset can bring a suit for infringement, so the first attack in any infringement suit is whether the plaintiff has good title to the asset.
Meh.

Many transactions are never recorded.
When It Goes Wrong
Applications filed during bankruptcy

◦ If in the wrong name, they can’t fulfill their statutory purpose
  ◦ Fatal for a copyright infringement claim
  ◦ Fatal for a patent infringement claim
  ◦ Will deprives a trademark owner of entitlement to some types of damages
Wasting Asset

- Trademarks in particular are wasting assets; if not in use during the bankruptcy there is a risk of abandonment
- Copyrights and patents have clocks ticking
Transfers
Initial ownership is defined by statute

After that, it’s a question of effective assignment
Which is tricky.

5 pages of written materials tricky.
Concepts to keep in mind

- There may be specific language you want to use
  - E.g., assignment of a trademark requires the assignment of the “goodwill” in the mark too
- There must be a transfer of all rights*
- Some rights may not be presently transferable
  - E.g., an “intent to use” trademark application
- Pre-transfer legal claims will not be assigned unless the assignment of them is stated in the agreement
What To Do About It
Seek advice when the asset is a substantial part of the value of the company
“It is the Court's view that ‘as is, where is’ likely referred to the fact that the Hubbards had repeatedly represented to the Bankruptcy Court that the service mark had no value.”

* Um, this service mark with “no value” had netted the debtors $550,000 in royalties
The IP license in bankruptcy
Assumption and assignment
§ 365(a) and § 365(f)

- § 365(a), the trustee may assume an executory contract
- § 365(f), the trustee may assign an executory contract
- North Carolina uses the Countryman test to decide whether a contract is executory
- In most cases, an intellectual property license will be executory
§ 365(c)

“the trustee may not assume or assign an executory contract or unexpired lease of the debtor, ... if—(1) (A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and (B) such party does not consent to such assumption or assignment....”
Non-debtor licensee’s right to the license
§ 365(n)

- If it is an “Intellectual Property” license (defined as patent and copyright but not trademark), the non-debtor can force the trustee to allow it to keep the license
- Passed in reaction to Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985)
§ 365(n)

But what about trademarks?

“What § 365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place.... *Lubrizol* does not persuade us.”

pp. IV-E-31-33
Questions?

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