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RESTART.COM: IDENTIFYING, SECURING AND MAXIMIZING THE LIQUIDATION VALUE OF CYBER-ASSETS IN BANKRUPTCY PROCEEDINGS

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Introduction

The forecasted bankruptcy ¹ of Internet companies, whose business plans include generating market attraction rather than profits and whose currency is stock or stock options, will stretch the creativity of bankruptcy lawyers. These non-traditional bankruptcy proceedings will confound persons and entities who believe that they are secured creditors of bankrupt Internet companies and entitled to payment out of the proceeds of the liquidation or sale of an Internet company's assets. Moreover, these "secured creditors" may be shocked to find that they are deemed equity holders or unsecured creditors because their security interest was never perfected. ² The Internet company itself may discover that under bankruptcy law it does not have anything to sell because it does not own the assets used to operate its business. ³ Instead these assets may be in name only and thus owned by the founder who invented the programming process, the registrant of the domain name, a venture capitalist who received an assignment of the technology to secure funding, or licensed from a third party who can bar use of the technology in a bankruptcy proceeding. ⁴

Among the problems facing Internet companies and creditors in bankruptcy is finding the true value of Internet company assets. ⁵ Old Economy companies based their business valuation on actual profits and easily appraised assets of plant, inventory and receivables. In old economy companies credit was extended in exchange for a security interest in plant, inventory and proceeds; trade creditors were paid in cash. ⁶ New economy companies base the valuation of their company on the belief that their stock will appreciate regardless of company profitability, and use this "expectation" to fund business operations and obtain credit. ⁷ Other assets such as intellectual property, data, and strategic alliances are often not considered in this calculus, until liquidation is contemplated. At that time, creditors may be shocked to discover that the property cannot be valued, or that they have no viable security interest. ⁸

In the new economy, trade creditors such as the landlord or equipment leaser were often invited to participate in the start up venture by taking payment for goods and services in stock or stock options. ⁹ Even employees may have taken a large part of their salary in this Internet currency. Other creditors were induced to invest in the enterprise by offering deep discounts to the enterprise so that they could be held out to the public as "business" or "strategic alliance" partners of the enterprise. ¹⁰ The hope here was two-fold—(1) that the start up would continue to use the credit or company as it grew, and (2) that the creditor's name would draw customers to the start-up, improving the start-up's value and the creditor's equity interest.

Unfortunately, what looks like a good idea in a hot market has the converse effect when the market cools. That is: (1) the start-up's stock is worthless forcing the creditor to write off significant bad debts, and (2) perhaps the worst of all scenarios, the creditor may be viewed as true business partner or owner of the start-up responsible for its bad judgment, all because the creditor accepted now worthless stock in the company in lieu of payment. ¹¹ These "business" or "strategic alliance" partners may also face lawsuits from the Internet company's creditors on the grounds that the strategic alliance or business partner owes the Internet company a higher duty of care if the creditor cuts off services to the Internet company. The strategic alliance partner, because of his or her stock ownership, will also be subject to the one-year "reach back" period applicable to insiders for preference actions. ¹² The creditor will also be faced with difficult decisions when it seeks payment because a suit over payment may impact the stock price. Finally,

the creditor may be faced with litigation from its own shareholders for (i) accepting worthless stock in lieu of payment of debt, or (ii) for discounting services to Internet companies below the cost of sales. The creditor may also suffer because bad press related to the start-up causes the creditor to be viewed as shaky. The consequence of these events may be that the creditor will be forced to file for bankruptcy protection.¹³ Indeed, in a recent article in ZDNet's Interactive Week, the author observes that failures of Internet companies have actually begun to affect the perceived and actual viability of their partners.¹⁴ By way of example, the author observes that the stock of Scient, an Internet consulting firm, was recently downgraded when two of its venture capital investments, Imagen and Verde Media, filed for bankruptcy protection.¹⁵

This article examines the legal issues facing "secured creditors" of Internet companies when financial woes threaten the viability of the enterprise. Some of the questions examined include: (i) what are the differences between Internet companies and Old Economy companies in bankruptcy, (ii) what are the assets of Internet companies and how does one acquire a security interest in these assets, (iii) will filing for bankruptcy as opposed to liquidating assets outside of a bankruptcy proceeding maximize the value of Internet assets for secured creditors, and (iv) finally, given the vision of hindsight, how can venture capitalists draft funding agreements to best protect both their investment and the new infusion of capital when they press the "restart" button.

I. Getting a Security Interest Before the "Restart" Button is Pushed

The vocabulary of the Internet Economy demonstrates that advocates of the Internet business model recognize the fact that many investments will not result in the creation of a viable enterprise. Two commonly used Internet terms – "burn rate" and "restart" have bankruptcy implications.¹⁶ "Burn Rate" refers to the speed with which Internet companies run through cash provided to them as equity investments by venture capitalists. The problem for venture capitalists is that while these companies are burning through cash many are not creating assets. Instead, they are creating obligations to third parties, which must be paid before any return is provided to equity holders.¹⁷ Thus, at the end of the day, venture capitalists who have a bare equity position in the company could find themselves subordinated to all creditors of the company including the employees who used their cash to create an Internet company from a business plan written on the back of a napkin. Venture capitalists may also find that their cash has not been used to create value, which can be made secure and/or be reorganized into a viable company.

It has become a quiet reality that many Internet companies are being, and others will be, forced to liquidate, file for bankruptcy protection, or terminate operations.¹⁸ Alternatively, stronger players who could possibly compensate both creditors and equity holders for the full value of their efforts may buy out these companies. In order to avoid losing their entire investment and control over the Internet company under the priorities established by federal and state bankruptcy law,¹⁹ venture capitalists often require that the Internet company "restart."

"Restart", another term coined by the Internet economy, means forcing an Internet company to clean house and voluntarily reorganize its business approach and operations in order to receive a desperately needed infusion of cash²⁰. Currently, many private investors and venture funds are pushing the proverbial "restart" button on Internet start-ups including several high profile pre-IPO companies, firing employees, pulling back funding, and giving the founders a short period (most often less than one year) to re-make the company into a profit generating business. The "restart" strategy may include liquidation of the company, sale of its assets, and/or bankruptcy. Notable examples of companies where the investors have pressed the "restart" button include: Toysmart.com,²¹ Toytime, Inc.,²² Craftshop.com,²³ Boo.com,²⁴ and Reel.com.²⁵

Before the "restart button" is pushed, venture capitalists should take a long hard look at the assets of the Internet company to determine whether these assets have been protected under applicable law so that a debtor may assert full dominion and control over the assets in the event it is necessary to seek bankruptcy protection.²⁶ In addition to examining the ownership of assets in the Internet company, the venture capitalist should examine the potential treatment of their claim for repayment in a bankruptcy proceeding. Under the Bankruptcy Code, only secured creditors with validly perfected claims may be paid out of the proceeds of their collateral, have the right to object to use of their collateral and proceeds of that collateral without payment of "adequate protection payments," and may object to sale of the collateral unless paid in full.²⁷ Remaining unsecured creditors share in the proceeds according to the priorities established under section 507 of the Bankruptcy Code.²⁸ Equity holders are the last to be paid in this priority scheme.

²⁹ Moreover, under certain circumstances claims of creditors who hold stock in a company may be subordinated to the claims of non-equity holder shareholders if these persons are deemed to have obtained a security interest or unsecured claim which is a disguised equity interest or fraudulent as to other creditors. ³⁰

In order to protect their investment, venture capitalists often take preferred stock or diversify their risk by taking debt secured by intellectual property and warrants for stock. ³¹ Another way of protecting assets from the reach of creditors is to have venture capitalists own the assets by insisting that intellectual property rights be assigned to the venture capitalists and licensed to the company as a condition to funding. ³² As discussed later in this article, the risk of this strategy is that the venture capitalist will become the party responsible for maintaining all registrations and could be held liable as the purported infringer in a litigation concerning ownership of the assets. In the event a bankruptcy proceeding is filed, and due to the virtual lack of precedent, venture capitalists and others must be prepared to defend "creative" and untested strategies to secure their interests against charges that: (i) the asset is property of the estate not subject to the investor's "alleged" security interest, or (ii) that the assets which include license agreements cannot be assigned under section 365(c) of the Bankruptcy Code, and/or (iii) that the creditor asserting a secured claim is an equity holder whose interest cannot be protected unless he contributes "new value" to the reorganized entity to, in essence, buy back his or her interest. Each of these issues as they relate to Internet or technology dependent companies is discussed below.

II. The Assets of a Typical Internet Company

A common misconception about Internet companies is that if they fail, there is nothing to sell for the benefit of creditors. Unlike typical brick and mortar companies the assets of the typical Internet company are often "virtual" consisting of intellectual property such as trademarks, trade names, copyrights, and patents, and general intangibles. ³³ Another important asset of the Internet Company is information collected about customers and customer preferences.

The reaction of competitors to the recent closures of Boo.com, ³⁴ Reel.com, and other E-commerce web sites ³⁵ has proven that these assets are valuable to third parties who are waiting for the appropriate time to quickly snap up these assets at bargain prices. The Liquidator of Boo.com, by way of example, successfully sold Boo.com's technology and its web site to competitors. This sale, although conducted in the United Kingdom, would be permissible under United States bankruptcy law ³⁶ and the law of the individual United States, ³⁷ provided that the assets are in fact owned by the Internet company, as opposed to licensed from third parties or registered or held in the name of nondebtors, and as to Intellectual property owned by the Internet company that creditors have not successfully asserted a security interest against the assets.

III. Permitted Security Interests in Virtual Property

Internet company assets are generally comprised of intellectual property and other general intangibles such as data, customer lists and executory agreements. ³⁸ Intellectual property law generally refers to three federal statutes, the Patent Act, ³⁹ the Copyright Act, ⁴⁰ and the Lanham Act. ⁴¹ If Intellectual property has not been protected under these statutes protection may be sought under State trade secret law, contract law or state intellectual property law, such as that relating to trademarks ⁴².

IV. Patents

Under the Patent Act, owners of patents have a monopoly over use of a unique process, business method, or machine for twenty years. ⁴³ A security interest in a patent may be sought under federal law by filing a collateral assignment of the patent in the United States Patent Office (the "PTO") and under state law, as discussed below, by filing a financing statement where the patent is located. A financing statement puts the world on notice that a security interest exists, but does not protect a lender from the claims of an intervening subsequent purchaser for value.

United States patent law provides that "an assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the PTO within three (3) months from its date or prior to the date of such subsequent purchase or mortgage." ⁴⁴ The practical reality is that a party has three months to record its assignment and still prime someone who took an assignment after such party. As a

result, a lender may be chagrined to discover, after the fact, that the patent constituting collateral for a loan was assigned prior to the perfection of the lender's security interest. Further, the recording of the assignment can remain void as against an involuntary lien holder that obtains its lien after the recording. Thus, filing a collateral assignment with the Patent Office is not necessarily effective to perfect a security interest against a bankruptcy trustee. ⁴⁵

The federal laws governing patents do not clearly address security interests and do not preclude the application of state law. ⁴⁶ In fact, the United States Supreme Court has never addressed the issue of perfecting a security issue in a patent. ⁴⁷ Consequently, no definitive answer regarding the correct method of perfecting a security interest in patents has been provided. Lower courts have reviewed the issue holding that recording a security interest in the PTO is not sufficient to perfect a lender's security interest against subsequent lien holders, but does serve to protect against claims by subsequent purchasers for value. ⁴⁸ Accordingly, the best practice is to both record the security interest in the PTO to protect against subsequent purchasers for value and to file appropriate UCC financing statements at the state level to perfect the lender's security interest in the patent as a general intangible under the UCC. ⁴⁹ In contrast, filing a collateral assignment with the PTO, as opposed to a security interest, makes the Lender the true owner of the patent and the monetarily liable party in patent infringement and related litigation. ⁵⁰ The parties can partially address this undesirable consequence in the security agreement by including appropriate indemnification and duty-to-defend provisions, but the lender will remain at risk for liability for patent infringement claims. ⁵¹

V. Trademarks

Trademarks are distinctive names or symbols, which describe a company's business or products. ⁵² Trademark registrations are good for six years and can be renewed for indefinite periods. ⁵³ The Lanham Act, the federal statute governing the treatment of trademarks, provides that all assignments of marks must be recorded in the PTO. ⁵⁴ Courts that have reviewed the intersection of trademark, bankruptcy, and state creditors' rights law have held that the Lanham Act only refers to outright assignments of marks and not to the recording of a security interest. ⁵⁵ An assignment of a mark to a creditor may cause problems for the debtor and creditor. For example, an assignment to a creditor that was not operating the business or otherwise actively using the mark may be deemed an assignment in gross. ⁵⁶ Such an assignment can have the effect of voiding the mark. The assignment may also prevent the owner from enforcing the mark or entering into sublicense agreements. A security interest in a trademark is only perfected if the lien is timely filed in the form proscribed by state law, typically under Article 9 of the Uniform Commercial Code. ⁵⁷ Thus, like the procedure with patents, it is important to file a security interest (agreement) in both the PTO, in order to put any third party "purchaser for value" ⁵⁸ on notice of the security interest, and at the state level to protect the security interest.

VI. Copyrights

Copyrights are original works of authorship and can include text, software, artwork and screen shots or designs. ⁵⁹ A copyright cannot be obtained in data compilations such as customer lists. ⁶⁰ The wording of the copyright statute, unlike the provisions governing assignments of patents and trademarks, includes references to mortgages and hypothecations. ⁶¹ Courts evaluating the intersection of federal copyright law, state creditor rights law, and bankruptcy law have used that wording to hold that lien against or a security interest in copyrighted material and all derivative works must be recorded at the U.S. copyright office. ⁶²

Under the Copyright Act and recent decisions of *Peregrine Entertainment, Ltd. v. Capitol Federal Savings and Loan Association of Denver*, ⁶³ *In re Avalon*, ⁶⁴ and *Aerocon Engineering, Inc. v. Silicon Valley Bank* ⁶⁵ lenders who take security interests in copyrights need to carefully investigate ownership of the property and, when drafting the security agreement, describe the security interest. Lenders need to take special care when receiving a security interest in copyrights to obtain a detailed listing of the exact works in which the lender will secure an interest. ⁶⁶ Starting with copies of copyright registrations, the lender needs to identify any unregistered derivative works and additional unregistered works. Certified copies of deposits can be obtained from the Copyright Office. For computer programs, the lender will have to obtain copies of the source code from the borrower and compare it with both the actual work and the materials on file with the Copyright Office to assure the copyright registration conforms to the actual collateral. ⁶⁷

The lender then needs to establish that the borrower possesses the necessary rights to the works. The borrower's software and web site development programs need to be reviewed, and all employment and work-for-hire agreements examined, to ensure that the borrower properly holds all copyrights. If any of the works are held or used under license, the license must be examined to ensure that it allows collateral assignment of rights. Third party financial accommodation agreements may be necessary. ⁶⁸ If third-party software is embodied within the software, the license agreement with the third party needs to be examined. ⁶⁹ The Copyright Office records and the appropriate Secretary of States' offices should be examined for prior assignments for financing statements. ⁷⁰ The final due diligence step is to ensure that a copyright is registered in all works. ⁷¹ This may require a significant amount of work, particularly in the area of software copyrights.

Once ownership is ascertained, the security agreement needs to articulate the precise item or items of authorship being secured and the lender must establish a program to ensure that all new works are registered as they are created and security interests recorded. ⁷² In the case of works under development, registering the works before they are complete is impractical and can cause trade secret protection problems. Technically, perfecting a security interest in a software program under development would require that copyright registrations be made on an ongoing basis as each segment and version of the program is completed. ⁷³ This is not feasible, however, both because of the cost of performing the registrations and because the Copyright Office's procedures for handling sensitive materials are considered inadequate. ⁷⁴ The security agreement needs to identify, by registration number and title, each work in which a security interest is being obtained. ⁷⁵ The security agreement, or a separate security agreement, needs to grant a security interest in all physical embodiments of the works.

In addition to the Security Agreement, copies of the works should either be in the possession of the lender or on deposit with an escrow agent subject to the terms of a technology escrow agreement. ⁷⁶ An irrevocable power of attorney should be granted to the lender granting the lender the ability to execute a true assignment of rights on behalf of the borrower upon default. ⁷⁷ Once the security interest is obtained and perfected the lender's job is not complete. The lender needs to continue to monitor the assets to ensure that copyright renewals are filed, that any infringement actions are pursued or defended as necessary to preserve the collateral value, and that security agreements and registrations are filed for all derivative or new works. ⁷⁸

The copyright statutes, however, do not address the myriad of issues outside of perfection, such as royalty agreements, content licenses, linking agreements and collateral data licensing agreements. ⁷⁹ Resolution of those issues is generally considered to be determined by state law. ⁸⁰ Consequently, a creditor cannot rely solely on the recording in the Copyright Office, but must also file appropriate detailed UCC financing statements to properly perfect a security interest in a copyrighted work. ⁸¹

VII. Other Intangibles and the Application of Revised Article 9 to Intellectual Property

A security interest in other intangibles such as leases, software license agreements, data, data licenses, and the royalty stream from these licenses is governed by Article 9 of the Uniform Commercial Code as adopted by the various United States, and must be perfected by the filing of a UCC-1 financing statement identifying the intangible(s) in the state where the intangibles are located. These rights must be described in detail, including the right to assert a security interest in the proceeds of any intangible. ⁸²

Revisions to Article 9 of the Uniform Commercial Code, dealing with security interests in general, become effective July 1, 2001 and have been adopted in several states as of the writing of this Article. ⁸³ The portions of Revised Article 9 dealing with software codify the legal premise adopted by a majority of Courts in breach of contract cases – that software is a good, as opposed to a general intangible, when it is embedded in "goods," such as machines like copiers, servers, telephone cable towers, etc. ⁸⁴ Revised Article 9 provides that software may be deemed goods if the "computer program [is] embedded in goods and any supporting information provided in connection with a transaction relating to the program.... if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, (ii) by becoming the owner of the goods, a person acquires a right to sue the program embedded in goods that consist only of the medium in which the programs is embedded." ⁸⁵ Under revised Article 9 software is defined broadly as, "a computer program and any supporting information provided in connection with a transaction relating to the program." ⁸⁶ Embedded goods, under the definition of Revised Article 9, do not include

software, which is delivered on media such as a diskette or CD Rom. It only relates to software, which operates machines or products such as copiers, servers, medical equipment, cash registers, and the like. Under Revised Article 9, an interest in general intangibles can only be perfected if a security agreement is properly filed against the asset,⁸⁷ whereas security interest in an embedded good can be obtained by filing or by possession and/or control.⁸⁸ The real boon of Revised Article 9 for lenders is that Revised Article 9 makes it clear that proceeds of software includes whatever is acquired upon the lease or license, whatever is collected on or distributed on account of collateral, and rights arising out of collateral.⁸⁹ Thus, if a debtor owns copyrights or a patent in software, which is licensed to a third party the license fee is clearly "proceeds" subject to attachment in a state court proceeding or payable to the secured creditor as adequate protection payments in a Bankruptcy proceeding.⁹⁰

VIII. Practical Pointers

Prior to approving a loan secured by intellectual property, the lender should conduct due diligence not only concerning the borrower's ownership of the intellectual property but also of the borrower's internal systems for preserving the collateral, including trade secrets.⁹¹ For example, the lender should verify that the borrower is not dissipating the collateral, by negligently revealing development stage technology to potential investors, or intentionally transferring intellectual property without consideration.⁹² Lenders should also consider "pre-filing" in the federal Patent and Trademark office to ensure that their filing is not pre-empted by an earlier assignment that is subsequently recorded within the applicable grace period, such as the three-month grace period for patent assignments.⁹³ Upon making the loan the lenders should immediately file security interests against the property on both the federal and state levels. In addition, the loan documents should require that the borrower promptly advise the lender of all permutations of programs, marks, and patents because each permutation of the work or mark may have independent value giving rise to a securable interest.⁹⁴ The lender should also require that the borrower be vigilant in enforcing its rights against potential infringers.

A careful lender should focus on intended license transactions. If the income stream is not secured, in the event of a default, the Lender's only option may be to foreclose on the patent, trademark, or copyright and shut down the operations.⁹⁵ Given the rapid decline in the value of the collateral upon foreclosure, foreclosure is rarely a viable means of realizing the proceeds of a loan. Moreover, in the event of bankruptcy, the lender may be deemed without standing to claim an interest in the sublicensee's income as cash collateral, while at the same time, being stayed from foreclosing on the collateral sublicensed by the debtor.⁹⁶

If the data, processes or programs, business models or persons are not susceptible to copyright or patent protection, the intangible may be a trade secret. Trade secrets are only valuable if they are maintained as such. The lender must ensure that the borrower has appropriate controls in place to protect such processes. The lender should also conduct periodic audits of the borrower's intellectual property and business practices during the loan to confirm that appropriate measures are being taken to protect the collateral.

IX. Security Interests Obtained By "In Rem" Attachment of Intangibles

Another way for creditors to obtain a security interest over assets of a Debtor is to obtain a money judgment and commence a proceeding asserting an *in rem* (possessory) interest over the Debtor's assets to satisfy the claim.⁹⁷ Unfortunately in a recent case, *Network Solutions, Inc. v. Umbro Int'l, Inc. et al*,⁹⁸ the Court determined that judgment creditors may not recover payment of debts by attaching or garnishing certain "virtual assets" such as domain names because the right to utilize the name, as opposed to the name itself, is a services contract dependant upon payment of a fee to the Registrar.⁹⁹ This holding and similar holdings are potentially confounding to Creditors because one of the primary assets of Internet companies is their domain name.¹⁰⁰

The domain name of an Internet company is like a telephone number in that, although the company selects it, it must be approved and monitored by a registry such as Network Solutions.¹⁰¹ Unlike a telephone number, a domain name is frequently the name under which the company does business and for virtual companies, the only (or primary) means by which customers can find the entity. In addition, domain names have arguably greater utility and value than addresses or telephone numbers because they are used as locators within search engines, portals, and Internet computer text to draw traffic to a particular web site. Because of their utility as locators and marketing devices,

domain names have been the subject of cyber squatting (i.e., acquisition of names signifying the product or services of a company by third parties in an effort to extort significant sums from the owner—company). Indeed, the press has reported that princely sums have been paid for the return of these names. In spite of their perceived value and utility as unique assets, Courts and legislators have not yet established that:

(a) domain names are protected intangible assets under the federal law including the Anti—Cyber Squatting Consumer Act; and

(b) domain names can be attached by garnishment or foreclosure under state law.

A. The Limitations of the Anti—Cyber Squatting Consumer Act as a Means of Obtaining In Rem Jurisdiction Over Domain Names

Congress has recently passed the "Anti Cyber Squatting Consumer Protection Act," as an amendment to section 43 of the Lanham Trademark Act (the "Act").¹⁰² The legislative intent of the Act is to protect companies against persons or entities that acquire domain names for the purpose of extorting payment for the purchase of these names from trademark owners and/or for trading on the brand recognition and good will of an existing mark.¹⁰³ Under the Act, a party damaged by a "cyber squatter" may commence an *in rem* civil action in the judicial district where the domain name registrar is located.¹⁰⁴ The successful litigant can, in essence, cause the Court to "seize" the domain name by, "forcing the Registrar of the domain name to deposit with the Court documents sufficient to establish the Court's control and authority regarding the disposition of the registration and use of the domain name."¹⁰⁵

Unfortunately, the Act does not provide a means of garnishing the domain name for the purposes of recovering monetary damages arising out of either: (a) the theft of the domain name, or (b) debts incurred by the Internet company. Instead, the damages under the Act are limited to: (i) forfeiture, (ii) cancellation of the domain name, or (iii) transfer of the domain name to the owner of the mark.¹⁰⁶ The damages offered under the Act exclude garnishment of cyber—squatted names and sale of the same to satisfy judgments relating to violations of intellectual property rights or other applicable law. Thus, the Act stop short of giving consumers direct financial recourse against cyber squatters and fails to characterize intangible property (including domain names) as an asset which may be the subject of a judicial lien. In fact, although the legislation affords movants the benefit of an *in rem* proceeding, its lack of remedies supports the view that domain names are only "intangible property" under the Act (unless they have separate status as a registered trademark) for the purposes of barring use of the name. Indeed at least two Courts have, after reviewing the Act, affirmatively held that domain names are not the property of the Registrant.¹⁰⁷ Rather, these Courts have held that domain names are property rights of the Registrar leased or contracted to the Registrant domain holder. As such, they constitute executory personal service contract rights under applicable state and federal creditors rights law. Based upon this analysis, these Courts have held that domain names, as executory service contracts, are not garnishable for the purposes of satisfying a money judgment.¹⁰⁸

B. Domain Names and Other Intellectual Property Rights May Not Be Garnished By Judgment Creditors to Secure Payment of Debts

In *Network Solutions, Inc. v. Umbro Int'l., Inc. et al*, the Virginia Supreme Court issued an opinion in what it characterized as a case of first impression concerning the question of whether a Court can compel garnishment of domain names for the purposes of recovering on a money judgment and the subsidiary question of whether a domain name registration is an executory contract.¹⁰⁹ The *Network Solutions* Court held that domain names are not garnishable under Virginia state law because although the address may constitute intangible property of the judgment creditor (provided that the name has developed a secondary meaning sufficient to qualify as a trademark), the registration rights are executory contracts for "personal services" provided by the Registrar, Network Solutions, Inc., which cannot be garnished by a creditor of Umbro, the Agreements cannot be garnished.¹¹⁰

The *Network Solutions* case arose out of a 1997 default judgment in the District Court for South Carolina entered and arising out of a complaint by Umbro against 3263851 Canada, Inc., a Canadian corporation and the Canadian National who engaged in acts of cyber squatting concerning registration of the "Umbro.com" designation in violation of Umbro's trademark rights. Umbro received a permanent injunction against defendant's use of Umbro.com and

judgment in the amount of \$23,489.98. Umbro then sought to certify the judgment in the South Carolina District Court and obtain a writ of *fiery facias* in the Circuit Court of Fairfax County, Virginia, where Network Solutions, the Registrar of Umbro.com is located, to garnish 38 domain names that the judgment creditor registered with Network Solutions. The garnishment was sought against names other than the Umbro.com domain name in an effort to obtain payment of the damages award.

After reviewing these facts, the Court held that the name Umbro.com was inextricably tied to the provision of services, and therefore whatever value the domain name has to the judgment debtor is not severable for the operational portion of the Internet address. ¹¹¹ Thus, according to state garnishment law, "[the] contract for services is not 'a liability' . . . and thus not subject to garnishment." ¹¹² In making its finding the Court drew a distinction between contracts for the payment of money and contracts for services, holding that because domain names are only services, not liabilities (such as the payment of money), they cannot be garnished absent a change of law. The Court discounted the argument that domain names are garnishable because they constitute intellectual property rights, arguing that even if they were, courts have in certain cases, barred garnishment of patents, trademarks, and copyrights. ¹¹³

In reaching its holding the Court looked toward the Second Circuit case of *Slenderella Systems of Berkley Inc. v. Pacific Telephone & Telephone Company* ¹¹⁴ and the Ninth Circuit case of *Rothman v. Pacific Tel. & Telegraph Co.*, ¹¹⁵ both arising in the Bankruptcy context. Both cases stand for the proposition that telephone numbers are neither property of, nor in possession of, bankrupt subscribers. ¹¹⁶ Instead the Courts held that telephone numbers are no more than a "permissive right" to use a service owned by a non-debtor third party and thus are, in essence, incapable of being owned by the party utilizing the service. ¹¹⁷ In each case, the Circuit Courts, respectively, countered arguments that telephone numbers could develop a secondary meaning, which assists the Debtor in selling its product and services by directing customers to the company. ¹¹⁸ These Circuit Courts also failed to give credence to the commercial reality that descriptive telephone numbers are sought after at substantial cost and often identified as an asset of the company when the company is sold. Instead these Circuit Courts placed greater weight on the fact that the locator was owned by the utility and could not be the subject of a lien against any property of the Bankrupt. ¹¹⁹ In making the analogy to these Circuit Court cases, the *Network Solutions* Court made no distinction between judgment creditors who use domain names to identify their product, services or company, and judgment creditors, such as the one at bar, who acquire domain name as inventory for re-sale purposes. The *Network Solutions* Court also recognized that its ruling was arguably inconsistent with non-Internet case law decisions by both the Fifth Circuit in *Georgia Power Co. v. Security Investment Properties, Inc.*, ¹²⁰ and the First Circuit in *Darman v. Metropolitan Alarm Corp.* ¹²¹ These cases hold that, although a contract right to service may not be garnished, a debtor may exert a property right over a telephone number that identifies its business and sell the telephone number as part of the sale of his or her business. ¹²²

For example, in *Georgia Power* the Court noted that "for a business . . . telephone numbers constitute a unique property interest, the value of which increases as the number becomes widely known through publication in guidebooks, posting on billboards, and imprinting on publicity items." ¹²³ In *Darman*, the First Circuit affirmed and approved the sale of telephone numbers in order to increase the value of the bankrupt estate, noting the difference between a subscriber right to service and a subscriber's possible claim to a possessory interest in a telephone number.

These holdings are consistent with the recent decisions of *Caesars World, Inc. v. Caesars-Place.com* ¹²⁴ and *Online Partners.com, Inc. v. Atlanticnet Media Corp.*, ¹²⁵ which recognize domain names as property rights. ¹²⁶ In the *Caesars World* case, the plaintiff brought an *in rem* action against the defendant's domain name under the newly enacted Anticybersquatting Consumer Protection Act. ¹²⁷ The defendant asserted that a domain name registration is not property that can serve as an independent property right ("res") for an *in rem* proceeding. The United States District Court for the Eastern District of Virginia agreed. In the *Online Partners* case, the United States District Court for the Northern District of California held, in connection with an unopposed trademark infringement action, that "a domain name is intellectual property and may be attached under the law." ¹²⁸ Based on this holding, the Court ordered that the infringing domain name be held in trust for the benefit of the plaintiff.

C. The Significance of the Network Solutions v. Umbro Case and Its Progeny in Bankruptcy Proceedings

The holding in the *Network Solutions* case and its progeny is troubling for several significant reasons. ¹²⁹ First, the holding, if adopted throughout the country, would thwart collection efforts by creditors seeking to recover money judgments. ¹³⁰ To the extent that garnishment or an attempt at same is necessary to perfect a judgment lien under state law, judgment creditors may be relegated to the status of unsecured creditors in the event of a bankruptcy proceeding, whereas judgment creditors of brick and mortar companies may be able to assert a lien against a Debtors' real estate under state law. ¹³¹ It is suggested herein that the holdings of several courts, which have made the converse rulings, observing that domain names are garnishable property, ¹³² offer a better-reasoned approach more conducive to the reorganization efforts of Debtors and consistent with the expectations of secured creditors.

X. Licenses for Intellectual Property May Not Be Transferred in Bankruptcy Proceedings Without Licensor Consent

In addition to security interests, venture partners may protect their interest by taking an assignment of the technology. An outright assignment or "exclusive" license makes the venture capitalist the owner of the technology. ¹³³ Unfortunately, the venture capitalist's ownership of the technology and control over the enterprise could give creditors a viable basis to extend proceedings to the venture capitalist under a marshalling or equitable lien, thereby making the venture capitalist liable for the bankrupt's debts. ¹³⁴

The far more common licensing scenario is where the debtor is the licensor or licensee under non-exclusive licenses. ¹³⁵ Recent decisions under section 365 of the United States Bankruptcy Code address issues relative to Debtor's ability to assume and assign nonexclusive license agreements for patents and copyrights. ¹³⁶ These cases establish significant and frightening precedents, which, if applied to Internet companies, could shut down many bankrupt websites. ¹³⁷

Section 365 of the United States Bankruptcy Code was amended in 1988 to address a problem faced by non-bankrupt licensees. Specifically, under existing law software and other technology licenses could be rejected by Bankrupt licensors pursuant to section 365(a) of the Code, leaving non-Bankrupt licensees without access to critical technology. ¹³⁸ Section 365(n) now provides that non-bankrupt licensees may utilize technology on the negotiated terms of the license and enforce certain negative covenants of the license, even when the licensor goes bankrupt and seeks to reject the license and re-license the technology on more advantageous terms or abandon obligations to maintain the software or technology. ¹³⁹ Section 365(n), however, fails to address a potentially critical set of problems faced by Debtors under section 365(c)(1) of the Code. ¹⁴⁰ Section 365(c)(1), as interpreted by Federal Circuit Courts bars debtor licensees from assuming, without the licensor's consent, licenses covered by intellectual property laws. ¹⁴¹ The rationale applied by these courts is that the license of patented or copyrighted technology assets is akin to a personal services contract under "applicable" non-bankruptcy law, i.e. copyright or patent law. Thus, the Debtor-licensee is potentially prohibited from continuing to use the technology by assuming the license, or assuming and assigning the license agreement to a successor entity as part of a sale or plan of reorganization. ¹⁴² Recent cases barring Debtor-licensees from assuming technology licenses highlight the deficiencies of section 365(n) by creating a seemingly unfair result through strict statutory construction of section 365(c)(1) of the Bankruptcy Code. ¹⁴³ Bankruptcy Courts have adhered to this seemingly draconian reading of section 365(c)(1) even when: (i) the parties are no longer the original contracting parties, and therefore do not expect "personal services", (ii) application of state law previously allowed the non-Debtor to assign the agreement to a successor by merger without Debtor's consent, and (iii) the full royalty was paid by the Debtor on a pre-petition basis. ¹⁴⁴ This harsh result appears to conflict with the express terms of section 365(f), ¹⁴⁵ long-held bankruptcy tenets concerning the broad ability to preserve assets of the estate and the statutory prohibition against *ipso facto* clauses. In response to cries of "foul" by Debtor and Trustee's counsel, certain courts have identified this issue of statutory construction as a potential subject of statutory amendment. ¹⁴⁶

A. Applicable Law – What Is It?

Section 365(c)(1) excuses a non-bankrupt party from performance under an executory contract if "applicable law" authorizes the licensor to refuse to accept or provide performance. The traditional methods of protecting intellectual property are copyright, trademark, patent and trade secret law. As discussed in detail herein, the "applicable law" governing technology licenses as executory agreements under section 365(c)(1) includes patent and copyright law. ¹⁴⁷ Intellectual property may also be protected under Federal and state trademark law and state trade secret law. Executory contracts dealing with trade secrets are beyond the scope of this article. Under copyright and patent law, a

debtor's interest as a licensee under a non-exclusive licenses may not be assigned without the licensor's consent. ¹⁴⁸

Software is protectable under the United States Copyright Act, ¹⁴⁹ and licenses of copyrighted software are generally deemed executory agreements. ¹⁵⁰ Bankruptcy courts have determined that licenses of copyrighted material are not generally assignable without the consent of the Licensor. ¹⁵¹ The vast majority of software used to power the Internet is subject to copyright protection. Internet companies frequently license critical technology and thereafter sublicense segments to users so that they can access the Internet. Familiar commercial examples include the CD-ROMs from Internet service providers which flood our mailboxes for the installation of Internet software, or software for specialized viewing purposes such as listening to music utilizing MP3 technology, which may be "downloaded" to personal computers. ¹⁵²

Software may also be the subject of patent protection. In a recent case, *State Street Bank v. Signature Financial Group*, ¹⁵³ the Federal Circuit, for the first time, held that software programs are patentable. ¹⁵⁴ First, the Federal Circuit in *State Street* rejected the long-held exception to patentability of business processes. ¹⁵⁵ Second, the Federal Circuit held that a mathematical algorithm embodied in a machine or invention is patentable. ¹⁵⁶ Thus, the *State Street* Court reasoned, the State Street Bank's [business] process and the algorithms used by that process for managing mutual funds was patentable. Bankruptcy courts that have considered the assignability of patents (including software patents) have held software patents are personal property under a Federal common law doctrine ¹⁵⁷ and may only be assigned by the licensee/debtor if the licensor consents. ¹⁵⁸ This land-breaking decision radically changed the value of software to businesses, and forced a new asset valuation paradigm, which will inevitably spill over into the bankruptcy world as Internet and other software-reliant companies seek bankruptcy protection.

A third category of intellectual property of significant value to an Internet Company is its trademarks. A trademark can be the name of the site, i.e. its uniform resource locator (URL), or the product or company name. The manner in which these protectable assets may be transferred is governed by both federal law, under the Lanham Act, ¹⁵⁹ and the law of the state where the mark is registered and/or used. It is widely recognized that Internet names are protectable as trade names or marks, which have significant value ¹⁶⁰ and constitute assignable property rights under both federal and state law. ¹⁶¹

B. Assumption and Assignment of Technology Licenses

In an Internet company, software licenses, and the right to utilize Internet addresses are substantial assets. ¹⁶² Accordingly, if the Debtor wishes to maximize value for creditors, the Debtor needs to preserve these assets as well as the executory contracts, which facilitate use and distribution of these assets. In order to realize the value of copyright, patent or trademark licenses for the estate, those assets must be freely assumable and assignable by the Debtor and or Trustee. Unfortunately, under recent interpretations of section 365(c)(1), non-exclusive licenses for copyrights, patents or other "intellectual or industrial property" may not be assumable or assignable by the licensee. ¹⁶³

Patents and other intellectual property rights often form the basis of an Internet company's business or business plan. Indeed, the mere fact that an Internet company has sought patent registrations for its technology or has valuable exclusive licenses for technology has been identified as a significant basis for the infusion of venture capital funds. Often, businesses find that they cannot develop all the technology that they require in-house, and must license critical core technology, or interface technology, from third parties. ¹⁶⁴ In other instances, a related entity or joint venture partner may not agree to part with the technology, and merely licenses the technology to the Internet company. This technology then may be sub-licensed by an end user when he or she signs on to the Internet company's web site or ASP ¹⁶⁵ system. What happens when the Internet company files for bankruptcy protection and the Debtor or Trustee seeks to assume the license so that users can continue to utilize the web site, or the Debtor seeks to assign the licenses as part of a sale or plan of reorganization? In recent cases the patent holder (or Licensor of other intellectual property) has held all the cards in these situations, limiting the ability of creditors to get paid by unilaterally dictating whether Debtor may assume the license Agreement.

This apparent expansion of Licensor rights in bankruptcy arises out of several recent Circuit Court decisions. ¹⁶⁶ These Courts have held that the Trustee's ability to assume or assign patent licenses is not absolute. Instead, this ability is limited by patent or other applicable intellectual property law, which make these rights personal. ¹⁶⁷ Simply put, when

a Debtor files for bankruptcy protection, the Debtor is no longer that Licensee but a new entity which may not assume the license without the Licensor's approval.¹⁶⁸ Licensors have the right to object to the mere assumption of the license, creating the anomalous result that an entity, which held a license to use technology on a pre-petition basis, is barred from continuing to use that technology merely because it filed for bankruptcy protection. But for this odd intersection of intellectual property and bankruptcy law, one would consider this result an unlawful act prohibited by the letter and spirit of the Code concerning of section 365(k) *ipso facto* clauses.¹⁶⁹

The Debtor-Licensee's inability to assume and assign non-exclusive licenses for patents without the Licensor's consent was recently examined by the Ninth Circuit in the case of *Perlman v. Catapult Entertainment Inc.*¹⁷⁰ In *Catapult* the Ninth Circuit held that "Section 365(c)(1) of the Bankruptcy Code, which prohibits a trustee from assuming or assigning an executory contract if applicable law excuses a contracting party, other than a Debtor, from accepting performance from or rendering performance to an entity other than a Debtor" applied to patent licenses.¹⁷¹ In *Catapult*, United States patent law was the "other applicable law" considered by the Court in evaluating the assignability of the license agreement. The Circuit Court reasoned that under patent law, patents are akin to a personal relationship with the Licensee, even where no personal services are to be provided by or to the licensee at the time of the bankruptcy filing. The Ninth Circuit further determined that because non-exclusive licenses for patented technology are executory contracts, rather than sales, the agreements are not assignable without consent of the Licensor.¹⁷² Finding that the general principles of Bankruptcy law which allow the free assumption of contracts, regardless of contrary provisions of applicable law, did not apply to contracts for personal property, the Ninth Circuit utilized the so called "hypothetical test":

[A] debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical third party, even where the debtor in possession has no intention of assigning the contract in question to any such third party.¹⁷³

The Eleventh,¹⁷⁴ Fourth,¹⁷⁵ and Third Circuits¹⁷⁶ and one bankruptcy judge in the District of Delaware¹⁷⁷ have likewise accepted the so-called "hypothetical test."¹⁷⁸ Under the "hypothetical test," a Licensor who owns patents, or a competitor who subsequently acquires patents or other intellectual property, may effectively bar a sale of an Internet or other technology-dependent company or even prevent the Trustee from operating the company during a chapter 7 or 11 case: the Licensor can simply reject the request for assumption even though no royalties are due under the license because the royalties were paid on an up-front basis by the Debtor, and even though the executory performance contemplated under the license agreement is remote.

The *Catapult* Court reconciled the non-assignability under applicable law language of 365(c)(1) with section 365(f) of the Code, which provides, "contrary provisions in applicable law notwithstanding, executory contracts may be assigned," by holding that Subsection (c) was intended as an "exception" to the broad language of 365(f). Section 365(c)(1), according to *Catapult*, was intended to modify section (f)(1) in order to address situations where "[applicable] law prohibits assignment on the rationale that the identity of the contracting party is material to the agreement...."¹⁷⁹ The *Catapult* Court failed, however, to provide standards for determining other section 365(f) superfluous.¹⁸⁰

The Trustee in *Catapult* urged the Ninth Circuit to treat the license agreement as a non-executory agreement (i.e., a sale of technology) because no royalties were due, or alternatively, to accept the "actual test" espoused by the First Circuit in *Institute Pasteur v. Cambridge Biotech Corp.*,¹⁸¹ as more harmonious with section 365(c)(1). The "actual test" provides that a license of technology may not be assumed pursuant to section 365 (c)(1), "if the reorganization plan results in the non-debtor actually having to accept performance from a third party."¹⁸² The Ninth Circuit rejected this approach as contrary to the plain language of section 365 (c)(1).

In a post-*Catapult* case, *In re Access Beyond Techs., Inc.*,¹⁸³ the Delaware Bankruptcy Court attempted to reconcile the apparent conflict between sections 365(c)(1) and 365(f). The *Access Beyond Technologies*. Court reasoned that under patent law, a non-exclusive patent license is always an executory contract requiring personal services, because patent law implies an obligation on the part of Licensor and Licensee not to sue each other for infringement. The Court noted that this obligation is the underpinning of the monopoly power given under patent law and found that it is a material term whose violation (real or hypothetical) constitutes a breach of the contract.¹⁸⁴

The *Access Beyond Technologies* case involved a cross–licensing of patents by and between MegaHertz Holdings and the Debtor Access Beyond Technologies (hereafter "Access"). The then current owner of the Megahertz patents, 3Com, acquired computer technology patents through a three–step series of mergers and acquisitions from Megahertz Holdings. At the time of the bankruptcy filing the royalties for the licenses had been paid and thus, Access had no continuing financial obligations to 3Com. Although, the License contained provisions governing assignment of the license to third parties, those provisions were silent on the obligation of the respective licensors to consent or withhold consent to assignment of the licenses. ¹⁸⁵ The Megahertz patents and licenses were, in fact, transferred by Megahertz to 3Com without Access' permission prior to the bankruptcy. Access claimed that since the Megahertz patents and licenses were transferred by Megahertz (as Licensee) under section 7.4 of the agreement without Access' prior consent as Licensors, Access as Licensee was free to transfer the License to itself as Debtor or its Trustee, provided that the terms of the license were complied with regarding any proposed transfer. The Bankruptcy Court disagreed, holding that by operation of Federal Bankruptcy law the Trustee who stands in the shoes of the Debtor, and the original Licensee may not assign the patents under Bankruptcy Code section 365(c)(1) without permission of 3Com because applicable law [US Patent law] makes patents personal property which cannot be assigned without 3Com's permission.

In addition, the Court rejected the Trustee's argument that under the Countryman definition, that the cross–licenses were non–executory contracts, holding that a non–exclusive license for a patent is always an executory agreement because the grant of a patent license is an implicit agreement not to sue for infringement, *regardless* of whether that agreement is set forth in the written terms of the license. In its holding the Court observed that:

Each party had at least one material duty to perform under the License Agreement: to refrain from suing the other for infringement of any of the patents covered by the license. This performance is material since the licensor's promise to refrain from suing the licensee for infringement is the *raison d'être* for a patent license.

* * * *

In *Everex Systems, Inc. v. Cadtrak Corp. (In re CFLC, Inc.)*, the Ninth Circuit found that a licensor's obligation to forbear from suing the licensee (and to mark all products made under the license) was both a significant and continuing performance obligation that made the contract executory as to the licensor. Similarly, we conclude that the License Agreement was executory at the commencement of these cases. ¹⁸⁶

The Court observed that its rulings regarding the executory nature of the license agreement and 3Com's statutory right to bar assignment may be sustained even though the terms of the license were silent regarding whether 3Com must consent to the assignment of the patent license. The Court reasoned that although standard common law rules of statutory construction provide that when certain matters are discussed in a contract, other similar matters not mentioned are intended to be excluded, these rules of contract construction do not apply to obligations covered under federal patent law, and by implication, other intellectual property law. Thus, the Court held that absent an express agreement to the contrary, the non–exclusive license agreement is not assignable. ¹⁸⁷

The *Access* Court observed that even if the obligation not to sue were not the *raison d'être* of every license agreement, the license at issue had a mutual sublicensing provision, which although a remote commercial possibility on 3Com's side, rendered the contract executory. ¹⁸⁸

C. A Few Pre–Bankruptcy Licensing Considerations

By way of guidance to future licensees, the *Access* Court indicated that in order to avoid the harshness of its decisions, parties could draft an agreement expressing their intentions regarding assignability in the event either filed for bankruptcy protection; and that an appropriately drafted provision could be enforced by a bankruptcy court. ¹⁸⁹ Thus, in light of the merger frenzy facing Internet and other technology dependent companies, non–exclusive licenses for intellectual property rights should be entered into with the expectation that the parties who execute the business deal may not be the entities that are licensor and licensee at the time of a bankruptcy filing. Accordingly, careful attention should be paid to who owns the technology. If technology or technology rights are being acquired through merger or acquisition, or if one company is investing in another technology based company through venture capital or some

other vehicle, due diligence is the order of the day. Given the different treatment of the assumption and assignment issues in various states and various venues of the United States Bankruptcy Court, the assignment, choice of law and venue clauses should be examined to determine whether the agreements may be assigned by the Debtor/Licensee in the event of bankruptcy.¹⁹⁰ If an accommodation cannot be reached, perhaps the deal should be re-thought. If a joint venture between unrelated parties is contemplated, it may be best to contribute the technology to the venture so that the venture can continue to operate in the event of bankruptcy. If this is not possible, the license should be an exclusive license because an exclusive license under patent, trademark and copyright law is considered akin to a sale or absolute transfer of the monopoly—obviating the statutory obligation to seek consent to the assignment.¹⁹¹

If the license or joint venture involves a cross-license of technology between relative equals, the license should contain a bankruptcy clause.¹⁹² One possibility to be negotiated between the parties is an agreement that affirmatively states that in the event a petition is filed by either party, United States Patent or other intellectual or industrial property law does not control assignment of the license to the Debtor. Instead, Debtor or the Trustee is given the explicit right to assume the agreement for the sole purposes of allowing the Debtor to continue to use the technology. The Agreement should, however, limit the Licensee's ability to assign and transfer the license to a non-debtor as part of a sale or reorganization plan. The parties may wish to outline prohibitions against transfer e.g. to direct competitors. The parties may also wish to negotiate a price for adequate protection payments for consent to assignment of the patent license, or the amount of post-petition royalties or guarantees from insiders.

Finally, the parties may wish to outline some specific actions that demonstrate a "bad faith motive" for denying permission to assume the license. These actions could include establishing a competing business that would then seek to assume the license, or using information gained during the relationship to compete with the Debtor.

XI.To File or Not to File: A Most Difficult Question

Where efforts to "Restart" the Company have failed and the creditor has evaluated whether the Internet Company owns its assets and then perfects (or attempts to perfect) its security interest, it is still faced with the decision of whether it should force the Debtor into bankruptcy, take its chances that a "white knight"¹⁹³ will come along and buy the assets without the necessity of filing a bankruptcy case, or allow the company to simply shut down. The benefit of a bankruptcy proceeding over the latter alternatives is that a bankruptcy proceeding provides a forum for marshalling and valuing debtors assets by an independent third party. The Debtor cannot dissipate assets or use cash collateral including the proceeds of licenses without secured creditor and court approval. Consequently, creditors and the court may monitor the "burn rate" of the remaining cash and/or new infusions of capital.¹⁹⁴ Finally, any new investment made by the venture capitalist may be provided on a secured basis and "prime" other secured and unsecured creditors as long as there is sufficient equity in the assets to support the loan. The following case studies illustrate the approach chosen by the creditors and management of several floundering Internet companies as well as the myriad business and legal decisions associated with each approach.

Reel.com is an example of a company that has chosen to cease operations instead of seeking a Court supervised reorganization or restructuring. Reel.com, a subsidiary of Hollywood Entertainment Corporation, had revenues last year of \$21.6 million, losses of \$69 million, and a book loss on the sale (including good will and severance packages) of \$25 million.¹⁹⁵ Reel.com sold its interest to Buy.com at the behest of investors who are reported to have claimed that the sale is in the best interest of Reel.com. In fact its bankers and investors solicited the sale after Reel.com was unable to obtain additional funding. After the sale, the 1.1 million customers per month that visit the Reel.com web site were directed to purchase goods at the buy.com auction site.

Other Internet companies not lucky enough to find a buyer have been forced to cease operations. For example, Toysmart, on line toy retailer was forced to fire over 170 employees and shut down when its primary investor, Disney cut off funding.¹⁹⁶ Creditors viewing these industry moves have gotten noticeably concerned and are not allowing unsecured debt to pile up. For example, in light of investor apathy, competition and failures in the online toy industry forced Toytime, Inc. another online toy retailer to close its web sites and ask potential buyers to send e-mail to its subsidiary bidstoytime. Unsecured creditors of Toytime, Inc. filed an involuntary chapter 11 petition against the company within a month of this action claiming that several million dollars of debts in excess of three months old are unpaid.¹⁹⁷

Another company, Craftshop.com, recently filed a voluntary petition for reorganization in Delaware Bankruptcy court. The company, with debts in excess of \$2.0 million and assets of an undisclosed value filed for the purposes of expediting a sale of the company. The filing was supported by investors who are reported to view the filing as a means of effecting an orderly sale of the going concern in a manner, which would maximize the value of the enterprise.

The sudden rash of failing Internet start-ups is not limited to United States companies. Several European and South America online retailers and Internet sites have gone into liquidation (the European version of a bankruptcy proceeding). The most notable one is Boo.com, which has in the industry become synonymous with "the all encompassing term for failure."¹⁹⁸ In Boo.com's case, the fashion web site was hyped in the press as the premier fashion site. The founders are reported to have spent over \$135 million for construction and marketing of the web site. Unfortunately, the site did not live up to market expectations and came to be known for bad navigation and poor usability. Moreover, its management appeared aloof to criticism and continued on with its business plan even in the light of customer complaints. What Boo.com did own was progressive technology which was not fully appreciated by users with older monitors and computers and a robust list of customers and industry contacts. As a consequence the liquidator, KPMG, was quickly able to sell the technology consisting of eCommerce technology assets and associated intellectual property to Bright Station PLC., the web solutions E-commerce and Internet venture group, for the reported amount of \$368,000.¹⁹⁹ The remainder of the web site, including its customer list, was sold to Fashion Mall.com, a United States company, for an undisclosed amount. The experience of Boo.com is instructive for several reasons. First and most important, contrary to popular belief there is a market for the intangible assets, which comprise a bankrupt Internet company. Second, the purchase of the assets by a United States company out of a United Kingdom liquidation proceeding illustrates that Internet companies are comprised of assets which are in essence a "global currency." Accordingly, the market for these assets may be greater than other bankrupt companies and thus the chance of an expeditious and successful reorganization enhanced.

The potential flood of bankruptcy filings of Internet companies may not be limited to situations where funding is halted by the bank or venture capitalist. More and more frequently we will see voluntary and involuntary filings based on mismanagement, failed business plans and fraudulent activity, which causes loss to creditors. Indeed, a recent study by AMR Research released in April of 2000, predicted that the future for today's hot e-commerce niche companies was bleak if fundamental changes are not made in the way their business plans are executed.²⁰⁰ The authors of the AMR study observe that most Internet business failures will be the result of errors in revenue strategy, technology integration and liquidity.²⁰¹ The recommended strategy according to AMR is that of the application service provider ("ASP") model; i.e. continuing multiple functionalities and multiple enterprises to offer the widest of possible technology solutions to the user.²⁰² Even using that model, the study tracked 600 B to B exchanges over 18 months. Based upon the analysis performed by AMR, it was forecasted that only 50 to 100 would survive. Other strategic analysts have proffered projections of 10 to 20 survivors.²⁰³

Many of the predictions of the AMR study have already come true. For example, recently Weskos Corporation, d/b/a as Computers by Us filed a petition for reorganization in Maryland Bankruptcy Court after it ran into financial difficulty and was unable to deliver the custom designed computers it advertised and sold through its Internet operations. The company was reorganized into another company called Fenceway, which was unable to repay the Wesko creditors, including Ebay and the IRS, or operate profitably. Fenceway ultimately filed for Court protection and its case was converted to one under chapter 7. The Trustee and various state attorney generals are investigating the merit behind creditor claims that the owners scammed them out of their money for computers advertised on the Internet.²⁰⁴ Notwithstanding the fraud allegations, the consensus in the Wesko case is that the Internet purchasers may suffer the risks of doing business on the Internet—the business failure of entrepreneurs.²⁰⁵ Another Internet start up, which has suffered a similar fate, is CHS Electronics Corporation.²⁰⁶ Creditors holding over \$275 million in debt have approved a plan which includes Europa IT buying CHS's remaining European subsidiaries to pay creditors claims and support CHS' efforts to reorganize as an Internet incubator and holding company for Internet companies engaged in business-to-business electronic exchanges.²⁰⁷ Interestingly, payment under the Plan is not to be made in cash. Instead payment will be made to creditors and CHS in shares of Europa. Specifically, creditors will receive the equivalent of \$65.7 million in Europa securities, including twenty-five percent of the reorganized company. CHS will receive five percent of Europa IT's common stock. This plan is indicative of the probable structure of future reorganization plans of Internet companies and highlights the potential differences between traditional and Internet bankruptcy estates.

XII. Other Legal Issues Faced by Liquidating Internet Companies

When Internet companies contemplate bankruptcy several other difficulties unique to technology companies arise. For example, in light of cases such as *Catapult and Access Technologies*, the assets which the company thought it owned may not be in the control of the Debtor or the estate, whereas if the company were simply liquidated outside of a bankruptcy proceeding and creditors paid, the licenses could be utilized by the successor entity. In addition, the Debtor's operations during Bankruptcy and its ability to maximize the realized value of assets by transferring assets as a going concern may be impacted by the rights of secured creditors to demand adequate protection payments as a condition to Debtor's continued operation of its web site during the Bankruptcy proceeding.²⁰⁸ Unlike traditional companies, there may be no proceeds to make adequate protection payments with or means of calculating the proceeds. Accordingly, one set of uncooperative creditors could force the company into chapter 7 even where equity holders, other secured creditors and general unsecured creditors are willing to work together to reorganize ("restart") the company.

The penultimate problem faced by creditors is that Federal agencies or third party licensees such as Truste may successfully intervene in the Debtors' attempts to sell the company including customer list, thereby decreasing the value of the assets at Internet speed.²⁰⁹ Accordingly it may be in everyone's best interest, including secured creditors, to speedily sell, merge or have the company acquired. These issues are discussed in greater detail below.

VI. Holders of Security Interests in Intellectual Property Have the Power to Halt the Reorganization Proceeding if Adequate Protection Payments are not Tendered

Where all intellectual property rights are deemed assets of the bankruptcy estate, the assets (or portion thereof) may not be in control of the Bankruptcy estate because the assets are subject to validly perfected security interests.²¹⁰ The Debtor will require Bankruptcy Court and creditor approval to continue to operate the company using the creditors "cash collateral."²¹¹ In fact, secured creditors could shut down the web site should the Internet company fail to provide adequate protection payments against the potential decline in the value of the intellectual property during the bankruptcy proceeding.²¹² Certainly where there is no cash flow and the venture capitalists have refused to fund the next round, there is no ability to provide adequate protection. Where there is cash flow, Debtors and secured creditors will be faced with the thorny problem of valuing the Intellectual property for the purposes of determining the value of the security interest at the time of filing. The Courts will also be asked to tread new ground under Article 9 to determine if payments made to Internet companies in the form of subscriptions to internet sites, advertising revenue, bounties, or other innovative barter agreements or payments resulting from online transactions constitute "proceeds" under Revised Article 9 or the Bankruptcy Code.

XIII. Sale of Customer List May Be Barred By Federal Agencies and/or Certifying Agencies in Bankruptcy Proceedings

Another issue faced by the would be Debtor Internet company is the transferability and legal status of other intangibles such as (i) data collected from and licensed to third parties through the website and (ii) the customer list. The uncertainty concerning the non-bankruptcy law relating to such general intangibles and the intersection of this legal analysis with the Bankruptcy Code makes it unclear whether these assets are capable of being sold. For example, customer data obtained subject to a privacy statement may be subject to Federal law restrictions, which supercede the provisions of the Bankruptcy Code.²¹³ To illustrate the issue we need only look at recent reported events. When Boo.com, Craftshop.com and Toysmart filed for bankruptcy protection they posted notices offering their domain name, inventory, office furniture and customer lists for sale. In the case of Toysmart.com the FTC

filed a lawsuit in federal court requesting injunctive relief. Thirty-eight state attorney generals filed objections with the bankruptcy court seeking to restrain sale of the list. The Toysmart.com customer list (or more properly the terms under which the information was collected) was subject to a license with the TRUSTe Privacy Program, which certifies web site's privacy policies. The Toysmart privacy policy provides:

At Toysmart.com, we take great pride in our relationships with our customers and pledge to maintain your privacy while visiting our site. Personal information voluntarily submitted by visitors to our site, such as name address billing

information and shopping preferences, is never shared with a third party. ²¹⁴

Toysmart collected detailed personal information about its customers, including names, addresses, billing information, shipping preferences and family profiles, which included names and birth dates of children. ²¹⁵ In its complaint, the FTC alleges that Toysmart's attempt to sell its customer information was a violation of section 5 of the FTC Act because the company misrepresented to its customers that personal information would never be shared with "third parties." ²¹⁶ FTC subsequently amended its Complaint to add claims regarding Toysmart's alleged violation of the Online Children's Privacy Act. ²¹⁷ Toysmart reached a settlement with the FTC. ²¹⁸ However, the only offer received for the customer list was from Disney Corporation, ²¹⁹ and, facing continued opposition from the various attorney generals, Toysmart withdrew the customer data from the auction. ²²⁰ The fact pattern raises some important bankruptcy issues. First, does the FTC have standing to bring an action to restrain the sale of a bankruptcy asset. The proposed terms of the settlement make clear that FTC and other federal agencies and attorneys for Toysmart believe that the FTC will assert that the Bankruptcy Code does not pre-empt FTC's statutory enforcement power, but allows the FTC to exercise its police and regulatory power ²²¹ to dictate (1) who the lists may be sold to, (2) the terms of the sale, i.e., no piecemeal sales of the database and (3) the terms and conditions under which the buyer can resell the database. ²²² Second, what standing does the TRUSTe have under contract or bankruptcy law for objecting to sale of a list which is not its asset, but where the sale violates or may violate TRUSTe's pre-petition agreement with the Debtor. Ordinarily under the Bankruptcy Code, no standing or legal basis for filing an objection would exist because TRUSTe is neither a Debtor, secured creditor, equity holder or party in interest as those terms are defined under the Code. ²²³ TRUSTe would be relegated to filing a claim for damages for breach of fiduciary duty and perhaps an adversary complaint for breach of the agreement.

The potential lack of standing of TRUSTe to object to the sale, begets a third area of inquiry, can the debtor reject its obligations to customers under a privacy statement and under the license with TRUSTe, leaving both with a pure damages claim, which in most instances would be virtually impossible to quantify. In evaluating this legal conundrum, the bankruptcy court would also be required to make a determination concerning whether the word "third parties" as contained in the privacy statement means a debtor in possession, a Bankruptcy Trustee, or a receiver, and whether it can include a subsequent owner of the Internet Company and/or website. The Court would also have to determine whether third parties may, as a matter of law, include a purchaser of the company through absorption into a parent entity or affiliate, or by merger or acquisition.

In the case of Craftshop, the definition of "third party" was deftly handled by the Debtor and Bankruptcy Court by requiring that, as a condition of the sale, the purchaser continue to use the Craftshop name. ²²⁴ Fashion Mall.com claims to have addressed the "third party" issue by continuing the Boo.com business (albeit under the Fashion Mall.com name) and abiding by the Boo.com privacy policy and as to new customers it would abide by its own policy. ²²⁵ This approach appears overly complex and probably hard to enforce or track either internally or by consumers.

Unlike, the European Union countries, the United States does not currently have a uniform federal Internet related privacy law. Accordingly, there is no independent Federal privacy law claim that can be levied against Toysmart. Instead the claim arises out of Toysmart's own alleged misrepresentations and its concomitant breach of its contractual obligation to end users. In fact if Toysmart had made no representations regarding privacy or sold the Customer list, subject to the confidentiality provisions of the policy there would arguably no breach of the policy and no basis to a FTC claim. ²²⁶ TRUSTe is quoted as saying that it would not in fact object to a sale it were subject to the site's privacy policy. Thus, the argument might go, if Toysmart can reject the obligation in a bankruptcy proceeding, then the only claim which may exist is for damages, payable in small bankruptcy dollars.

Another interesting issue arises where the Debtor's customer list contains information collected about citizens of countries which have stringent privacy laws or laws which conflict with our own privacy, bankruptcy and corporate laws concerning sales of these assets be it as part of a liquidation, merger or acquisition of stock or assets. Can these countries come into the United States Bankruptcy Court or other United States courts and attempt to restrain sales or transfer of these assets? Some would argue that if the United States adopts legislation compliant with the European Union Privacy Directive of 1995, ²²⁷ this type of action is possible.

Perhaps TRUSTe's reaction to these events is most telling and practical—TRUSTee is quoted as saying that the breach of contract claim against the bankruptcy under its current agreement is "untested" and that the favored approach is to "expand TRUSTe's legal frame work for upholding contracts in the event of bankruptcy." ²²⁸

XIV. Maximizing the Value of Security Interests in Intellectual Property Before the "Restart" Button is pushed

A few pre-bankruptcy filing considerations can be drawn from the Internet Case Studies discussed in this Article and the legal analysis offered by Bankruptcy Court decisions including the *Access* ²²⁹ and *Catapult* ²³⁰ cases.

First, the Debtors and secured creditors will be faced with the thorny problem of valuing the Intellectual property for the purposes of determining the value of the security interest (i) at the time of filing, (ii) for sale and/or (iii) reorganization purposes in establishing the liquidation value of the Company.

Second, the Debtor and creditors should be counseled that under *Catapult*, the licensor is a critical party in interest in all technology cases and that the licensor may be able to acquire control over the company by merely refusing to authorize assumption of the licenses. This right trumps the rights of all creditors—even those with a lien on the license agreement. Thus, where critical technology is licensed, the licensor's consent to assignment should be obtained before any filing. ²³¹ Otherwise, the Debtor may find itself unable to operate. If consent cannot be obtained, the Debtor and creditors may be best served by an out of court "work out." If all else fails, Debtor should attempt to file, if possible, in a jurisdiction which adopts the "actual test" regarding performance of technology licenses. There is a potentially "unexpected" result of the *Catapult* decision which these cases have yet to address—the scenario quite possible in this economy where a licensor "spins off" ²³² an Internet company and the Internet company files for bankruptcy protection. In such a case, section 365(c)(1) may actually be used as a sword by that related party to avoid payment of creditors. Consider the unfairness of the following result: A licensor creates a holding company to maintain patents critical to an Internet company. The holding company also owns a majority position in the Internet company. The Internet company licenses the technology on a nominally non-exclusive basis, even though it is the sole licensee. The Internet is a typical startup and develops a viable business concept with venture or licensor funding, but is running at a deficit. The licensor elects to or is forced to put the Internet company into Bankruptcy and then refuses to consent to assumption of the licenses—leaving secured and unsecured creditors without a means of payment. Under this fact pattern and the holding in *Access* the licensor is free to re-license the technology and develop the concept initiated by the Internet Company with another spin-off.

The Trustee and Debtor in this fact pattern have limited remedies or claims against this insider/licensor. One possible recourse is to file an adversary proceeding seeking to extend the proceedings to include the licensor on the grounds that licensor and licensee are the same entity and but for the "Bankruptcy planning" or fraud perpetrated by licensor, licensor would be liable for creditor debts. Another potential claim, to the extent significant royalties were paid, is to seek return of all royalties paid to licensor. The Trustee may also seek to establish that the technology was intended as a capital contribution or that the license was an exclusive license, generally treated under applicable intellectual property law as an assignment of the licensed technology.

Of course, a preemptive remedy exists—modification of section 365 (c)(1) to obviate the licensor's potential stranglehold on a bankruptcy estate. Clarification of section 365(c) (1) to allow licensees to assume or use licensed technology on the same or similar terms as set forth in the original license and in the manner dictated under section 365(n) of the Code would alleviate the uncertainty faced by licensees who wish to utilize software or other technology developed by start-ups. It would also lend certainty to the business transaction by barring related entities, joint venture partners and others from, in essence, dissolving the relationship when bankruptcy is filed by preventing the Debtor-licensee from continuing to use core technology. ²³³

Last, the Debtor and investment bankers should consider a "pre-packaged" plan, which dictates the terms of the reorganization. The plan would address, on a consensual basis, issues concerning: (a) value of assets, (b) existence of security interests, (c) terms pursuant to which assets, including customer lists may be sold, and (d) the manner of distribution of proceeds. A prepackaged plan would also allow venture capitalists to retain control of the Company by funding the plan and thereby re-asserting their equity interest. In addition to these considerations, a prepackaged plan could maximize value for secured creditors by selling the company or individual assets before the assets deteriorate in

value or the entire customer base migrates to other web sites or vendors.

FOOTNOTES:

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¹ See Keith Regan, Struggling Dot-Coms Can Pass the Torch, E-Commerce Times (June 19, 2000) <<http://www.ecommercetimes.com/news/viewpoint2000/view-000619-1.html>> (stating that "analysts have predicted that a wave of consolidations will halve the number of e-tailers by the end of the year"). "With news of a buyout or bankruptcy coming almost every day, it seems that the dot-com shakeout is cranking into high gear . . . The firms that continue to burn cash – even after the writing has appeared on the wall – are the ones most likely to wind up pitching desperate pleas to one venture capitalist after another." Id.. See also Heather Green, It's Layoff Time In Dot-Com Land, Bus. Wk., June 12, 2000, available in [2000 WL 7827027](#) (stating that Henry M. Blodget of Merrill Lynch & Co. forecasts three out of four Net companies will probably fail); Steven D. Homan, Attorneys and Wall Street Deal With the Dot-Com Downturn, N.Y.L.J 5, (col.4) (Aug. 29, 2000) (noting since January, thirty cash-strapped internet companies have been sold, forty one have shut down and eighty three have withdrawn IPO plans). [Back To Text](#)

² See Homan, *supra* note 1, at 5 (col.4) (discussing uncertainty surrounding perfection of security interests for unregistered copyrights and domain names); see also *id.* (noting possible inability to sell valuable customer information due to privacy issues); Laura Lorek, When Toysmart Broke, Interactive Wk. From ZDWire, Aug. 7, 2000, available in [2000 WL 4067740](#) (discussing Federal Trade Commission's interference in sale of Toysmart's customer list and personal data compiled with promise of confidentiality). [Back To Text](#)

³ See Andy Dworkin, New Values Devised To Determine Value of Internet Companies, Dallas Morning News, Mar. 8, 1999, available in [1999 WL 4542464](#) (stating that internet companies often have high debt, few assets and no profits); see also Paul Gordon Baker & Tepo Din, Sick Dot-coms Can Still be Rescued, The Times of London, Jun. 6, 2000, available in [2000 WL 2896905](#) (noting that despite large amount of money invested in startups, few assets remain after company fails); Nick Tabakoff, Dot-com Disaster Area, Bus. Rev. Wkly, Jun. 30, 2000, available in [2000 WL 9739003](#) (stating internet companies primarily own intangible assets that leave creditors with little or no money upon liquidation). [Back To Text](#)

⁴ See [Baker and Din, *supra* note 3](#) (asserting internet distribution networks that are outsourced are not part of company's assets); see also Paula Morris & Bradley Jensen, Protection of Intellectual Property Rights Against Bankruptcy, 80 J. Pat. & Trademark Off. Soc'y. 779, 780, 784–86 (1998) (suggesting that attorneys should advise their clients to execute security agreement in order to create perfect security interest in transferred or licensed intellectual property rights which changes third parties' interest from unsecured to secured). [Back To Text](#)

⁵ See Hi-Tech Spread Controversy Spreads, High Yield Rep., May 10, 1999, Vol. 10, No. 19, at 1 (discussing different valuation methods for internet companies); see also Peter Loftus, Suddenly Valuations Matter; Forget the Vague Optimism That Helped Send Web Stocks Into the Stratosphere. These Days, Internet Investors are Relying Heavily on Classic Stock Valuation Techniques, Nat'l Post, June 24, 2000, available in [2000 WL 22982015](#) (discussing problem of valuing internet stocks); New Model Could Help Dotcom IROs Justify Prices, Investor Rel. Bus., Aug. 14, 2000, available in [2000 WL 8692585](#) [hereinafter Dotcom IROs] (discussing new valuing model for internet stocks). [Back To Text](#)

⁶ See Lisa Bushrod, Sponsored Profile: Bank of America, Eur. Venture Capital J., May 1, 2000 (stating old economy companies use assets with realizable value to obtain credit); see also Paul Thompson, Primacy of the People Prevails, Bus. Times (Singapore), Sept. 5, 2000, available in [2000 WL 25565657](#) (noting old economy companies revolve

around physical production lines for its capital infrastructure and new economy companies still revolve around employee's). [Back To Text](#)

⁷ See [Dotcom IROs, supra note 5](#) (using expected long term growth rate and initial growth rate to determine value of internet stock); see also [Dworkin, supra note 3](#) (noting stock prices reflect potential earnings not actual earnings); Jim Gordon & R. Scott Rogers, Business Without Borders Make Money, Not War, E-commerce corp. legal times, Feb. 2000. [Back To Text](#)

⁸ See [Tabakoff, supra note 3](#) (stating intellectual property is difficult to sell because markets might perceive it to have little value); see also Andrea Orr, USA: Net Trends – Dot-coms Find Second Chances Hard To Come By, Reuters Eng. News Serv., Aug. 16, 2000, available in Westlaw, News Library, RTENGNS File (stating Dot-com virtual assets such as URL addresses and intellectual property can be hard to dispose of). [Back To Text](#)

⁹ See Michael Braga, Bankrupt Airline Sells Assets for Cash and Stock, Creditors Have to Hope Buyers' Share Prices Go Up, Palm Beach Daily Bus. Rev., Nov. 15, 1999; David Poppe, The Miami Herald Virtual View Column, The Miami Herald, Jun. 29, 1998 (discussing Disney's deal with Old Media that exchanged assets and advertising support in exchange for stock); see also Jill Chanen, Banking on Client Futures: Internet economy spurs solos and small firms to trade services for stock, A.B.A.J., June 2000, at 78 (discussing how law firms are offering internet clients legal services in exchange for company stock). See e.g., Briefing, Nottingham Evening Post, Jun. 29, 2000, at 41 (stating that Porcupine, Nottingham public relations and marketing agency, is offering free publishing service in exchange for internet stock). [Back To Text](#)

¹⁰ See [Poppe, supra note 9](#) (noting that deal between Disney and Old Media shows that Old Media is "playing from strength, not the new guys"); see also Laura Lorek, Ailing Dot Coms Infect Business Partners, (hereinafter, Lorek, Ailing Dot Coms) ZDNet Interactive Wk., July 3, 2000 (stating many promising internet start-up companies have recently lost anticipated funding). This occurrence has "created a ripple effect" throughout the economy including several service industries such as attorneys, real estate brokers and accountants. In some instances, these service providers have accepted worthless stock options in "lieu of [normal or typical] fees." [Id. Back To Text](#)

¹¹ See Dr. Koop Sued and Wooed, Wired, July 22, 2000 (discussing how Dr. Koop was hit with class action lawsuit alleging that it falsely represented and highlighted benefits that company would derive from its relationship with Health Magic). [Back To Text](#)

¹² See [11 U.S.C. § 547 \(2000\)](#) (stating that trustee may avoid any transfer of interest of debtor in property when made between ninety days and one year of filing bankruptcy petition if creditor at time of transfer was considered as insider). [Back To Text](#)

¹³ See Laura Lorek, More Shutdowns Dot Dot-com Landscape, Interactive Wk. From ZDWire, Aug. 11, 2000, available in [2000 WL 4067532](#) (stating that Dallas-based bankruptcy practice at Arter & Hadden is noticing "lots of creditors trying to sort out their financial situations as a result of another business failure"); see also [Lorek, supra note 2](#) (stating failure of Toysmart placed creditor in jeopardy when company did not pay a \$45,000 bill). [Back To Text](#)

¹⁴ See [Lorek, Ailing Dot Coms, supra note 10](#) (discussing effects of dot-com failures on partners such as drops in stock price, lower market ratings and even bankruptcy). [Back To Text](#)

¹⁵ See [id. Back To Text](#)

¹⁶ See Dave Scott, Nasdaq? NASCAR? Maybe there's a Connection We Never Realized Before, Akron Beacon J., April 10, 2000, available in [2000 WL 17763878](#) (quoting Barron's magazine's statistic that out of two hundred seven internet companies, fifty one will run out of cash in one year); see also Sean Donohue & Kim Girard, Crash and Learn, Bus. 2.0, July 11, 2000, at 168–77 (outlining steps internet companies should take to preserve cash outlays (the proverbial "burn rate") and how they can restart by among other things rewriting their business plan, restructuring their business models, selling their assets and/or filing for bankruptcy protection); Chris Nuttall, Dotcoms Are Ticking Bombs: To Date Few Internet Companies Have Failed but That Could Soon Change. Chris Nuttall Explains Why, The

Sunday Tel., Jul. 30, 2000, available in 2000 WL 21882513 (noting that Boo.com burned through 85,000,000 £ in eighteen months). [Back To Text](#)

¹⁷ See Mary Flood, Bankruptcy Lawyers Gird For Possible High-Tech Bust, Wall St. J., Jun. 16, 1999, available in 1999 WL-WSJ 5456610 (quoting bankruptcy attorney Stephen Sather as saying "These companies can burn a lot of money, and in the end, there's nothing there"); see also Colleen O'Connor, New Economy Learns of Old from recent Tech Wrecks, IPO Rep., June 12, 2000, available in 2000 WL 4087256 (stating that Boo.com went through millions in funding, and generated nothing except \$25,000,000 to creditors); Dworkin, supra note 3 (quoting liquidator as saying, "[b]y the time they've eaten up their initial equity monies, there's nothing left and you can only ever hope to get back a tiny fraction of what was gone into them."). [Back To Text](#)

¹⁸ See Carolyn Said, Dot-Coms Struggle to Survive: Report Shows Surge in Mergers and Acquisitions, san francisco chronicle, Aug. 10, 2000, at C1 (listing dotcoms which have either gone out of business, merged, been acquired, or filed for bankruptcy protection); see also id. (suggesting that this is just "tip" of the iceberg and further consolidation is imminent); Greg Wiles, Merger Frenzy Grips E-Tailers; Cash-Starved Dot-Coms are targeted for Assets, Chicago Sun-Times, June 18, 2000, at 38 (reporting increasing number of companies are looking for buyers or merger partners and this number will most likely increase). [Back To Text](#)

¹⁹ See 11 U.S.C. § 507(a) (2000) (outlining priorities of payment established under United States Bankruptcy Code); see also Ohio Bureau of Workers' Compensation v. Yoder (In re Suburban Motor Freight, Inc.) 36 F.3d 484, 487 (6th Cir. 1994) (stating that creditors must directly tie their priority claims to provisions of the Bankruptcy Code); id. at 487 (noting the Bankruptcy Code treats creditors equally). [Back To Text](#)

²⁰ See John F. Delaney, et al., As Dot Com Start-ups Grow Up, 223 N.Y.L.J., March 27, 2000, at S5 (noting very few internet companies are generating earnings); see also Donohue & Girard, supra note 16, at 168-77, (stating that few start-up internet companies have generated substantial profit and that these companies have continued to rely on external sources for its financial growth and this trend will encourage venture capitalists to be more selective when determining whether to provide funding for these new business ventures); Joelle Tessler, Reel.com to Close Online Videocassettes, DVD Store, San Jose Mercury, June 13, 2000 [hereinafter Reel.com to Close] (noting stock markets have cooled towards funding Web sites). [Back To Text](#)

²¹ See FTC Announces Toysmart Settlement, AP Online, July 27, 2000; see also Stephanie Stoughton, Toysmart Offer Hit By Advocates Say Disney Bid to Buy, Retire Customers List Doesn't Ensure Privacy, the boston globe, July 14, 2000 (noting Toysmart.com tried to sell private customer information to payoff creditors); Toysmart.com Settles Case About Sale of Users' Data, The Deseret News, July 22, 2000, at B 06 (asserting Toysmart being sued over privacy issues settled). [Back To Text](#)

²² See Net Start-up Toy Retailer Forced into Bankruptcy, Houston Chronicle, July 4, 2000, available in 2000 WL 4308853 (noting that faced with investor competition Toytime filed involuntary chapter 11); Toytime Forced into Bankruptcy Court, Los Angeles Times, July 4, 2000, at 2 (stating Mattel forced Toytime into bankruptcy); see also Microsoft's South Asia Sales Rise Faster Than in Any Other Region, Seattle Post Intelligencer, July 5, 2000 (noting Microsoft seeks payment of debt). [Back To Text](#)

²³ See Joshua Jaffe, Craftshop.com is First of Many, The Daily Deal.Com, May 11, 2000 (noting reason for failure of Craftshop.com and its bankruptcy filing was unwillingness of Venture Capitalists to invest in specialty site which would not emerge as leader in its field); see also Dot.com Bankruptcy Filing a Sign?, The Nat'l L.J., June 26, 2000, at B1 (stating Craftshop.com filed under chapter 11); Joanne Oswin, Websites Reveal Fragile Nature, South China Morning Post, June 26, 2000 (noting reason for failure of Craftshop.com and its bankruptcy filing was the unwillingness of Venture Capitalists to invest in specialty site which would not emerge as the leader in its field). [Back To Text](#)

²⁴ See Boo-hoo.com as Internet Retailer Goes into Liquidation, Leicester Mercury, May 27, 2000, available in 2000 WL 20725508 (noting first impressions count, website had slow start and people did not come around thereafter); see also Sarah Butcher, Boohoo.com Equality in the Finanacial Sector Lags, Financial News, July 17, 2000 (opining

downfall was trying to launch website in 15 countries simultaneously); Sheila O'Flanagan, Boohoo.com as Bumpy Ride Goes on Shareholders will Continue to Suffer as Directors Will Soon be Able to Sell Their Shares in High Tech Firms, *The Irish Times*, May 26, 2000, at 57 (asserting Boohoo.com was too ambitious and did not live up to expectations). [Back To Text](#)

²⁵ See *Reel.com Calls It a Wrap*, N.Y. Post, June 13, 2000, at 048 (opining that Reel.com had continued losses and problems obtaining funding); see also [Reel.com to Close, supra note 20](#) (noting that web business' are too costly and unable to obtain funding because market has cooled). [Back To Text](#)

²⁶ See Chris Detto, *Cen-Com Creditors Quiz President Over Assets*, state-journal register, Dec. 3, 1996, at 27 (observing assets like equipment and accounts receivable may be sold off); see also *Bank Increase Spurs Call for Reform*, *Asbury Park Press*, Feb. 2, 1997, at 1 (stating chapter 11 allows companies to liquidate assets and start over and that sometimes assets are protected); *From Jeans to Genes*, 15 *Bank Dev. J.* 285, 293 (1999) (noting that courts may exclude property from estate so companies have ability to restart). [Back To Text](#)

²⁷ See [11 U.S.C. § 363\(c\) \(2000\)](#) (stating secured creditors may object to sales of all or substantially all of Debtor's assets unless their claim is paid in full plus interest); see also [11 U.S.C. § 361](#) (stating secured creditor entitled to adequate protection under chapter 11); [Hoyt, Inc. v. Born \(In re Born\) 10 B.R. 43, 48 \(Bankr. S.D. Tex. 1981\)](#) (noting root of adequate protection is so secured creditor's collateral will not decrease in value). [Back To Text](#)

²⁸ See [11 U.S.C. § 363\(c\)](#) (authorizing debtor or trustee to sell all or substantially all of Debtor's assets); [11 U.S.C. § 506 \(2000\)](#) (defining security creditors and manner of perfecting security interest); [11 U.S.C. § 507](#) (establishing priority of payment to creditors); see also [Ohio Bureau of Workers' Compensation v. Yoder \(In re Suburban Motor Freight, Inc.\) 36 F.3d 484, 487 \(6th Cir. 1994\)](#) (stating claims and priorities of unsecured claims is seventh in list of priorities). [Back To Text](#)

²⁹ See [11 U.S.C. § 507](#) (observing priority of creditors); see also [Ford Motor Credit Co. v. Dobbins, 35 F.3d 860, 865 \(4th Cir. 1994\)](#) (stating that priorities under the statute must be strictly construed); [In re Speiss, 145 B. R. 597, 603 \(Bankr. N.D. Ill. 1992\)](#) (noting that statute § 507 must be narrowly construed). [Back To Text](#)

³⁰ See [11 U.S.C. § 510\(c\)](#) (providing that creditors' claims and equity interests may be "subordinated" when after notice and a hearing: (1) under principles of equitable subordination, subordinate for purposes of distribution, all or part of an allowed claim to all or part of another allowed claim or all or part of an allowed interest or part of another allowed interest; or (2) order that any lien securing such subordinated claim be transferred to the estate); see also [HBE Leasing Corp. v. Frank, 48 F.3d 623, 634 \(2d Cir. 1995\)](#) (accepting equitable subordination is power of Federal Courts); [La Grande Steel Prods. Co. v. Goldberg \(In re Poole, McGonigle & Dick, Inc.\) 796 F.2d 318, 321 \(9th Cir. 1986\)](#) (asserting court has broad powers in deciding to subordinate claims). [Back To Text](#)

³¹ See Michael A. Henos, *Other Voices Venture Capitalists Focus on Ownership*, *The Atlanta J. & Constitution*, October 24, 1993, at 13 (opining in technology enterprises intellectual property is integral part of value); see also Joshua Kaufman, *Perfecting Security Interests in Intellectual Property*, *Legal Times*, May 22, 2000, at 24 (reasoning when dot-coms go bankrupt, creditors having security interests in intellectual property may have first dibs on those interests); Al Podgorski, *Banking on Start-Ups*, *chicago Sun Times*, February 4, 2000, at 52 (noting warrants for stock align returns for risks venture capitalist take). [Back To Text](#)

³² See [Henos, supra note 31](#) (opining that intellectual property is integral part of value in technology); see also Wendy Davis, *Dot Com Downturns Force Retooling of Practices*, *Fulton County Daily Report*, June 19, 2000 (stating investors protect themselves by conditioning financing on security interest in intellectual property); Wendy Davis, *Dot Com Shakeout, Market Downturn Means Retooling Legal Practice*, 224 *n.y.l.j.* 5 (2000) (asserting that because dot-coms values have decreased, lawyers must retool investor start ups). [Back To Text](#)

³³ General intangibles include valuable contract rights such as registration agreements for domain names, licenses to or for intellectual property, royalty or bounty agreements, distribution agreements, marketing agreements, equipment leases, and strategic alliances with other vendors, suppliers, and customers. See Joel R. Gluckson, *How to Perfect*

Security Interests in Copyrights and Copyrightable Material, N.Y.L.J. S14 (2000) (stating that under U.C.C., general intangibles are miscellaneous contract rights, copyrights, trademarks and patents); Thomas F. Smegal, Jr., Questions Persist on Security Interest, Nat'l L.J., June 28, 1993, at 20 (stating that official comment to U.C.C. considers general intangibles to include, among other things, copyright, trademarks and patents). [Back To Text](#)

³⁴ See [Boo-hoo.com As Internet Retailer Goes Into Liquidation](#), Leicester Mercury, May 27, 2000, available in [2000 WL 20725508](#) (discussing liquidation of Boo.com); [Reel.com Calls It a Wrap](#), *supra* note 25 (noting closing of Reel.com); see also Bright Station PLC–Acquisition of Tech. Assets, Regulatory News Serv., May 30, 2000, available in [2000 WL 22226691](#) (describing Bright Station's acquisition of e-commerce technology and associated intellectual property rights of Boo.com from KMPG, Boo.com's bankruptcy liquidator). [Back To Text](#)

³⁵ See, e.g., Richard Craver, Analysts Say Demise of Internet Home Furnishings Firm Served as Portent, High Point Enter., August 21, 2000 (describing strategic flaws in now-bankrupt Living.com's business approach); E-commerce Companies Bankrupt, Chile Bus. News Americas, June 23, 2000, available in [2000 WL 22216726](#) (observing that six Chilean E-commerce companies have gone bankrupt thus far, including CyberMarket mail which operated from 1997 to 1999); Joelle Tessler, FTC Sues Massachusetts–Based Toysmart.com to Block Sale of Consumer Data, San Jose Mercury News, July 11, 2000 (explaining bankrupt Toysmart.com's potential sale of its customer list). [Back To Text](#)

³⁶ See [11 U.S.C. § 363\(b\)\(1\) \(2000\)](#) (discussing trustee's power to use, sell or lease property of estate); see also [In re Embrace Sys. Corp.](#), 178 B.R. 112, 122–23 (Bankr. W.D. Mich. 1995) (holding that debtor's amended license agreement allowing fifty year license of certain technology owned by debtor constituted sale of technology under Uniform Commercial Code and § 363 of Bankruptcy Code, reasoning that license agreement was sale of hard assets that amounted to liquidation of debtor's business). The Court further held that there was no provision in the agreement requiring the license to revert back. Thus, debtor retained no rights to use licensed technology as executory agreement. [Id.](#) [Back To Text](#)

³⁷ See [U.C.C. § 9–102 \(a\)\(11\) \(2000\)](#) (defining "chattel paper" as "... a security interest in specific goods and license of software in the goods"); [U.C.C. § 9–102 \(a\)\(23\) \(2000\)](#) (describing "general intangible" as personal property, including "chattel paper" and software). [Back To Text](#)

³⁸ Some of the other general intangibles which Internet companies possess include: equipment leases; domain name registrations; strategic alliances; telephone and ISP agreements; merchant agreements with credit card companies; data licenses; and marketing agreements. See generally [26 C.F.R. § 1.482–4 \(b\) \(2000\)](#) (describing types of intangibles); Paul A. Baumgarten, Copyrights As Collateral: Perfection Finally Perfected After Peregrine?, [71 U. Det. Mercy L. Rev.](#) 581, 585 (1994) (defining "general intangibles" under U.C.C.). [Back To Text](#)

³⁹ See [35 U.S.C. § 154 \(2000\)](#) (identifying contents and term of patent); see also [Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co.](#), 324 U.S. 806, 816 (1944) ("[A] patent is an exception to the general rule against monopolies and to the right to access to a free an open market."). See generally [Raymond T. Nimmer & Glenna England Crews, Bankruptcy and Licensing & Domestic and European Interface Between Technology and Credit Law–Part 11, J. Of Prop. Rights](#), 5 No. 3 JPROPR2 (1993). [Back To Text](#)

⁴⁰ See [17 U.S.C. § 102\(b\) \(2000\)](#) (providing for copyright protection of original works of authorship excluding "any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work"); see also [Lotus Dev. Corp. v. Paperback Software Int'l](#), 740 F. Supp. 37, 48 (D. Mass. 1990) (stating "the designation 'works of authorship' is not meant to be limited to traditional works of authorship such as novels or plays...rather, Congress used this phrase to extend copyright to new methods of expression as they evolve"). [Back To Text](#)

⁴¹ See [Trademark Act of 1946](#), 60 Stat. 427 (codified as amended at 15 U.S.C. § 1051 (2000)); see also [Summit Mach. Tool Mfg Corp. v. Victor CNC Sys., Inc.](#), 7 F.3d 1434, 1439 (9th Cir. 1993) (stating that Act's purpose is to keep public from being misled by competitors misrepresenting others work as their own) (quoting *Shaw v. Lindheim*, 919 F.2d 1353, 1364 (9th Cir. 1990)); [T & T MFR. Co. v. A. T. Cross Co.](#) 587 F.2d 533, 538 (1st Cir. 1978) (commenting that act protects dealer's good will, not only for his profit, but for public's purchasing protection as well) (quoting

General Baking Co. v. Gorman, 3 F.2d 891, 893 (1st Cir. 1925)). [Back To Text](#)

⁴² See generally Thomas J. Smedinghoff, Online Law: The SPA's Legal Guide to Doing Business on the Internet chs. 9–13 (1996). [Back To Text](#)

⁴³ See 35 U.S.C. § 154(a)(2) (2000) (providing duration of twenty years for patents); 35 U.S.C. § 112 (2000) (outlining specifications required for filing patent). See, e.g., United States v. Line Material Co., 333 U.S. 287, 308 (1948) ("During its term a valid patent excludes all except its owner from the use of the protected process or product."); United States v. United Shoe Mach. Co. of N.J., et al., 247 U.S. 32, 58 (1918) (defining "exclusive" use). [Back To Text](#)

⁴⁴ See 35 U.S.C. § 261 (describing parameters for ownership and assignment of patents). But see V.T. Thomas v. Tomco Acquisitions, Inc., 776 F. Supp. 431, 435 (E.D. Wis. 1991) (holding § 261's scope does not infer that passage of legal title to patent by assignment vests upon recordation at PTO). See generally Bacon Am. Corp. v. Super Mold Corp. of Cal., 229 F. Supp. 998, 1007 (N.D. Cal. 1964) (explaining that assignee may not destroy effect of assignor's agreements with PTO). [Back To Text](#)

⁴⁵ See 11 U.S.C. § 544 (a) (2000) (detailing trustee as lien creditor and as successor to certain creditors and purchasers). See generally In re Cactus Energy Co., 45 B.R. 294, 294–95 (Bankr. W.D. Okla. 1985) (stating "filing a statutory lien upon the interest of a party to a contract to develop common property was not proper perfection and, thus, a trustee–bona fide purchaser could avoid it"); Warren E. Agin, Bankruptcy and Secured Lending in Cyberspace, ch. 12.04[c] (Bowne & Co. 2000) (describing bankruptcy concerns peculiar to patents). [Back To Text](#)

⁴⁶ See McClaskey v. Harbison–Walker Refractories Co., 138 F.2d 493, 500 (3d Cir. 1943) (refusing to hold that patent was untouchable by state courts); see also Moldo v. Matsco, Inc. (In re Cybernetic Servs., Inc.), 239 B.R. 917, 922 (B.A.P. 9th Circuit 1999) (noting "the Patent Act does not preempt state regulation of security interests in patents"); In re Transportation Design and Tech., Inc., 48 B.R. 635, 638 (Bankr. S.D. Cal. 1985) (opining that state rights over perfection and priority of security interests do not necessarily conflict with Patent Act). [Back To Text](#)

⁴⁷ See generally Aimee A. Watterberg, Perfecting a Security Interest in Computer Software Copyrights: Getting it Right, 15 J. Marshall J. Computer & Info. L. 855 (1997). [Back To Text](#)

⁴⁸ See In re Cybernetic Servs., Inc., 239 B.R. at 923 (opining that PTO recording is discretionary and does not provide constructive notice, therefore it is inadequate under Patent Act as sole method of perfecting security interests); see also In re Transportation Design & Tech., Inc., 48 B.R. at 640 (holding that a secured creditor must bring its security interest within provisions of Patent Act to protect against transfers to bona fide purchasers); see also Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp., 143 B.R. 360, 369 (Bankr. D. Md. 1992), *aff'd*, 8 F.3d 817 (4th Cir. 1993) (noting that bona fide purchaser with recorded interest will defeat secured creditor with unrecorded interest). [Back To Text](#)

⁴⁹ See U.C.C. § 9–102 (a)(42) (2000) (defining "general intangible"); Chesapeake Fiber Packaging Corp., 143 B.R. at 369 (noting that recorded conveyance of patent rights will defeat interest of secured creditor who has not filed notice of its interest). [Back To Text](#)

⁵⁰ See 35 U.S.C. § 261 (2000) (identifying ownership and assignment); In re Transportation Design and Tech., Inc., 48 B.R. at 640 (stating "sophisticated lender...will perfect its security interest by recording an assignment, grant or conveyance of the patent with the Patent Office to prevent its transfer."). [Back To Text](#)

⁵¹ See 35 U.S.C. § 271 (2000) (discussing liability in patent infringement claims). [Back To Text](#)

⁵² See 15 U.S.C. §§ 1051 et seq. (2000) (discussing registration and application of trademark laws); see also Oberlin v. Marlin Am. Corp., 596 F.2d 1322, 1326 (7th Cir. 1979) (declaring the purpose behind Lanham Act to be to ensure integrity of registered trademarks); Anheuser–Busch, Inc. v. Bavarian Brewing Co., 264 F.2d 88, 92 (6th Cir. 1959) (defining trademark as "[s]ymbol of combination thereof, adopted or used by an manufacturer or merchant to identify

his goods and distinguish them from those manufactured or sold by others"); Hamilton v. Hertz Corp., 607 F. Supp. 1371, 1374 (S.D.N.Y. 1985) (discussing that Congressional purpose behind enacting Lanham Act was to ensure integrity of registered trademarks). [Back To Text](#)

⁵³ See 15 U.S.C. § 1058 (2000) (discussing duration of trademark registration); 15 U.S.C. § 1059 (2000) (stating requirements for renewal of trademark registration); see also S.A. v. Comer, 55 F.3d 678, 680 (D.C. Cir. 1995) (discussing registration and renewal periods for trademarks). [Back To Text](#)

⁵⁴ See 15 U.S.C. § 1051 (governing trademark law). See generally Libby Glass, Inc. v. Oneida Ltd., 61 F. Supp. 2d 720, 722–73 (N.D. Ohio 1999) (discussing Lanham Act and trademark protection); Coca-Cola Co v. Vivian Ice Light & Water Co., 150 La. 445 (1920) (discussing trademark protection). [Back To Text](#)

⁵⁵ See 15 U.S.C. § 1051 (2000) (discussing registration of trademarks used in commerce); see also National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n of Denver (In re Peregrine), 116 B.R. 194, 204 (Bankr. C.D. Ca. 1990) (discussing that Lanham Act only covers assignment of trademarks, not security interests); Roman Cleanser Co. v. National Acceptance Co. of Am. (In re Roman Cleanser Co.), 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1996) (noting that trademark cases distinguish between security interests and assignments); Andrew J. McPortland Inc. v. Montgomery Ward & Co., 164 F.2d 603, 608 (C.C.P.A. 1947) (holding that Trademark Act only covers description of marks, not quality or character of goods); Steven Weinberger, Note, Perfection of Security Interests in Copyrights: The Peregrine Effect on the Orion Pictures Plan of Reorganization, 11 *Cardozo Arts & Ent. L. J.* 959, 969 (1993) (discussing Peregrine court's decision regarding trademark and security interests). [Back To Text](#)

⁵⁶ See Fair Undercar Care Inc. v. Wakefield, 1992 US Dist. LEXIS 10120, at *10136 (N.D. Ill. July 7, 1992) (explaining that assignments in gross only transfer symbol of trademark, not reality). Such are defined to be "[t]he attempted sales of trademarks divorced from all of their associated good will." *Id.* See also L'il Red Barn, Inc. v. Red Barn Sys., 332 F. Supp. 98, 105 (N.D. Ind. 1970) (explaining assignment in gross occurs when no good will is transferred resulting in conveyance of no rights to assignee and abandonment by assignor); American Sleek Craft, Inc. v. Nescher, 131 B.R. 991, 1000 (D. Ariz. 1991) (defining assignment in gross as "[t]he sale of the trademark apart from the good will symbolized by the trademark"). [Back To Text](#)

⁵⁷ See In re Together Dev. Corp., 227 B.R. 439, 440–42 (Bankr. D. Mass. 1998) (holding that U.C.C. governs perfection of security interest with regards to claims of lien creditors); see also Official Comm. of Unsecured Creditors of America's Hobby Ctr. v. Hudson United Bank (In re America's Hobby Ctr.), 223 B.R. 275, 286 (Bankr. S.D.N.Y. 1998) (noting that security interests are controlled by state U.C.C. law); In re Roman Cleanser Co., 43 B.R. at 944 (stating "[s]ince a security interest in a trademark is not equivalent to an assignment, the filing of a security interest is not covered by the Lanham Act. Accordingly, the manner of perfecting a security interest in trademarks is governed by Article 9 [of U.C.C.] and not by the Lanham Act"); Joseph v. Valencia, Inc. (In re 199Z, Inc.), 137 B.R. 778, 782 (Bankr. C.D. Cal. 1992) (holding that filing of U.C.C.–9 perfects security interest and that Lanham Act requirement, if filing in PTO, does not apply to security interests). [Back To Text](#)

⁵⁸ See American File Co. v. Garrett, 110 U.S. 288, 294 (1884) (holding that purchasers for value are entitled to all rights of bona fide purchaser); see also Collingwood Grain, Inc. v. Coast Trading Co., Inc. (In re Coast Trading Co.), 744 F.2d 686, 690 (9th Cir. 1984) (explaining that purchaser for value obtains good title even though initial purchaser of the goods only had voidable title); Steinberg v. McGinnis (In re United Home Loans, Inc.), 71 B.R. 885, 887 (W.D. Wash. 1987) (defining purchaser for value to be "[o]ne who without notice of another's claim of right to or equity in, the property prior to his acquisition of title, has paid the vendor a valuable consideration"); In re Transportation Design & Tech., Inc., 48 B.R. 635, 639–40 (Bankr. S.D. Ca. 1985) (ruling that filing with State, not PTO, perfects security interest against subsequent lien creditors but not against subsequent bona fide purchasers). [Back To Text](#)

⁵⁹ See 17 U.S.C. § 102(a) (2000) (detailing articles protected under Copyright Act); see also Twin Books Corp. v. Walt Disney Co., 83 F.3d 1162, 1164 (9th Cir. 1996) (explaining that copyright protection attaches to unpublished work from moment of creation until publishing); Computer Assoc. Int'l v. Altai, Inc., 982 F.2d 693, 721 (2d Cir. 1992) (narrowing scope of copyright protection for computer software); Hirshon v. U.A. Corp., 243 F.2d 640, 642 (D.C. Cir. 1957) (extending protection of copyright to music and songs). [Back To Text](#)

⁶⁰ See 17 U.S.C. § 103 (laying out law governing copyright protection for compilations and derivative works); see also Fiest Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 344 (1991) (holding copying of telephone directory did not infringe upon copyright because facts are not copyrightable); Victor Lalli v. Big Red Apple, 936 F.2d 671, 673 (2d Cir. 1991) (holding compilation of horse racing data is not protected by copyright because it was unoriginal arrangement of facts); Illinois Bell Telephone v. Haines & Co., 932 F.2d 610, 611 (7th Cir. 1991) (holding alphabetical listing of subscribers in white pages unoriginal and therefore not under protection of copyright); Koontz v. Jaffarian, 617 F. Supp 1108, 1112 (E.D. Va. 1985), aff'd, 787 F.2d 906 (4th Cir. 1986) (holding that facts and/or data are not copyrightable, however, compilation of data may be). [Back To Text](#)

⁶¹ See 17 U.S.C. § 101 (defining transfer of copyright ownership as "[a]n assignment, mortgage, exclusive license or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license"); see also Elise B. May, *Where Your Priorities Should Be: Analysis of the Perfection and Priority of Security Interests in Copyrights as it Affects Bankruptcy*, 11 Bankr. Dev. J. 509, 513 (1995) (discussing that security interests were contemplated by legislature by inclusion of wording regarding mortgages); Watterberg, supra note 47, at 862 (discussing inclusion of mortgage and hypothecation in Copyright Act). [Back To Text](#)

⁶² See 17 U.S.C. § 205(c)(2) (governing why, where and how copyright is to be recorded); see also In Re Avalon Software, Inc., 209 B.R. 517, 521 (Bankr. D. Ariz. 1997) (stating "[i]f the copyright has been registered, and if the document adequately identifies the property in which the security interest is taken, the recordation of the security interest serves to impart constructive notice to the world of the existence of the security interest"); May, supra note 61, at 518 (discussing where judicial lien creditors should record their lien). [Back To Text](#)

⁶³ National Peregrine, Inc. v. Capital Fed. Sav. & Loan Ass'n of Denver (In re Peregrine), 116 B.R. 194, 203–04 (C.D. Ca. 1990) (holding that under § 205 of Copyright Act transferee/debtor who took interest in copyrights for Debtor's film library in good faith could avoid unperfected interest of "secured creditor" in copyright and possibly in receivables associated with that copyright because the "secured creditor" failed to record its interest at Copyright Office). According to the analysis applied by the Court a trustee or debtor may utilize Bankruptcy Code § 544 to avoid judicial liens or mortgages over copyrights perfected only under the Uniform Commercial Code, Article 9 in favor of the bankruptcy estate because Article 9's preemption provisions allow the Copyright Act to preempt Article 9's perfection provisions. See id.; see also AEG Acquisition Corp. v. Zenith Prods., Ltd., 127 B.R. 34, 40 (C.D. Ca. 1991), aff'd, 161 B.R. 50 (9th Cir. 1993) (noting that failure of holder of security interest in chapter 11 debtor's interest in foreign films to register transfer of copyrights before debtor filed for bankruptcy defeated holder's attempt to perfect its security interest in the copyrights, even though Berne Convention provides that authors of foreign works enjoy the same protections of any member country as do nationals of that country because United States federal (as opposed to state) recordation procedures as to filing of both federal copyright registration and mortgage were not followed). [Back To Text](#)

⁶⁴ 209 B.R. 517, 521 (Bankr. D. Ariz. 1997) (holding that "[u]nder federal copyright law, grant of security interest in copyrighted work is defined as 'transfer of copyright ownership' because within copyright law, that term includes hypothecation"). [Back To Text](#)

⁶⁵ In re World Auxiliary Power Co., 244 B.R. 149, 154 (Bankr. N.D. Cal. 1999) (holding security interest in unregistered copyright can be perfected through U.C.C. filing). [Back To Text](#)

⁶⁶ See Watterberg, supra note 47, at 874–75. [Back To Text](#)

⁶⁷ See id. [Back To Text](#)

⁶⁸ See generally Geoscan, Inc. v. Geotrace Techs., No. 99–20744, 2000 U.S. App. LEXIS 23230, at *1–4 (5th Cir. Sept. 14, 2000) (reversing summary judgement in favor of appellant in which appellant claimed appellee exceeded software licensing agreement and infringed upon appellant's copyright); Mendler v. Winterland Prod., 207 F.3d 1119, 1124 (9th Cir. 2000) (exceeding terms of license agreement infringed upon plaintiff's copyright); Kepner–Tregoe, Inc. v. Vroom, 186 F.3d 283, 286–89 (2d Cir. 1999) (holding that defendant breached his licensing agreement and

awarded damages to plaintiff). [Back To Text](#)

⁶⁹ See generally Maurice L. Zilber, Hi-Tech Means High Diligence for the Lender, Newsletter of Corporate Renewal, Vol. 4, No. 1, p. 2 (1996). [Back To Text](#)

⁷⁰ See [Watterberg, supra note 47, at 876](#) (performing a search may uncover potential encumbrances); [Ara A. Babaian, Striving For Perfection: The Reform Proposals For Copyright-Secured Financing, 33 LOY. L.A. L. REV. 1205, 1215 \(2000\)](#) (contrasting recordation under Copyright Act and U.C.C., where only Copyright Act gives rise to constructive notice to third parties regarding existing liens on copyrights). [Back To Text](#)

⁷¹ See Matthew W. Kavanaugh, Software Liens Must be Adequately Registered, The Nat'l L.J., C14-18 (1997) (monitoring operations to ensure prompt copyright registration); see also [17 U.S.C. § 205 \(2000\)](#) (recording document in Copyright Office serves as constructive notice of facts stated in recorded document); [Daboub v. Gibbons, 42 F.3d 285, 291 \(5th Cir. 1995\)](#) (affirming grant of summary judgement where appellees had given constructive notice when document was registered according to Copyright Act). [Back To Text](#)

⁷² See [Kavanaugh, supra note 71, at C14](#) (stating that "both the security interest and the software itself must be registered with the U.S. Copyright Office"). [Back To Text](#)

⁷³ See William A. Dornbos, Structuring, Financing, and Preserving Security Interests in [Intellectual Property, 113 Banking L.J. 656, 670 \(1996\)](#) (noting that registering copyright for each completed segment of computer program is required to minimize period that security interest is unperfected); see also [17 U.S.C. § 101 \(1994\)](#) (defining computer programs as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result"); [Computer Mgmt. Assistance Co. v. Robert F. Decastro, Inc., No. 99-30513, 2000 U.S. App. LEXIS 17962, at *7 \(5th Cir. July 25, 2000\)](#) (stating that in regards to computer programs, "copyright protection does not extend to ideas, per se, but to the particular expressions of those ideas"). [Back To Text](#)

⁷⁴ See [Watterberg, supra note 47, at 875-876 n.144](#) (explaining that Copyright Office has denied requests for secured deposits of secret material); see also Jeffrey R. Capwell, Secured Financing in Intellectual Property: Perfection of Security Interests in [Copyrights to Computer Programs, 39 Syracuse L. Rev. 1041, 1074 \(1988\)](#) (warning that registering computer programs can potentially lead to undesired disclosure of highly valuable technological information); [Dornbos, supra note 73, at 670](#) (indicating that perfecting security interest in software programs still under development would be expensive and would inundate Copyright Office with requests to register segments of software). [Back To Text](#)

⁷⁵ See [17 U.S.C. § 205\(c\)\(1\) \(2000\)](#) (stating "the document, or material attached to it, specifically identifies the work to which it pertains so that, after the document is indexed by the Register of Copyrights, it would be revealed by a reasonable search under the title or registration number of the work . . ."). [Back To Text](#)

⁷⁶ See generally [Agin, supra note 45, ch. 11.03](#). [Back To Text](#)

⁷⁷ See William C. Hillman, Documenting Secured Transactions—Problem Avoidance and Effective Drafting, Practising Law Institute, 1991 at 2-24 (discussing effective drafting). [Back To Text](#)

⁷⁸ See [17 U.S.C. § 304 \(2000\)](#) (setting duration of copyrights); see also [Dornbos, supra note 73, at 683-85](#) (defining rights and remedies of creditor and debtor); [Stephen P. Tarolli, The Future of Information Commerce Under Contemporary Contract and Copyright Principles, 46 Am. U. L. Rev. 1639, 1646-1673 \(1997\)](#) (recommending improvements in copyright laws). [Back To Text](#)

⁷⁹ See [American Policyholders Ins. Co. v. Nyacol Prods., 989 F.2d 1256, 1264 \(1st Cir. 1993\)](#) (holding that breach of royalty agreement arises out of contract and not copyright law); [Royal v. Leading Edge Prods., Inc., 833 F.2d 1, 2 \(1st Cir. 1987\)](#) (stating same); see also [Allison Roarty, Link Liability: The Argument For Inline Links and Frames as Infringements of the Copyright Display Right, 68 Fordham L. Rev. 1011 \(1999\)](#). [Back To Text](#)

⁸⁰ But see In re Avalon Software, Inc., 209 B.R. 517, 524 (Bankr. D. Ariz. 1997) (holding that lender's security interest was unperfected as against copyrighted software, licenses of software, and proceeds from software). [Back To Text](#)

⁸¹ See Allis-Chalmers Corp. v. Staggs, 453 N.E.2d 145, 148 (Ill. App. Ct. 1983) (noting that financing statements function to put third parties on notice that secured party may have perfected security interest); see also Ginter v. Real Media Group, Inc., No. 98 C 3319, 1999 U.S. Dist. LEXIS 61533, at *10 (N.D. Ill. April 7, 1999) (noting that financing statements often contain general descriptions of collateral in comparison to security agreements). [Back To Text](#)

⁸² See Watterberg, *supra* note 47, at 874–77 (outlining necessary steps to perfect security interest in software). [Back To Text](#)

⁸³ See Robert B. Simons, Technology: Back to Earth from Cyberspace: Dealing with Business Failure of Internet Companies, 8 Nev. Law. 12, (June 2000) (noting the effective date of Revised Article 9 as well as noting number of states which, have, as of June 2000, adopted). [Back To Text](#)

⁸⁴ See Chatlos Sys., Inc. v. Nat'l Cash Register Corp., 670 F.2d 1304, 1305 (3d Cir. 1982) (classifying computer software as goods); Edwin E. Smith, Overview of Article 9, 73 Am. Bankr. L.J. 1, 11 (1999) (explaining that software embedded in goods is considered as part of goods and not as software in the Revised Article 9). [Back To Text](#)

⁸⁵ U.C.C. § 9–102(a)(44) (1999); see also Steven O. Weise, Symposium, The Financing of Intellectual Property Under Revised UCC Article 9, 74 Chi.–Kent L. Rev. 1077, 1086, n.31 (1999) (suggesting that applying "part of the goods" test to certain collateral may still yield ambiguous results). [Back To Text](#)

⁸⁶ U.C.C. § 9–102(a)(75); see also U.C.C. § 9–102 (a)(42) (defining "general intangibles" as specifically including software). [Back To Text](#)

⁸⁷ See U.C.C. § 9–310 (excluding "general intangibles" from list of exceptions to general rule that financing statement must be filed in order to perfect security interest); see also In re Information Exch., Inc., 98 B.R. 603, 604 (Bankr. N.D. Ga. 1989) (holding that security interest in intangible information and programming recorded on computer tape required filing of finance statement, and that mere possession of tape did not create perfected interest); Susan Barbieri Montgomery, Security Interests in Intellectual Property, SD76 ALI–ABA 103, 118 (1999) (asserting that filing of finance statement with appropriate registry or other record-keeping office is only means by which security interest in intellectual property may be perfected). Possession of an embodiment of intellectual property, such as duplicate of copyrighted manuscript, is insufficient. [Id.](#) [Back To Text](#)

⁸⁸ See U.C.C. § 9–310 (1999) (distinguishing "goods" from other types of collateral for which finance statement must be filed in order to perfect security interest); see also U.C.C. § 9–313 (1999) (permitting perfection of security interest in "goods" by possession of collateral). [Back To Text](#)

⁸⁹ See U.C.C. § 9–102(64) (defining nature and extent of property to which Article 9 security interest may attach); see also U.C.C. § 9–315(c) (providing that security interest in proceeds is perfected when security interest in underlying collateral is perfected). [Back To Text](#)

⁹⁰ See 11 U.S.C. § 361 (1994) (requiring trustee to make periodic payments to any entity whose interest in debtor's estate has decreased in value as result of automatic stay); see also 11 U.S.C. § 365 (n)(2) (providing that licensee of intellectual property from debtor who elects to retain its rights under executory contract, despite repudiation by trustee, must remit all royalty payments in accordance with agreement). But see Simons, supra note 83, at 13 (noting that complications may arise if debtor did not create, but merely licensed from third party, software in which creditor intends to establish security interest). [Back To Text](#)

⁹¹ See Roger Norman Coe, 76 J. Pat. & Trademark Off. Soc'y 833, 834 (1994) (defining "trade secret" as information, not generally known to public, used in operation of business which gives rise to actual or potential competitive

advantage); Ethan Horwitz and Heather C. Wilde, Doing Diligence with Trademarks, N.Y.L.J., Jan. 18, 2000, at S6 (discussing elemental aspects of performing due diligence in transactions involving sale of trademarks). This analysis can be expanded to apply to all intellectual property transactions. Id. See Diane R. Stokke, Byline, Financing Intellectual Property, 14 Com. Lending Rev. 48 (1999) (suggesting that due diligence in assessing value of intellectual property should include, among other measures, audit with aid of experienced counsel). [Back To Text](#)

⁹² See Glenn Spencer Bacal, Endnote, Computer Software and Contracts: Anticipating Vendor and User Bankruptcy, 2 J. L. & Tech. 183, 187 (1987) (observing that financially troubled user may opt to transfer intellectual property, in violation of nontransfer or nondisclosure agreement, in order to raise cash); Paul J.N. Roy, John P. Brockland and John F. Lawlor, Security Interests in Technology Assets and Related Intellectual Property: Practical and Legal Considerations, 16 Computer Law. 3, 20 (1999) (proposing that security agreement should include restriction on debtor's freedom to grant rights to third parties in intellectual property which diminish value of creditor's interest); Frederick W. Padden, Due Diligence and the High Technology Client, Conducting Due Diligence: 1995, 886 PLI/Corp. 631, 658 (1995) (maintaining that due diligence investigation should ensure that licensee has done nothing to dilute uniqueness and value of trademark by producing inferior product or providing poor service). [Back To Text](#)

⁹³ See 35 U.S.C. § 261 (2000) (declaring void, as against purchaser or mortgagee for valuable consideration, any assignment, grant or conveyance of patent without notice, unless recorded in Patent Office within three months from its date, or prior to date of such subsequent purchase or mortgage); see also In re Cybernetic Serv., Inc., 239 B.R. 917, 922 (9th Cir. 1999) (holding that, because § 261 of Patent Act is silent as to priority of security interests, creditor's state law Article 9 filing in Patent Office perfected its security interest and bankruptcy trustee was precluded from avoiding claim); Scott J. Driza, Perfecting Security Interests in Intellectual Property, 88 Ill. B. J. 162, 163 (2000) (observing that U.C.C. filing can be trumped by Patent Office filing, and that Patent Act filing system fails to afford "first to record" protection of U.C.C. Article 9 filing system). [Back To Text](#)

⁹⁴ See Ginter v. Real Media Group, Inc., No. 98 C 3319, 1999 U.S. Dist. LEXIS 6153, at *16 (E.D. Ill. April 6, 1999) (finding that promissory note which constituted security agreement described only "publication rights" as collateral, and did not encompass, as creditor argued, trademarks, copyrights, trade secrets and other intangible assets which eventually flowed from collateral); In re C Tek Software, Inc., 127 B.R. 501, 506 (Bankr. D. N.H. 1991) (finding revisions to software program's source code were distinct and copyrightable, and that, therefore, creditor's security interest was limited to program as originally developed); Kenneth P. Wilcox, Headline, Practical Problems with Intellectual Property as Collateral, 11 Com. Lending Rev. 12 (1996) (suggesting that prudent lender should require borrower to deposit with escrow agent latest source code and upgrade of borrower's software application in order to protect creditor's interest). [Back To Text](#)

⁹⁵ See U.C.C. § 9-610 (1999) (providing that, upon default, secured party may sell, lease, license or otherwise dispose of collateral of which its security interest is comprised); Weise, supra note 85, at 1094 (positing that secured party is entitled to enforce its security interest in any proceeds created by transfer of licensee's rights). See generally Agin, supra note 45, ch. 10. [Back To Text](#)

⁹⁶ See U.C.C. § 362 (1994) (establishing automatic stay, upon filing of bankruptcy petition of any act to create, perfect or enforce any lien against property of estate); Wilcox, supra note 94, at 15 (urging creditor to perfect interest in proceeds in intellectual property as it may be only viable source of repayment in event of bankruptcy). See generally Agin, supra note 45. [Back To Text](#)

⁹⁷ See U.C.C. § 9-317 (1999) (establishing that unperfected security interest is subordinate to rights of lien creditor before the security interest is perfected); see also First Nat'l Bank of Lacon v. Strong, 663 N.E.2d 432, 434 (D. Ill. 1996) (holding that state's issuance of warrant to levy upon debtor's assets conferred upon it status of "lien creditor" with priority over all unperfected interests in debtor's assets). [Back To Text](#)

⁹⁸ 529 S.E.2d 80 (Va. 2000). [Back To Text](#)

⁹⁹ See id. at 86 (determining that judgment debtor's rights to domain names in question did not exist separate and apart from those services required to render names operational). See generally Lisa Carroll, A Better Way to Skin the Cat;

Resolving Domain Name Disputes Using State Unfair Competition Law, 18 Intell. Prop. Newsl. 1 (2000) (suggesting that alternate remedy exists at state law level which more closely addresses issue posed by domain names). [Back To Text](#)

¹⁰⁰ See *Caesars World, Inc. v. Caesars-Palace.com*, No. CIV.A. 99-550-A, 2000 U.S. Dist. LEXIS 12730 at *3-4 (E.D. Va. 2000) (rejecting as unpersuasive defendant's argument that domain name is not property, but rather data forms part of its address, and holding that Congress has authority to define such data as property); *Online Partners.com, Inc. v. Atlanticnet Media Corp.*, No. CIV.A. C98-4146 SI ENE, 2000 U.S. Dist. LEXIS 783 at *26 (N.D. Cal. 2000) (stating "[a] domain name is intellectual property and may be attached under the law"). But see *Dorer v. Avel*, 60 F.Supp. 558, 560-561 (E.D. Va. 1999) (noting several reasons for declining to treat domain names as personal property subject to attachment, but deferring resolution of issue in light of availability to plaintiffs of less problematic, alternative remedies). [Back To Text](#)

¹⁰¹ See Richard Lehy, *Cybersquatting in Focus*, N.Y.L.J., January 18, 2000, at S4 (stating that Network Solutions assigns domain names that substitute for numeric addresses, thereby enabling web site to be located faster and easier); Gayle Weiswasser, *Domain Names, the Internet, and Trademarks: Infringement in Cyberspace*, 13 SANTA CLARA COMPUTER AND HIGH TECH. L.J. 137, 147 (1997) (observing that domain names are registered by Network Solutions on first-come, first-served basis in response to e-mail requests); Todd W. Krieger, Note, *Internet Domain Names and Trademarks: Strategies for Protecting Brand Names in Cyberspace*, 32 Suffolk U.L. Rev. 47, 48 (1998) (noting that Network Solutions is U.S. government corporation responsible for administering domain names). [Back To Text](#)

¹⁰² See The *Lanham Trade-Mark Act*, 15 U.S.C. § 1125 (1994) (establishing civil remedy for trademark misuse). [Back To Text](#)

¹⁰³ See The *Anti-Cyber-Squatting Consumer Protection Act*, 15 U.S.C. § 1125(d) (2000) (creating civil cause of action for registration or use of another's trademarks as domain name); see also *Harrods Ltd. v. Sixty Internet Domain Names*, 2000 WL 1175103, at *6 (E.D. Va. Aug. 15, 2000) (observing that purpose of Act was to prevent bad faith cybersquatting); H.R. Rep. No. 106-412, at *7 (1999) (stating that intent of Congress in enacting Act was to address problems caused by registration of domain names using terms identical to or confusingly similar to existing trademarks). [Back To Text](#)

¹⁰⁴ See 15 U.S.C. § 1125(d)(2)(A) (2000) (permitting owner of mark to file in rem action against domain name when domain name violates trademark right and personal jurisdiction cannot be established); see also *Porsche Cars N. Am. Inc. v. AllPorsche.com*, Nos. 99-1804 & 99-2152, 2000 WL 742185, at *1 (4th Cir. June 9, 2000) (observing that Act, under certain circumstances, expressly allows trademark owner to file in rem action against domain name); *Lehy*, *supra* note 101 (noting that Act permits trademark owner to begin in rem proceeding against domain name when personal jurisdiction cannot be established over cybersquatter). [Back To Text](#)

¹⁰⁵ 15 U.S.C. § 1125(d) (2000). "The Anti Cyber-squatting Consumer Protection Act" was drafted to resolve a new legal dilemma created by the emergence of the internet new economy. The Act provides a legal remedy for individuals or entities who failed or delayed filing for a similar name and using their commercial or personal mark to prevent unscrupulous individuals from using their name on the internet for commercial or unauthorized activities. *Id.*; 15 U.S.C. § 1125(2) (providing civil remedy for person or entity whose mark is used or registered by another as domain name, provided that user has bad faith intent to profit through use of mark). See S. Rep. No. 106-140, at 4 (1999) (maintaining that one purpose of Act was to prevent bad faith registration and use of distinctive marks as domain names with intent to profit from such registration and use). [Back To Text](#)

¹⁰⁶ See 15 U.S.C. § 1125(d)(2)(A), (d)(2)(D)(i) (West Supp. 2000) (providing that in rem proceeding may be brought against infringing domain name, but only for purposes of injunctive relief); *Sporty's Farm L.L.C. v. Sportsman*, 202 F.3d 489, 496 (2d Cir. 2000) (noting that court may order forfeiture, cancellation or transfer of domain name, but its ability to order payment of damages is limited); *Mattel, Inc. v. Internet Dimensions, Inc.*, 2000 WL 973745, at *2 (observing that Act provides for injunctive relief and limited monetary damages). [Back To Text](#)

¹⁰⁷ See Network Solutions, Inc. v. Umbro Int'l., Inc. et al., 529 S.E.2d 80, 86 (2000) (holding that registrar grants registrant contractual right to use domain name); Dorer v. Avel, 60 F.Supp. 558, 560–61 (E.D. Va. 1999) (suggesting, though not deciding, that domain names are not personal property of registrant and therefore cannot be attached by creditors). But see, Kremen v. Cohen, 99 F.Supp.2d 1168, 1173 (N.D. Cal. 2000) (finding reasoning in Network Solutions unsatisfactory, and stating that right to use domain exists separate and apart from services provided by registrar). [Back To Text](#)

¹⁰⁸ See Network Solutions, Inc., 529 S.E.2d at 86 (maintaining that because domain name is services contract and not liability, it is not subject to garnishment); Dorer, 60 F. Supp. at 561 (reasoning that because domain name is primarily contract right and not property right it should probably not be subject to garnishment); see also John E. Daniel, Domain Names, Nat'l L. J., Aug. 21, 2000, at B10 (discussing recent failed attempts to characterize domain names as property for sake of garnishment proceedings). [Back To Text](#)

¹⁰⁹ See Network Solutions, Inc., 529 S.E.2d at 81 (stating that question was one of first impression and holding that domain name is contract right, not property right, and therefore cannot be garnished); see also Daniel, *supra* note 108 (maintaining that Network Solutions decision was based on fact that domain names are contracts for services, and therefore not garnishable liabilities under Virginia statute); Umbro Finds it Hard to Recover from a Cybersquatter, Legal Times, May 8, 2000, at 20 (discussing Network Solutions ruling and reaction of parties' counsel). [Back To Text](#)

¹¹⁰ See Va. Code § 8.01–466 (requiring clerk of court to issue writ of fieri facias on judgment for money at request of judgment creditor); id. § 8.01–478 (providing that writ of fieri facias may be executed on goods and chattels of judgment debtor); see also Network Solutions, 529 S.E.2d at 85 (stating that under Virginia law, writ of fieri facias can only be issued on liability to third party). [Back To Text](#)

¹¹¹ See Network Solutions, 529 S.E.2d at 87 (rejecting Umbro's argument that contractual right to use domain name can be severed from provision of services by Network Solutions); see also Daniel, *supra* note 108 (discussing Network Solutions decision and court's holding that debtor's property interest in domain name was tied to contractual right granted by Network Solutions). But see Georgia Power Co. v. Security Inv. Properties, Inc., 559 F.2d 1321, 1324 (5th Cir. 1977) (holding that business telephone numbers, for purpose of bankruptcy proceedings, are valuable property interest that can be distinguished from contractual right to use telephone service). [Back To Text](#)

¹¹² Network Solutions, 529 S.E.2d at 86. See Va. Code § 8.01–511 (providing that judgment creditor may recover on liability of third party to judgment debtor); see also Sykes v. Beal, 392 F.Supp. 1089, 1094–95 (D.Conn. 1975) (maintaining that contractual duty of automobile insurer to defend policy holder is not garnishable). [Back To Text](#)

¹¹³ See Network Solutions, Inc. v. Umbro Int'l., Inc., 529 S.E.2d 80, 86 n.13 (2000) (determining that issue of whether or not domain name was new form of intellectual property need not be reached, but noting that courts have sometimes held that even traditional forms of intellectual property are not garnishable); see also Ager v. Murray, 105 U.S. 126, 131 (1881) (acknowledging that patent rights are property rights, but maintaining that they cannot be seized by judgement creditors); Stephens v. Cady, 55 U.S. 528, 531 (1852) (holding that copyright in engraving could not be seized by creditor, although engraving itself could be). [Back To Text](#)

¹¹⁴ In re Slenderalla Sys. of Berkley Inc., 286 F.2d 488 (2d Cir. 1961). [Back To Text](#)

¹¹⁵ In re Best Re–Manufacturing Co., 453 F.2d 848 (9th Cir. 1971). [Back To Text](#)

¹¹⁶ See In re Best Re–Manufacturing Co., 453 F.2d at 849–50 (maintaining that telephone number does not constitute property under applicable state law); In re Slenderalla Sys. of Berkley Inc., 286 F.2d at 490 (holding that debtor does not have proprietary right to telephone numbers and therefore telephone number is not property of estate for purposes of bankruptcy proceedings). But see Fountainebleau Hotel Corp. v. Simon (In re Fontainebleau Hotel Corp.), 508 F.2d 1056, 1059 (5th Cir. 1975) (disagreeing with Second and Ninth circuits and holding that telephone number is property asset of debtor over which bankruptcy court has summary jurisdiction). [Back To Text](#)

¹¹⁷ See In re Best Re-Manufacturing Co., 453 F.2d at 850, n.1 (holding that subscriber did not have either possession or ownership of telephone number, but only contractual right to use services); In re Slenderella Sys. of Berkley Inc., 286 F.2d at 490 (maintaining that telephone numbers are only licensed to subscribers, and never become property of subscribers). But see Darman v. Metro. Alarm Corp., 528 F.2d 908, 910 (1st Cir. 1976) (finding that debtor's right to use telephone number is superior to rights of other and that this creates the equivalent of property interest, over which bankruptcy court can exercise jurisdiction). [Back To Text](#)

¹¹⁸ See In re Best Re-Manufacturing Co., 453 F.2d at 850 (refusing to accept argument that continuation of debtor's old phone number is vital to business because most of business was initiated by phone); In re Slenderella Sys. of Berkley Inc., 286 F.2d at 489 (maintaining that debtors had no property interest in telephone numbers, although facts indicate that keeping same number was important to debtors' businesses); A. Mechele Dickerson, From Jeans to Genes: The Evolving Nature of Property of the Estate, 15 Bankr. L.J. 285, 304–305 (1999) (comparing worth of unique domain names and unique telephone numbers to debtor businesses and considering effect this has on property rights in bankruptcy proceedings). [Back To Text](#)

¹¹⁹ See In re Slenderella Sys. of Berkley Inc., 286 F.2d at 490 (observing that "Rule and Regulations" are filed with public utility commissions so property rights to telephone numbers can be denied to subscriber). See also In re Best Re-Manufacturing Co., 453 F.2d at 849–50 (noting debtor had neither ownership or possession of telephone number). [Back To Text](#)

¹²⁰ In re Security Inv. Properties, Inc., 559 F.2d 1321 (5th Cir. 1997). [Back To Text](#)

¹²¹ 528 F.2d 908, 910 (1st Cir. 1976). [Back To Text](#)

¹²² See In re Security Investment Properties Inc., 559 F.2d at 1324 (relying on In re Fountainsbleau Hotel Corp.) ("[T]elephone numbers constitute a unique property interest, the value of which increases as the number becomes widely known through publication in guidebooks, posting on billboards and imprinting on publicity items. The property interest in such numbers differs from a subscriber's rights to the telephone utility's service."); Darman, 528 F.2d at 910 (holding that subject to consent of telephone company, Trustee had sufficient possessory interest in telephone number and advertising listing to transfer said rights to third party); see also In re Connecticut Pizza, Inc., 193 B.R. 217, 222–27 (Bankr. D. Md. 1996) (asserting that telephone number is asset that is part of bankruptcy estate); In re Personal Computer Network Inc. v. Illinois Bell Tel. Co., 85 B.R. 507, 508 (Bankr. N.D. Ill. 1988) (noting among assets purchased from debtor was his telephone number, which was considered one of most valuable assets); Oppedahl & Larson v. Network Solutions, Inc., 3 F.Supp.2d 1147, 1159 (D. Colo. 1998) (finding that right to use domain name is contract between registrar and registrant and will be subject to those terms). [Back To Text](#)

¹²³ See In re Security Investment Properties Inc., 559 F.2d at 1324. [Back To Text](#)

¹²⁴ No. CIV.A. 99–550–A, 2000 U.S. Dist. LEXIS 12730. (E.D. Va. June 27, 2000). [Back To Text](#)

¹²⁵ No. CIV.A. C98–4146–SI ENE, 2000 U.S. Dist. LEXIS 783. (N.D. Cal. Jan. 24, 2000). [Back To Text](#)

¹²⁶ See Cesar's World, Inc. v. Caesars–Palace.com, No. Civ. A. 99–550–A, 2000 U.S. Dist. LEXIS 12730, at *3 (allowing cause of action to be brought against alleged cybersquatter); Online Partners.com, 2000 U.S. Dist. LEXIS 783 at *26 (noting that domain name is intellectual property); see also Bancroft & Masters, Inc. v. Augusta Nat'l Inc., No. 99–15099, 2000 U.S. App. LEXIS 20917 at *9 (9th Cir. 2000) (noting need to protect domain names as intellectual property rights); Sporty's Farm v. Sportman's Mkt., Inc., 202 F.3d 489, 498–99 (2d Cir. 2000) (noting need for company to be formed prior to registering domain name in order to claim property rights); Dostana Enters. v. Federal Express Corp., No. 00 Civ. 0747 (RWS), 2000 U.S. Dist. LEXIS 11726 at *2 (S.D.N.Y. 2000) (comparing property rights of domain name which are virtually identical). [Back To Text](#)

¹²⁷ See 15 U.S.C. § 1125(d)(2000) (stating amendment to Lanham Act added "in rem" cause of action for "bad faith" registration of domain names similar to trademarks, rendering moot decision in Porsche Cars North America, Inc. v. Porche.com, 51 F.Supp.2d 707 (E.D. Va. 1999)). [Back To Text](#)

¹²⁸ Online Partners.com, 2000 U.S. Dist. LEXIS 783, at *26 (citing Umbro International Inc. v. 326851 Canada, Inc., 48 Va. Cir. 139 (Va. Cir. 1999)). [Back To Text](#)

¹²⁹ See Network Solutions, Inc. v. Umbro Int'l. Inc., 529 S.E.2d 80, 88 (Va. 2000) (holding that domain registration is contract for services and not garnishable). [Back To Text](#)

¹³⁰ Cf. Caesars World, Inc. v. Caesars-Palace.com., No. Civ. 99-550-A, 2000 U. S. Dist. LEXIS 12730 at *7, 8 (E.D. Va. 2000) (authorizing garnishment of domain name by default judgment); Online Partners.com, 2000 U.S. Dist. LEXIS 783 at *19, 22 (noting that due to confusion of domain name, court garnished the rights from defendant). See generally Dorer v. Arel, 60 F.Supp.2d. 558, 561 (E.D. Va. 1999) (noting that domain name is target for creditors seeking satisfaction of judgment). [Back To Text](#)

¹³¹ See 11 U.S.C. §§ 101(53) (2000) (noting that Judicial liens which arise out of federal or state court judgments are not avoidable by the Debtor or Trustee, if perfected pursuant to state law); see also In re Tillman Produce Corp., 396 F. Supp. 500, 501 (W.D. Wisc. 1975) (stating that effects of liens on real estate are determined by state law); In re Rhodes, 20 F. Cas. 652, 653 (Cir. Ct. W.D. Pa. 1872) (noting in bankruptcy assets are distributed among creditors). [Back To Text](#)

¹³² Compare Caesar's World, 2000 U.S. Dist. LEXIS 12730, at *1 (noting that domain name is protected under the Lanham Act), with Online Partners.com, Inc. v. Atlanticnet Media Corp., No. Civ. A. C98-4146-SI ENE, 2000 U.S. Dist. LEXIS 783, at *27 (N.D. Cal. Jan. 24, 2000) (noting that upon judgment for trademark infringement a domain name was granted to the plaintiff). See generally Kremen v. Cohen, 99 F.Supp.2d. 1168, 1173 (N.D. Cal. 2000) (rejecting Umbro decision). [Back To Text](#)

¹³³ See Lanham Act, 15 U.S.C. § 101(53) (2000) (referring to the procedures of regulating trademarks); see also Copyright Act, 17 U.S.C. §§ 201, 205 (2000) (stating rules dealing with ownership and registration of copyrights); Patent Act 35 U.S.C. § 25 (2000) (discussing the declaration in lieu of oath for filing patent). [Back To Text](#)

¹³⁴ See In re Luby, 89 B.R. 120, 126 (Bankr. D. Ore. 1988) (stating that generally court will marshal assets of two entities if it is shown that: (1) corporate veil could be pierced or (2) shareholder's property should be deemed contribution of capital); see also In re North American Coin & Currency Ltd., 767 F.2d 1573, 1575 (9th Cir. 1985) (opining Courts are to act cautiously in recognizing such liens, thereby "exercising such a relatively undefined equitable power in favor of one group of potential creditors at the expense of other creditors..."); In re Tampa Chain Co., Inc., 53 B.R. 772, 779 (Bankr. S.D.N.Y. 1985) (noting reluctance to find "common debtor" unless there was inequitable conduct, overreaching or fraud). Cf. In re Quality Holstein Leasing, 752 F.2d 1009, 1013 (5th Cir. 1985) (citing In re Kennedy and Cohen, Inc., 612 F.2d 963, 965 (1980)) (holding in dicta that proceeds of constructive trust may not become the property of a bankruptcy estate). Conversely certain bankruptcy courts have used the general equitable powers of the Bankruptcy Code (11 U.S.C. § 105) to create constructive trusts over non-debtor property, i.e., that which Debtor does not hold legal title to, where Debtor and a related entity should be treated as one. See Jeffrey Davis, Equitable Liens and Constructive Trusts in Bankruptcy: Judicial Values and the Limits of Bankruptcy Distribution Policy, 41 Fla. L. Rev. 1, 5 (Winter 1989) (stating that creditors often seek to attach debtor's assets by asserting equitable or constructive lien over said assets). Courts are split over the viability of such liens in bankruptcy proceedings. See id. [Back To Text](#)

¹³⁵ See In re El Paso Refinery, 196 B.R. 58, 72 (Bankr. W.D. Tex. 1996) (noting that "Article 11 of the Licenses restricts either party from assigning or transferring the Licenses without prior written consent of the other party"); see also In re Embrace Sys. Corp., 178 B.R. 112, 122 (Bankr. W.D. Mich. 1995) (noting that license can provide for hard asset transfer by debtor or not); In re Biopolymer, Inc., 136 B.R. 28, 29 (Bankr. D. Conn. 1992) (noting that license agreement is executory contract and therefore non-transferable in bankruptcy). [Back To Text](#)

¹³⁶ See 11 U.S.C. § 365(a) (2000) (discussing executory contracts and unexpired leases). "[T]he Trustees...may assume or reject any executory contract or unexpired lease of the debtor." See id.; see also In re Tudor Motor Lodge, 102 B.R. 936, 946 (Bankr. D. N.J. 1989) (claiming that if license is not terminated it becomes property of the debtor's estate and is executory contract); In re Logical Software, Inc., 66 B.R. 683, 684 (Bankr. D. Mass 1986) (stating that a

debtors right to license is major asset to corporation). [Back To Text](#)

¹³⁷ [David Kupetz, Beware When Dealing with Licensors of Intellectual Property: Avoiding, 17 No. 1 Computer Law, 21, 28 \(Jan. 2000\)](#) (concluding that "[l]icensees of intellectual property should position themselves to take advantage of the benefits of Bankruptcy Code § 365(n) by seeking to create disincentives for the rejection of their license agreements in the event of bankruptcy"). The article further suggests that "[u]nder the current state of the law, parties seeking to perfect security interests in intellectual property should protect their interests by recording at the applicable federal office (U.S. PTO or U.S. Copyright Office) as well as at the appropriate state office." [Id. Back To Text](#)

¹³⁸ The legislative history of § 365(n) states that the section was drafted for the purpose of ameliorating the harsh consequences of strict statutory construction of § 365(a) contained in the decision of the Fourth Circuit in [Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 \(4th Cir. 1995\)](#). The Lubrizol court held that a strict construction of § 365(a) authorized debtor licensors to reject non-exclusive technology licenses, leaving licensees in the lurch or prone to renegotiations of contractual agreements that they relied upon in formulating their business plans. See [Lubrizol Enters., Inc., 756 F.2d at 1048](#); see also [La Electronica, Inc. v. Capo-Roman \(In re Electronica, Inc.\), 995 F.2d 320, 323 \(1st Cir.1993\)](#) (asserting that subject to certain objections an executory contract may be assumed or rejected pursuant to confirmed chapter 11). [Back To Text](#)

¹³⁹ See [11 U.S.C. § 365\(n\) \(1999\)](#). See generally [In re La Electronica, Inc., 995 F.2d at 323](#) (asserting that subject to certain objections an executory contract may be assumed or rejected pursuant to a confirmed chapter 11 plan). [Back To Text](#)

¹⁴⁰ See [11 U.S.C. § 365\(c\)\(1\)](#), which provides:

(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties if –

(1)(A) applicable law excess a party, other than the debtor, to such contract or lease form accepting performance form 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 single assumption or assignment.

(emphasis added). [Id. Back To Text](#)

¹⁴¹ See [Perlman v. Catapult Entertainment, Inc. \(In re Catapult Entertainment\), 165 F.3d 747 \(9th Cir. 1999\)](#) (stating that non-exclusive license may not be assumed or assigned without non-bankrupt licensor approval). C.f. [Chesapeake Fiber Packaging Corp. v. Sebro Packaging Corp., 143 B.R. 360, 374–75 \(D. Md.1992\)](#) (noting that where exclusive license is provided, "[c]ourts have consistently held that agreements conveying patent rights, even if they reserve continuing rights to the parties, including the right of termination, constitute grants of title and are not executory in nature"); see generally [Kenyon v. Automatic Instrument Co., 160 F.2d 878, 882 \(6th Cir. 1947\)](#) (asserting that agreement assigning patent rights was not executory). [Back To Text](#)

¹⁴² See Marjorie Chertok, Structuring License Agreements With Companies in Financial Difficulty, Section 365(n): [Divining Rod or Obstacle Course, 65 St. John's L. Rev. 1045 \(1991\)](#) (exploring potential difficulty of debtor licensee to operate within chapter 11 proceeding and trustee's ability to sell licenses); see also [Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 766 F.2d 1043, 1046 \(4th Cir.1985\)](#) (holding that absent statutory modification bankruptcy courts must reject license agreements regarding intellectual property); [In re Logical Software Inc., 66 B.R. 683, 687 \(Bankr. D. Mass. 1986\)](#) (rejecting license agreement for computer software even though licensee's business was based entirely upon use of debtor's software). [Back To Text](#)

¹⁴³ See [Lubrizol Enters., Inc. 756 F.2d at 1042 \(4th Cir. 1985\)](#) (quoting legislative history of 11 U.S.C. § 365(n)); see also [11 U.S.C. § 365 \(n\); 11 U.S.C. § 356 \(c\)\(1\)](#). [Back To Text](#)

¹⁴⁴ See In re Access Beyond Tech., Inc., 237 B.R. 32, 33–34 (Bankr. D. Del. 1999) (adopting position taken by Catapult court that license agreements for patents were executory contracts due to patent owners reserved right to sue for infringement.); see also In re Catapult Entertainment Enters., Inc., 165 F.3d at 750 (holding that proper interpretation of § 365 (c)(1) to be plain reading of statute); see also CFLC, Inc., v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 680 (9th Cir. 1996) (holding that patent licenses are personal and assignable only with consent of licensee). [Back To Text](#)

¹⁴⁵ See 11 U.S.C. § 365(f), which provides:

Except as provided in Subsection (c) of this Section, notwithstanding a provision in an executory contract or unexpired lease of the Debtor, or in applicable law that prohibits, restricts or conditions the assignment of such contract or lease, the Trustee may assign such contract or lease under Paragraph (2) of this subsection; except that the Trustee may not assign an unexpired contract license of nonresidential property under which the Debtor is an affected air carrier that is the Lessee of an aircraft terminal or aircraft gate if there has occurred a termination event.

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¹⁴⁶ See In re Access Beyond Tech. Inc., 237 B.R. at 48 (rejecting application of "actual test" in favor of "hypothetical test"); see also James Cable Partners v. The City of Jamestown Tenn. (In re James Cable Partners) 27 F.3d 534, 537 (11th Cir. 1994) (holding that language of 11 U.S.C. § 365 (c) (1) requires applying hypothetical issue). See generally 11 U.S.C. § 365 (c)(1). [Back To Text](#)

¹⁴⁷ See In re Patient Educ. Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (noting that under federal copyright law, nonexclusive license is personal to Licensee who cannot assign it to third party without consent of copyright owner). In determining whether chapter 11 debtor could transfer his nonexclusive license to use copyrighted works over copyright owner's objections, bankruptcy court could look to patent law for guidance because of historic kinship between patent law and copyright law. See id.; see also In re CFLC, Inc., 89 F.3d at 677 (holding that license is executory agreement); In re Access Beyond Tech. Inc., 237 B.R. at 34 (stating same). [Back To Text](#)

¹⁴⁸ See In re CFLC, Inc., 89 F.3d at 679–80 (explaining federal law deems non-exclusive patent licenses to be personal and non-assignable unless expressly agreed between parties); Emmylou Harris v. Emus Records Corp., 734 F.2d 1329, 1333–34 (9th Cir. 1994) (holding that copyright license cannot be transferred without permission of licensor); Ilyin v. Avon Publications, Inc., 144 F. Supp. 368, 372 (S.D.N.Y. 1956) (holding that copyright licensee cannot assign his privilege). [Back To Text](#)

¹⁴⁹ See 17 U.S.C. § 101 (1980); Evans Newton Inc. v. Chicago Sys. Software, 793 F.2d 889, 895 (7th Cir. 1985) (holding that Chicago systems software was subject to copyright protection). [Back To Text](#)

¹⁵⁰ See In re Cutter's Inc., 104 B.R. 886, 887 (Bankr. M.D. Tenn. 1989) (classifying lease of computer software as executory); see also In re Rudaw Empirical Software Prods., Ltd., 83 B.R. 241, 248 (Bankr. S.D.N.Y. 1988) (discussing executory agreements regarding computers) ; Avon Publications, Inc., 144 F. Supp. at 372–374 (holding that assignee of copyright cannot assign that right). [Back To Text](#)

¹⁵¹ See In re Patient Educ. Media, Inc., 210 B.R. at 895 (noting that under federal copyright law, nonexclusive license is personal to licensee, who cannot assign it to third party without consent of copyright owner). In determining whether chapter 11 debtor could transfer his nonexclusive license to use copyrighted works over copyright owner's objections, a bankruptcy court could look to patent law for guidance because of the historic kinship between patent law and copyright law. See id.; see also CFLC, Inc., v. Cadtrak Corp. (In re CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (holding that a license is executory agreement); In re Access Beyond Techs. Inc., 237 B.R. 32, 41 (Bankr. D. Del. 1999) (stating same). [Back To Text](#)

¹⁵² In order to complicate the matter further, very often these agreements are the subject of collaborative agreements that could be the subject of potential antitrust allegations. Thus potential problem and impediment to distribution of assets is increased exponentially in the business-to-business arena. The concern is so significant that, one site, Metal

Site LP has an antitrust attorney join them at all meetings. See Matt Hicks, B to B e–Markets in Antitrust Spotlight, E Web (July 17, 2000). [Back To Text](#)

¹⁵³ [149 F.3d 1368 \(1st Cir. 1998\)](#). [Back To Text](#)

¹⁵⁴ See [id.](#) at 1375; see also [Diamond v. Diehr](#), 450 U.S. 175, 185 (1981) (stating that laws of nature, natural phenomena, and abstract ideas are excluded from patent protection); [Howes v. Great Lakes Press Corp.](#), 679 F.2d 1023, 1029 (2d Cir. 1982) (stating that novel and useful process employing known scientific fact may be patentable). [Back To Text](#)

¹⁵⁵ See [State Street Bank](#), 149 F.3d at 1375; see also [In re Schrader](#), 22 F.3d 290, 298 (1994) (stating that patentability does not turn on whether the claimed method does "business" but on whether method meets requirement of patentability as set forth in sections 102, 103, and 112 of Patent Act); [In re Wait](#), 22 C.C.P.A. 822, 824 (1934) (stating that physical system contrived to enable carrying out of transactions might be patentable). [Back To Text](#)

¹⁵⁶ See [State Street Bank](#), 149 F.3d at 1373; see also [Gottschalk v. Benson](#), 409 U.S. 63, 65 (1972) (defining algorithm as procedure for solving given type of mathematical problem); [In re Schrader](#), 22 F.3d at 298 (stating that fact that mathematical procedures are performed does not preclude patentability). [Back To Text](#)

¹⁵⁷ See [Commissioner v. Sunnen](#), 333 U.S. 591, 609 (1948) (discussing tax liability of patent owner); see also [James v. Tres Computer Sys., Inc.](#), 642 S.W.2d 347, 350 (Mo. 1982) (holding that computer data is intangible personal property not subject to sales and use taxes); [Chittenden Trust Co. v. King](#), 143 Vt. 271, 273–74 (1983) (stating same). [Back To Text](#)

¹⁵⁸ See [Perlman v. Catapult Entertainment Inc. \(In re Catapult Entertainment\)](#), 165 F.3d 747, 752–53 (9th Cir. 1999) (stating that assignment is contingent on non-debtors separate consent); see also [Institut Pasteur v. Cambridge Biotech Corp.](#), 104 F.3d 489, 493 (1st Cir. 1997), cert. denied, 117 S. Ct. 2511, 138 L. Ed. 2d 1014 (1997) (stating same); [James Cable Partners, v. The City of Jamestown Tenn. \(In re James Cable Partners\)](#), 27 F.3d 534, 537 (11th Cir. 1994) (stating same); [In re West Elecs., Inc.](#), 852 F.2d 79, 83 (3d Cir. 1988) (stating same); [Breedon v. Catron \(In re Catron\)](#), 158 B.R. 629, 633 (E.D. Va. 1993), aff'd w/o opinion, 25 F.3d 1038 (4th Cir. 1994) (stating same). [Back To Text](#)

¹⁵⁹ [15 U.S.C. § 1051 \(2000\)](#); see also [Berni v. International Gourmet Restaurants of Am., Inc.](#), 838 F.2d 642, 649 (2d Cir. 1988) (stating that Lanham Act is not designed as remedy for all conceivable commercial wrongs, nor is class of potential plaintiffs unlimited); [John Curry Skating Co., Inc. v. John Curry Skating Co.](#), 626 F.Supp. 611, 616 (D.D.C. 1985) (stating that failure to establish secondary meaning in mark vitiates plaintiff's claim of protectable rights in mark). [Back To Text](#)

¹⁶⁰ See [Avery Dennison Corp. v. Jerry Sumpton](#), 999 F.Supp. 1337, 1340 (C.D. Cal. 1998), rev'd, 189 F.3d 868 (9th Cir. 1999) (finding internet names protected as trademark); see also [Boston Athletic Ass'n v. Sullivan](#), 867 F.2d 22, 28 (1st Cir. 1989) (concluding that once determination is made that term is entitled to trademark protection, pivotal inquiry becomes whether allegedly infringing mark is likely to cause consumer confusion); [Camel Hair and Cashmere v. Associated Dry Goods Corp.](#), 799 F.2d 6, 14 (1st Cir. 1986) (stating that once trademark plaintiff seeking injunctive relief shows a likelihood of success on the merits, irreparable harm is presumed). [Back To Text](#)

¹⁶¹ See [In re Together Corp.](#), 227 B.R. 439, 440 (Bankr. D. Mass. 1998) (stating trademarks are akin to personal property); see also [Virtual Works v. Network Solutions](#), 106 F. Supp.2d 845, 847 (noting that domain name is more than mere internet address and identifies internet site to those who reach it, much like company's name identifies specific company); 5 Int'l Comm. L. & Pol'y (noting that growing perception that domain names possessed significant business value stimulated efforts to secure stronger property rights over them). [Back To Text](#)

¹⁶² See [MTV Networks Inc. v. Curry](#), 867 F. Supp. 202, 204 (S.D.N.Y. 1994) (stating that domain name mirroring corporate name may be valuable corporate asset as it facilitates communication with customer base); Adam Chase, A Primer on Recent Domain Name Disputes, 3 Va. J.L. & Tech. 3, *2 (stating same); Michael Tanner, Comment,

Trademarks, Internet Domain Names and the NSI: How do we Fix a System that is Already Broken?, 3 J. Tech. L. & Pol'y 2, ¶ 15 (stating that this right is asset because individuals seeking to access site have a memorable key word to use to enter corporation's virtual storefront). [Back To Text](#)

¹⁶³ See Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 492 (1st Cir. 1997) (stating debtor in possession has substantially same rights and powers as chapter 11 trustee); PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1094 (6th Cir. 1979) (stating that express prohibition against assignment may not be held ineffective by analogy to rule based on estoppel in situations where there is no written contract and rights of parties have arisen by implication because of their past relationship); In re Patient Educ. Media Inc., 210 B.R. 237, 241 (Bankr. S.D.N.Y. 1997) (stating that federal copyright law precludes assignment without regard to anti-assignment provisions in invoices). [Back To Text](#)

¹⁶⁴ See Steve Thomas, Mind Over Portal, Business 2.0, July 11, 2000 (advocating expanding capabilities of Internet company by licensing knowledge management and portal technology for purposes of storing all strategic and substantive information gathered by each employee). [Back To Text](#)

¹⁶⁵ "ASP" is shorthand for the term Application Service Provider. [Back To Text](#)

¹⁶⁶ See Perlman v. Catapult Entertainment Inc. (In re Catapult Entertainment, Inc.), 165 F.3d 747, 750 (9th Cir. 1999) (stating that patent licenses are personal and assignable only with consent of the licensor); see also James Cable Partners v. The City of Jamestown Tenn. (In re James Cable Partners) 27 F.3d 534, 537 (11th Cir. 1994) (stating that debtor in possession may assume any executory contract from itself as debtor); Breedon v. Catron (In re Catron), 25 F.3d 1038 (4th Cir. 1994) (noting that literal language of § 365 (c) prohibits debtor from assuming any executory contract); In re of West Elecs., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (stating that solvent contractor and insolvent debtor in possession going through bankruptcy are materially distinct entities); In re Access Beyond Techs., Inc., 237 B.R. 32, 37 (Bankr. D. Del. 1999) (stating that patent law requires express undertaking before it is assignable and silence will not be presumed to be consent). [Back To Text](#)

¹⁶⁷ See 35 U.S.C. § 261, which provides:

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

A certificate of acknowledgment under the hand and official seal of a person authorized to administer oaths within the United States, or, in a foreign country, of a diplomatic or consular officer of the United States or an officer authorized to administer oaths whose authority is proved by a certificate of a diplomatic or consular officer of the United States, or apostle of an official designated by a foreign country which, by treaty or convention, accords like effect to apostles of designated officials in the United States, shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

Id. See generally Commissioner v. Sunnen, 333 U.S. 591, 609 (1948) (maintaining that patent owner retained authority to regulate licensee's royalties, because license was non-exclusive). [Back To Text](#)

¹⁶⁸ See J. Michael Strickland, Nonexclusive Patent Licensees Unite: Use Bankruptcy Committees to Sue For Patent Infringement, 48 Duke L.J. 571, 572 (1998) (stating that Congress enacted Intellectual Property Bankruptcy Protection Act of 1988 (IPBPA) to protect debtor-licensor's right to rehabilitate while affording the patent licensee the right to continue exploiting the patent without threat of infringement); Robert L. Tamietti, Technology Licenses Under

the Bankruptcy Code: A Licensee's Mine Field, 62 Am. Bank. L.J. 295, 300 (stating that license does not grant licensee proprietary interest in the licensor's technology); Glenn Spencer Bacal, Computer Software and Service Contracts: Anticipating Vendor and User Bankruptcy, 2 J. L. & Tech. 183, 184 (Winter 1987) (stating that negotiating purchase or license agreement with user requires careful selection of means to protect intellectual property and thorough investigation of user's financial stability). [Back To Text](#)

¹⁶⁹ See 11 U.S.C. § 365(k) (2000) (stating that "[a]ssignment by the trustee to an entity of a contract or lease assumed under this section relieves the trustee and the estate from any liability for any breach of such contract or lease occurring after such assignment"); see also Alan Schwartz, A Contract Theory Approach to Business Bankruptcy, 107 Yale L.J. 1807, 1842 (stating that § 365 declares ipso facto clauses unenforceable). Robert J. Verga, Section 365 Versus 362: Applying the Automatic Stay to Prevent Unilateral Termination in a Bankruptcy Proceeding, 61 Fordham L. Rev. 935, 936 (1993) (stating that ipso facto clauses call for modification or termination of contract upon the filing of bankruptcy petition). [Back To Text](#)

¹⁷⁰ In re Catapult Entertainment, 165 F.3d 747, 747 (9th Cir. 1999). [Back To Text](#)

¹⁷¹ In re Catapult Entertainment Inc., 165 F.3d at 749; see also James Cable Partners v. The City of Jamestown Tenn. (In re James Cable Partners), 27 F.3d 534, 536 (11th Cir. 1994) (concluding that § 365(c)(1) of Bankruptcy Code does not prohibit assumption of any executory contract by debtor in possession from debtor itself); In re TechDyn Sys. Corp., 235 B.R. 857, 861 (holding debtor was barred by plain language of Bankruptcy Code, § 365 (c)(1), from assuming contracts over plaintiff's protest); see also 11 USC § 365(c)(1) (2000). [Back To Text](#)

¹⁷² See In re Catapult Entertainment Inc., 165 F. 3d at 754–55 (holding that plain language of statute dictates that non-exclusive patent licenses are non-assignable executory contracts); see also Institut Pasteur v. Cambridge Biotech Corp., 104 F.3d 489, 493 (1st Cir. 1997) (stating that partnership agreement was contract that could not be assumed under § 365(c)(1)(A), absent consent of non-debtor parties required by § 365(c)(1)(B)); Breeden v. Catron (In re Catron), 158 B.R. 629 (E.D. Va. 1993) (stating same). But see NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984) (criticizing "hypothetical test" of Catron because predicts on idea that debtor-in-possession should be dealt with completely separately from debtor — this approach was discredited). [Back To Text](#)

¹⁷³ In re Catapult Entertainment Inc., 165 F.3d at 750 (defining hypothetical test); see also Gregory G. Hesse, On the Edge: Ninth Circuit Slams Shut the "Back Door" Access to Patented Technology, 1999 Abi Jnl. LEXIS 41 at *15 (stating courts who adhere to plain statutory language, allow "hypothetical test" to govern assumption of executory contracts). But see NLRB, 465 U.S. at 528 (maintaining that debtor is essentially same entity as pre-bankruptcy entity, but has authority to reject any pre-bankruptcy executory contract). [Back To Text](#)

¹⁷⁴ See In re James Cable Partners, 27 F.3d at 537 (characterizing § 365(c)(1)(A) as posing "a hypothetical question"). [Back To Text](#)

¹⁷⁵ See In re Catron, 158 B.R. at 636 (characterizing § 365(c)(1)(A) as posing "a hypothetical question"). [Back To Text](#)

¹⁷⁶ See In re West Elecs., Inc., 852 F.2d 79, 83 (3d Cir. 1988) (stating § 365(c)(1)(A) possesses "a hypothetical question"). [Back To Text](#)

¹⁷⁷ See In re Access Beyond Techs., Inc., 237 B.R. 32, 49 (Bankr. D. Del. 1999) (noting that it was bound by Third Circuit's adoption of hypothetical test); see also Sharon Steel Corp. v. National Fuel Gas Distribution Corp. (In re Sharon Steel Corp.), 872 F.2d 36, 39 (3d Cir. 1989) (stating same); Vern Countryman, Countryman on Executory Contracts in Bankruptcy; Prt I, 57 Minn. L. Rev. 439, 460 (1973) (stating that failure of debtor to perform non-executory contract does not excuse performance by non-bankrupt party). [Back To Text](#)

¹⁷⁸ The application of the "hypothetical test" to patent licenses in the manner used by the Catapult court seems to conflict with the definition of executory contract adopted by the drafters of the Code and defined by Professor Countryman by placing the right of Debtors, Trustees and the Court to exercise business judgment to adopt contracts

which benefit the estate, in the hands of a Licensor who can determine whether the license in its present form benefits him. Under the Countryman definition of executory contracts, "executory contract within the meaning of the Bankruptcy Act: 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 performance by the other." See Countryman at 460; Columbia Gas Transmission Corp. v. U.S. (In re Columbia Gas Sys., Inc.), 50 F.3d 233, 244 n.20 (3d Cir. 1995). Where all the royalties were paid up front or where the only obligation left under the agreement is payment, the agreement is arguably not executory and therefore not subject to § 365. The "hypothetical test" is also contrary to what legislative history exists surrounding enactment of 11 U.S.C. § 365(c)(1)(A), see Summit Investment and Development Corp. v. Leroux (In re Leroux), 69 F.3d 608, 610 (1st Cir. 1995) (noting that legislative history should be restored to when statutory language is unclear). The Catapult court examined the legislative history, but held that it was not dispositive, see Perlman v. Catapult Entertainment Inc. (In re Catapult Entertainment), 165 F.3d 747, 754 (9th Cir. 1999) (noting that there is a strong presumption in favor of applying the plain meaning of statutes and legislative history cited by Catapult fails to adequately rebut this presumption). see also In re Sharon Steel Corp. 872 F. 2d at 39 (approving and applying countryman's definition of executory contract). Using the Countryman definition, Courts generally look to see if performance (other than the payment of money) is due on both sides. In adopting and applying the Countryman definition to myriad fact patterns Circuit Courts have taken great pains to emphasize that the Countryman definition is "not a technical definition, but one which requires a court to determine whether the failure to perform an obligation under the contract would constitute a material breach," [Back To Text](#)

¹⁷⁹ Id. at 752; see also James Cable Partners, v. The City of Jamestown Tenn. (In re James Cable Partners), 27 F.3d 534, 537–38 (11th Cir. 1994) (stating subsection (f) states assumption is condition precedent to assignment); In re Antonelli, Inc. 148 B.R. 443, 448 (D. Md. 1992), aff'd. without opinion, 4 F.3d 984 (4th Cir. 1993) (stating § 365(f) relates to laws prohibiting assignments by express mandate or express validation of contractual anti-assignment provisions and should be read with same words in § 365(c) as relating to underlying common law elements which, relieved, in particular circumstances, non-assigning party from performance even without express anti-assignment rule); Magness v. Dayton Country Club Co. (In re Magness), 972 F.2d 689, 693 (6th Cir. 1992) (holding trustee had no power under § 365 of Code to assign executory contract at issue); In re Lil Things, Inc., 220 B.R. 583, 581 (Bankr. N.D. Tex. 1998) (stating that § 365(f) was general rule on assignability and exception found in § 365(c) was "intended by Congress to be applied narrowly and to such circumstances as contracts for the performance of nondelegable duties"). [Back To Text](#)

¹⁸⁰ See In re Catapult Entertainment Inc., 165 F.3d at 751; see also In re Mangness, 972 F.2d at 695 (stating that "[s]ection (c), the recognized exception to 365(f), appears at first to resuscitate in full the very anti-assignment 'applicable law' which 365(f) nullifies"). [Back To Text](#)

¹⁸¹ 104 F.3d 489, 493 (1st Cir. 1997) (utilizing "actual test" put forth in Leroux); see also Summit Inv. and Dev. Corp. v. Leroux (In re Leroux), 69 F.3d 608, 613–14 (1st Cir. 1995) (analyzing and interpreting companion Bankruptcy Code subsections 365(c) and (e) and their pertinent legislative history holding that subsections 365(c) and (e) examine case-by-case inquiry into whether nondebtor party in fact was being "forced to accept performance under its executory contract from someone other than the debtor party with whom it originally contracted" Where specific transaction requires debtor-in-possession to assume and continue to carry out in executory contract, the bankruptcy court cannot just assume matter of law that debtor-in-possession is a legal entity materially different from the prepetition debtor that nondebtor party contracted. See id. [Back To Text](#)

¹⁸² Institut Pasteur v. Cambridge BioTech Corp., 104 F.3d 489, 493 (1st Cir. 1997) (defining actual test). [Back To Text](#)

¹⁸³ 237 B.R. 32 (Bankr. D. Del. 1999). [Back To Text](#)

¹⁸⁴ See In re Access Beyond Techs., 237 B.R. at 43 (stating that "each party had ...material duty...under the License Agreement...to refrain from suing the other for infringement...of the patents covered by the license [and] [t]his performance is material since the licensor's promise to refrain from suing the licensee for infringement is the raison d'être for a patent license"); see also De Forest Radio Tel. & Co. v United States, 237 U.S. 236, 242 (1927) (stating

waiver of right to sue for infringement created nonexclusive patent license); Jacob Maxwell, Inc. v. Veeck, 110 F.3d 749, 753 (11th Cir. 1997) (stating implied nonexclusive license to use copyrighted material barred suit). [Back To Text](#)

¹⁸⁵ The assignment provision read in full:

7.3 Neither this Agreement, nor any licenses or rights hereunder, in whole or in part, granted by Hayes [Access] to Licensee[Megahertz] shall be assignable or otherwise transferable without Hayes' [Access] prior written consent.

1. Neither party to this Agreement nor any subsidiary of either party may assign any of the Licensed Patents or Licensees' Patents to any third party without making such assignment the subject to the terms and conditions of the Agreement.

[In re Access Beyond Techs.](#), 237 B.R. at 38. [Back To Text](#)

¹⁸⁶ Id. at 43–44 (citations omitted). See also DeForest Radio Tel. & Tel. Co., 273 U.S. at 242 (noting waiver of right to sue for infringement created nonexclusive patent license); Jacob Maxwell, Inc. v. Veeck, 110 F. 2d 749, 753 (11th Cir. 1997) (stating implied nonexclusive license to use copyrighted material barred suit); Spindelfabrik Suessen–Schurr Stahlecker & Grill, GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft, 829 F. 2d 1075, 1081 (Fed. Cir. 1987) (finding patent license agreement is nothing more than promise by licensor not to sue licensee). [Back To Text](#)

¹⁸⁷ See In re Access Beyond Techs., 237 B.R. at 49 (stating that "we conclude ...the License Agreement is an executory contract which under its terms and applicable nonbankruptcy law is not assignable without 3Com's consent"); see also In re Alltech Plastics, Inc. 71 B.R. 686, 689 (Bankr. W.D. Tenn. 1987) (explaining "patent assignment" as distinguishable from "patent license" in that assignment is transfer of entire patent...while license grants only limited rights); Walter A. Wood Harvester Co. v. Minneapolis–Esterly Harvester Co., 61 F.2d 256, 258 (C.C.D. Minn 1894) (discussing patent license not containing words "heirs," "successors," or "assigns," or words of similar import as not assignable). [Back To Text](#)

¹⁸⁸ See In re Access Beyond Techs., 237 B.R. 32, 44 (Bankr. D. Del. 1999) (quoting In re Richmond Metal Finishers Inc., 756 F.2d 1043, 1046 (4th Cir. 1985)) (stating that "contingency of an obligation does not prevent its being executory"); see also In re Smith Jones, Inc., 26 B.R. 289, 292 (Bankr. D. Minn. 1982) (stating warranty obligations executory as to promisor); In re O.P.M. Leasing Servs. Inc., 23 B.R. 104, 117 (Bankr. S.D.N.Y. 1982) (stating that obligation to defend infringement suits makes contract executory as to promisor). [Back To Text](#)

¹⁸⁹ See In re Access Beyond Techs., 237 B.R. at 46. (quoting 3 Corbin on Contracts § 552 (1998)) (stating that "[i]f one subject is specifically named, ...and there are no general words to show that other subjects of the class are included, it may be reasonably inferred that the subjects not specifically named were intended to be excluded."); see also Unarco Indus., Inc. v. Kelley Co., Inc., 465 F.2d 1303, 1306 (7th Cir. 1972) (discussing license agreements as personal to licensee and not assignable unless expressly made so in agreement); Verson Corp. v. Verson Int'l Group PLC, 899 F. Supp. 358, 363 (N.D. Ill. 1995) (stating that "under well–established law the holder of a nonexclusive patent license may not assign its license unless the right to assign is expressly provided for in the license agreement"). [Back To Text](#)

¹⁹⁰ Whether the hypothetical or actual test is applied will likely depend on the law extant where the bankruptcy case is pending, not the law governing the license. [Back To Text](#)

¹⁹¹ See 35 U.S.C. § 261 (2000) (describing ownership and assignment under Patent Law); see also 17 U.S.C. § 106(3) (stating that owner of copyright with exclusive rights has rights to "distribute copies...of the copyrighted work to the public by sale or other transfer of ownership"). The Supreme Court has determined, for example, that an assignment of a patent, transferring ownership (or partial ownership) has occurred if the transfer meets either of the following three tests:

- (1) the whole patent comprising the exclusive right to make, use and sell the invention is transferred;

(2) an undivided share of that exclusive right is transferred; or

(3) an exclusive right to practice that invention within a specific territory is transferred.

Waterman v. MacKenzie, 138 U.S. 252, 255 (1890). This definition of assignment, particularly assignment within a particular territory, has yet to be applied to a concept, invention or process that powers an Internet company. [Back To Text](#)

¹⁹² See In re Superior Toy & Mfg. Co., 78 F.3d 1169, 1174, n.4 (9th Cir. 1996) (describing bankruptcy clause as "a clause that immediately terminates a contract in the event that one party files bankruptcy"); see also Robinson v. Hadley, 351 F.2d 385, 386 (9th Cir. 1965) (upholding rights under bankruptcy clause lease). But see In re Superior Toy & Mfg. Co., at 1174 (stating "the Bankruptcy Reform Act of 1978 changed the law regarding bankruptcy clauses. Prior to the act, bankruptcy clauses were deemed valid. § 365(e) invalidates bankruptcy clauses"). [Back To Text](#)

¹⁹³ See Express One Int'l v. Galland, No. 3:94-CV-1900-P, 1999 U.S. Dist. LEXIS 15627, at * 19 (N.D. Tex. Oct. 1, 1999) (describing "White Knight" as one company coming to rescue another); see also Kevin J. Coenen, Note, Capital or Ordinary Expense? The Proper Tax Treatment of a Target Corporation's Expenditures in an Acquisitive Reorganization, 58 Ohio St. L.J. 583, 598 (1997) (discussing instance where corporation launched hostile takeover bid for department stores and department stores courted "White Knight"); Melissa D. Ingalls, Note, Indopco, Inc. v. Commissioner: Determining the Taxable Nature of a Target Corporation's Takeover Expenses, 43 DePaul L. Rev. 1165, 1178 (1994) (stating "if ...corporation believes... its acquisition by a hostile acquirer would not be in the best interests of its shareholders, the target corporation may defend itself against the acquirer's attempt by finding an alternative, acceptable buyer, termed a 'White Knight.'"). [Back To Text](#)

¹⁹⁴ See Express One International, 1999 U.S. Dist. LEXIS 15627, at * 19 (describing "White Knight" as one company coming to rescue another); see also Coenen, supra note 193, at 598 (discussing instance where corporation launched hostile takeover bid for department stores and department stores courted "White Knight"); Ingalls, supra note 193, at 1178 (stating "if ...corporation believes... its acquisition by a hostile acquirer would not be in the best interests of its shareholders, the target corporation may defend itself against the acquirer's attempt by finding an alternative, acceptable buyer, termed a 'White Knight.'"). [Back To Text](#)

¹⁹⁵ See Reel.com to Discontinue E-Commerce Operations; Hollywood Entertainment Anticipates Immediate Return to Profitability, PR Newswire, June 12, 2000, available in Lexis (stating "Hollywood Entertainment expects to incur an after-tax loss of approximately \$25 million related to the disposal of the Reel.com business"); see also Buy.com to Take Over Reel.com's Sales, L.A. Times, June 13, 2000, at 11 (stating "Reel.com...had a loss of \$69 million on sales of \$21.6 million through nine months of 1999"); Reel.com will Close Online Video Operation, N.Y. Times, June 13, 2000, at 4 (stating [Reel.com]...would incur an after-tax loss of about \$25 million related to the disposal of Reel.com"). [Back To Text](#)

¹⁹⁶ See Geek.com, Liquidating.coms (visited June 7, 2000) <<http://www.geek.com/news/geeknews/q2200/gee200060700 gee2000607001607.htm>> (describing fate of Toysmart employees when Disney cut off funding); see also Toysmart Withdraws, The Bankruptcy Data Source, August 1, 2000, available in Lexis (hereinafter Toysmart Withdrawals) (describing Walt Disney Co. as majority owner of Toysmart.com, Inc.); Judge Tosses Toysmart – FTC Agreement, Newsbytes, August 18, 2000 (hereinafter Judge) (describing bankruptcy proceedings of defunct Internet retailer, Toysmart.com). [Back To Text](#)

¹⁹⁷ See Net Start-up Toy Retailer Forced into Bankruptcy, Houston Chron., July 4, 2000 at 2000 WL 430885; Judge, supra note 196; Toysmart Withdrawals, supra note 196. [Back To Text](#)

¹⁹⁸ See Boo-Hoo.com as Retailer Goes into Liquidation, supra note 24. See generally Boo.com Study Reveals Differences in E-shopping Trends in Europe and North America, Canada NewsWire, May 4, 2000, available in Lexis (describing boo.com generally as "leading international retailer"); Boo.com First Pure-Play Apparel E-Tailer to Publish a Printed Catalog, PR Newswire, April 17, 2000, available in Lexis (describing Boo.com as "international active sportswear, streetwear online retailer"). [Back To Text](#)

¹⁹⁹ See Regulatory News Serv., World Reporter, May 30, 2000. [Back To Text](#)

²⁰⁰ See Elisabeth Godridge, Marketplace Shakeout Predicted, New Economy, April 26, 2000. [Back To Text](#)

²⁰¹ See generally [id.](#) [Back To Text](#)

²⁰² See generally [id.](#) [Back To Text](#)

²⁰³ See generally [id.](#) [Back To Text](#)

²⁰⁴ See generally Caryl Clarke, Former York Couple Scheduled to Meet with Creditors, York Daily Rec., June 28, 2000. [Back To Text](#)

²⁰⁵ See [id.](#) [Back To Text](#)

²⁰⁶ See generally CHS Files for Bankruptcy Protection, World Rec., VNU Bus. Wire, April 5, 2000. [Back To Text](#)

²⁰⁷ See [id.](#) [Back To Text](#)

²⁰⁸ See [Devers v. Sheridan \(In re Devers\)](#), 759 F.2d 751, 754 (9th Cir. 1985) (stating that "a debtor-in-possession has the duty to protect and conserve property in his possession for the benefit of creditors"); see also [Northwestern Nat'l Bank of St. Paul v. Halux Inc. \(In re Halux\), Inc.](#), 665 F.2d 213, 216 (8th Cir. 1981) (stating that "the Bankruptcy Act requires notice of a proposed auction sale in order to safeguard the interests of creditors against collusive, fraudulent or otherwise improvident sales at inadequate prices") (internal quotes omitted). See generally [11 U.S.C. § 363](#) (outlining "use, sale or lease of property"). [Back To Text](#)

²⁰⁹ See Ronna Abramson, Disney Vows Not to Share Toysmart Data, The Industry Standard, July 12, 2000 (stating "TRUSTe, the online watchdog group that had accredited Toysmart's privacy policy announced . . . that it would file a brief in bankruptcy court against the company"); see also Matt Richtel, Toysmart Case in Settlement with FTC, N.Y. Times, July 22, 2000, at C1 (discussing FTC settlement of allegations against Debtor in Federal lawsuit that alleges that Toysmart engaged in false advertising violation of FTC Act because its sale of its customer list in bankruptcy proceeding violated web site's privacy policy and that web site violated Children's Online Privacy Act of 1998). FTC consented to the sale and agreed to dismiss case provided that the "buyer of Toysmart's database [was] in the Family related e-commerce market, [bought] the entire web site and agree[d] not to sell the database without getting permission of the individuals included with it." See [id.](#) Toysmart also agreed to destroy 2,000 records that may contain information collected in violation of Children's Online Privacy Act. See also [id.](#) (stating that Children's Online Privacy Act of 1998 makes it illegal for website to collect data from children under age of 13 without their first receiving parental consent). [Back To Text](#)

²¹⁰ See [In re Fedpak Sys. Inc.](#), 80 F.3d 207, 210, 212, 215 (7th Cir. 1995) (concluding that FedPak Company had no standing to file motion with bankruptcy court seeking clarification on court's finding on intellectual property issues in that when authorized by bankruptcy court, FedPak transferred all of its intellectual property rights in exchange for payments to bankruptcy estate, and therefore no longer owned any intellectual property rights); see also [T.S. Note Co. v. United Kan. Bank & Trust \(In Re Topsy's Shoppes, Inc. of Kan.\)](#), 131 B.R. 886, 888–89 (Bankr. M.D. Fla. 1991) (stating that term "general intangibles" in security agreement between debtor and creditor is sufficient to cover all intellectual property of debtor, thus upholding creditor lien on such property). But see [Royal Bank & Trust Co. v. Pereira \(In Re Lady Madonna Indus., Inc.\)](#), 99 B.R. 536, 539, 541 (S.D.N.Y. 1989) (stating that while trademarks and trade-names are general intangibles, security agreement between debtor and creditor was not enforceable in that security agreement did not possess proper description of collateral). Therefore, whereas intellectual property interests may not be controlled by bankruptcy estate due to security interests, interests over such intellectual property must be properly described in security agreement. [Back To Text](#)

²¹¹ See [11 U.S.C. § 363\(a\) \(2000\)](#) (defining "cash collateral" as "cash, negotiable instruments, documents of title, securities, deposit accounts, or other cash equivalents whenever acquired in which the estate and an entity other than

the state have an interest, and includes the proceeds, products, offspring, rents, or profits of property subject to a security interest"); see also Small v. Bank, 936 F.2d 945, 947 (7th Cir. 1991) (stating that "when a bankruptcy court allows a debtor the use of cash collateral, the debtor's creditors in exchange may be granted extra protection"); Honorable Stephen E. Stripp, Balancing of Interests in Orders Authorizing the Use of Cash Collateral in Chapter 11, 21 Seton Hall L. Rev. 562, 563 (stating that "[a]n order authorizing the debtor's use of cash collateral is often the most important order entered in a chapter 11 case. Such an order is essential both to the debtor's survival as a going concern and to preserve the value of the secured creditor's lien on cash collateral"). [Back To Text](#)

²¹² See supra note 211 (quoting language of 11 U.S.C. § 363(a)); see also 11 U.S.C. § 363(e) (stating that when referring to sale, lease or use of property that "[A]t any time, on request of an entity that has an interest in property used, sold, or leased . . . by the trustee, the court . . . shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest."); 11 U.S.C. § 552(b)(1) (2000):

[I]f the debtor of an entity entered into a security agreement before the commencement of the case and if the security interests created by such security agreement extends to property of the debtor acquired before the commencement of the case and to proceeds, product, offspring, or profits of such property, then such security interest extends to such proceeds, product, offspring, or profits acquired by the estate after the commencement of the case to the extent provided by such security agreement and by applicable nonbankruptcy law, except to any extent that the court, after notice and a hearing and based on the equities of the case, orders otherwise. [Back To Text](#)

²¹³ See Linda Rosencrance, Judge Puts off Toysmart Data Sale Ruling, Computerworld, July 21, 2000, Section News at 6 (explaining that FTC filed lawsuit against Toysmart over its planned sale to another company over Toysmart's customer data). FTC has filed an Action against Toysmart.com alleging that FTC Act bars Toysmart contemplated sale of its customer list in Bankruptcy Court. The settlement with the FTC arguably violates the Bankruptcy Code precept that court must accept highest and best offer, by inter alia imposing significant restrictions on kind of company that can be solicited and terms of sale. Indeed, it is common knowledge that sales price of assets are often maximized in bankruptcy proceedings by soliciting higher aggregate prices for individual assets. Right to demand that creditors and debtors seek competing bids on both going concern and individual asset basis is fundamental premise of often used requirement of § 363 sales that— Debtor or trustee seek highest and best offer. See, e.g., Comm. of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.), 722 F.2d 1063, 1071 (2d Cir. 1983) (asserting that judge, in determining whether good business reason exists to grant § 363 application, should look to such relevant factors as (1) proportionate value of asset to estate as whole; (2) amount of elapsed time sine filing; (3) likelihood that plan of reorganization will be proposed and confirmed in near future; (4) effect of proposed disposition on future plans of reorganization; (5) proceeds to be obtained from disposition vis-à-vis any appraisals of property; and (6) whether asset is increasing or decreasing in value.); In re Canyon Partnership, 55 B.R. 520, 526 (Bankr. S.D. Ca. 1985) (court must be able to determine from facts and evidence presented that "proposed sale price is fair and reasonable and that the sale is in the best interest of the estate and of the creditors"). [Back To Text](#)

²¹⁴ See Thor Olavsrud, FTC Takes Toysmart to Court (July 10, 2000) <<http://www.Internetnews.com/ec-news>>; see also id. (stating that, according to FTC Chairman Robert Pitofsky, "Even Failing dot-coms must abide by their promise to protect the privacy rights of their customers . . . The FTC seeks to ensure these promises are kept"); Richtel, supra note 209, at C1 (stating that "Pamela Kogut, an assistant attorney general in Massachusetts handling the case, said Toysmart should be forced to live up to its promise to never sell the data to a third party"). [Back To Text](#)

²¹⁵ See Olavsrud, supra note 214. [Back To Text](#)

²¹⁶ See id. [Back To Text](#)

²¹⁷ The Online Children's Privacy Act prohibits Internet sites from collecting information about children under age 13 without first obtaining affirmative parental consent. See 15 U.S.C. § 6501(1) (2000) (defining child as an individual under age of 13); see also 15 U.S.C. § 6502(c) (stating that "a violation of a regulation prescribed under subsection (a) shall be treated as a violation of a rule defining an unfair or deceptive act or practice prescribed under § 18(a)(1)(B) of the Federal Trade Commission act [15 U.S.C. § 57a(a)(1)(B)]"). [Back To Text](#)

²¹⁸ See Richtel, supra note 209, at C1 (stating that federal trade commission announced that it reached settlement to permit Toysmart.com to sell its customer database). But see Robert MacMillan, Judge Tosses Toysmart– FTC Agreement (August 18, 2000) <<http://www.newsbytes.com>> (stating that a federal bankruptcy judge ruled that Toysmart.com can't sell its assets under deal with FTC which would protect Toysmart's list of personal customer data). See generally Olavsrud, supra note 214. Back To Text

²¹⁹ See Abramson, supra note 209 (noting that Disney Corp. offered to purchase customer list for \$50,000); see also Richtel, supra note 209 (stating that "the company has received two, possibly three, bids for the database, including one from Disney, which held three of the company's five board seats"); Rosencrance, supra note 213, at 6 (stating that "Toysmart declined to accept either of the two bids for its consumer list— \$50,000 from Walt Disney Co., which owns a 60% stake in Toysmart"). Back To Text

²²⁰ See generally Abramson, supra note 209. Back To Text

²²¹ See Hayhoe v. Cole (In re Cole), 226 B.R. 647, 652 (B.A.P. 9th Cir. 1998) (stating that "[t]he Bankruptcy Code pre-empt[s] the private right to contract around its essential provisions, such [as] those found in 11 U.S.C. § 362"). But see In re St. Lawrence Corp., 239 B.R. 720, 725 (Bankr. N.J. 1999) (stating that "the section nevertheless supports our conclusion that Congress did not intend for the Bankruptcy Code to Pre-empt all state laws that otherwise constrain the exercise of a trustee's powers"). See generally 11 U.S.C. § 362(b)(4). Back To Text

²²² See Amy Borrus, Online Privacy: Congress Has No Time to Waste, Bus. Wk., Sept. 9, 2000, at 54 (resulting from Toysmart, amazon.com eliminated user–ability to share purchase–data because customer data could possibly be used liquidated should company go under); Steven D. Homan, Companies Deal with the 'New' New Economy, 224 N.Y.L.J. 5, Sept. 5, 2000, at C.4 (2000) (discussing proposed settlement between Toysmart and FTC to pre-set sale conditions of customer list). Back To Text

²²³ See generally 11 U.S.C. §§ 1103(b), 1109(b) (2000). Back To Text

²²⁴ See The Return of the VC–problems with Your Privacy, IT Director.com News Analysis July 4, 2000; see also Elinor Abreu, When Dot Coms Die, Will Your Privacy?, PC World.com, The Industry Standard July 5, 2000 (stating that Boo.com has been changed to portal); Eric Young, Down For the Count, The Industry Standard, June 5, 2000 (discussing recent "turmoil" Internet Industry faces, including craftshop.com's chapter 11 filing). Back To Text

²²⁵ See Heather Clancy, Can I Interest You in a Dot–Com? Stock Shakeout Yields e–Business Bargains, But Only the Bravest Companies Are Willing to Buy, Computer Reseller News, Sept. 11, 2000 (discussing Boo.com's liquidation of assets – Fashionmall.com bought web–site content and Bright Station bought Boo.com's software); Carol Silwa, Boo.com to Rise Again, Run by Fashionmall; But Big Changes Are in Store, Computerworld, Aug. 21, 2000, at 35 (stating that Boo.com will run as portal rather than carrying its own inventory). See generally Abreu, supra note 224. Back To Text

²²⁶ See P.J. Connolly, Privacy as a Global Policy, Infoworld, Sept. 11, 2000, at 49 (stating that FTC "may get involved if a company's policy is deemed part of its public business," and consumer privacy needs protection from said policy); Buzz Hunter, E–Bizz Buzz, E–Business Advisor, Sept. 2000, at 66 (noting how FTC filed complaint against Toysmart because "alleged violations of consumer privacy policy by offering its customer lists" as assets); Tom Reilly, Toysmart Case Can Set Bar For Online Privacy, Computerworld, Sept. 4, 2000, at 36 (discussing how FTC tried to settle with Toysmart by proposing to allow sale of customer list, but only to buyers in same market). See generally Abramson, supra note 209. Back To Text

²²⁷ See generally Council Directive 95/46, 1995 O.J. (L 281) 31. Back To Text

²²⁸ See Abramson, supra note 209. See, e.g., Netsurfers Anonymous?, PC World, Sept. 1998 (discussing TRUSTe's efforts to protect consumer privacy); Karen Kenworthy, How Safe is the Net? Using the Internet Can be Hazardous to Your Data's Health. We Reveal the Risks and Show You How to Keep Your Corporate Data as Well as Your Personal Information Safe and Secure, Windows Magazine, Dec. 1, 1998, at 144, (suggesting Trust–e safeguards to private

consumers); Kevin Railsback, The Politics of Standardized Privacy, Infoworld, Sept. 11, 2000, at 704 (discussing TRUSTe's web-site certification process). [Back To Text](#)

²²⁹ [In re Access Beyond Techs., Inc., 237 B.R. 32 \(Bankr. D. Del. 1999\).](#) [Back To Text](#)

²³⁰ [Perlman v. Catapult Entertainment, Inc. \(In re Catapult Entertainment\), 165 F.3d 747, 747 \(9th Cir. 1999\).](#) [Back To Text](#)

²³¹ See [id. at 754–55](#), (holding where statute "makes an executory contract nonassignable because the identity of the nondebtor is material, a debtor in possession may not assume the contract absent consent of the non-debtor party"); see also [In re Access Beyond Techs., 237 F.3d at 48](#) (affirming holding in Catapult regarding assignment of executory contracts). [Back To Text](#)

²³² See, Peter Clarke, Swiss Spin-Off Eyes Low-power Apps, Electronic Times, Oct. 27, 1997 (discussing spin-off's licensing of its cool chip standard cell library to Inventra business group of Inventor Graphics Corporation); see also Junko Yoshida, Joint Licensing Set for 1394 Patents, Electronic Engineering Times, Nov. 29, 1999 (discussing implementation of joint-license program for patents). [Back To Text](#)

²³³ See generally [David S. Kupetz, Beware When Dealing With Licensors of Intellectual Property: Avoiding Potential Pitfalls Facing Licensees and Lenders When Bankruptcy Intervenes, 17 No. 1 Computer Law 21 \(Jan. 2000\).](#) [Back To Text](#)