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Protecting Technology and Intellectual Property Rights When a Debtor Infringes on Those Rights

Richard M. Cieri[*], Neil P. Olack[**] & Joseph M. Witalec[***]

Introduction

Any discussion of the new millennium seems to result inevitably in commentary regarding the so−called "New Economy" −− "a radically altered world of business which will overturn conventional patterns of economic behaviour." [1] This "New World" is supposedly being created by three forces coming together −− "information technology, increased competition and the emergence of the global marketplace." [2]

With the information technology sector in the lead, the United States has enjoyed a strong economy. In fact, since 1994 the U.S. has experienced growth of about 4% with unemployment falling from 6% to about 4%. [3] Leaving out food and energy, consumer inflation was only 1.9% in 1999, the smallest increase in 34 years. [4] The proponents of the New Economy suggest that most of the economic benefits of information technologies are yet to be realized. [5] Apparently, economic history suggests that "productivity gains from new enabling technologies such as the Internet diffuse only gradually across the economy." [6] Projections show the "knowledge−based" industries will increase their share of the U.S. economy from "just over 40% in the mid−1990s to over 50% by 2006." [7] Similar results are expected in Europe, Japan and other "mature economies." [8]

The New Economy is not without its skeptics. [9] There are some that suggest "bust may well follow behind boom." [10] For example, increased competition may lower prices and force drastic change on established companies. [11] Additionally, there may be those start−up technology companies that will have financial trouble in this competitive industry. [12]

With the possibility of a "bust" facing this technology−driven economy, the holders of intellectual property rights under patent [13] and copyright [14] laws should be considering a variety of scenarios in the event it becomes necessary to protect their rights in a down economy. One possible scenario is the protection of the holders' intellectual property rights against an infringing company that has filed for relief under the United States Bankruptcy Code. [15]

Although not quite the unstoppable force meeting the immovable object, the conflict that can arise between the rights afforded to intellectual property holders and the protections provided to debtors under the Bankruptcy Code has produced inconsistent results. In such a case, the policies behind the two sets of laws can be squarely at odds. [16] On the one hand, the intellectual property laws are meant to protect the holders of intellectual property against its unauthorized use. Such laws allow intellectual property holders to sue entities who violate their rights for damages on account of past infringement and to seek injunctive relief against future infringement.

The Bankruptcy Code, on the other hand, is designed to give the debtor a breathing spell after the debtor files for bankruptcy relief. In order to accomplish that goal, section 362 of the Bankruptcy Code imposes an automatic stay (the "Automatic Stay") on a number of actions against the debtor while the bankruptcy case is pending, including the continuation or commencement of lawsuits based on prebankruptcy acts of the debtor or any act to obtain or exercise control over property of the debtor's estate. [17] When a debtor under the Bankruptcy Code violates another party's intellectual property rights, a judge must often weigh the competing policies behind the federal intellectual property laws and the Bankruptcy Code. For instance, the judge can either determine that the Automatic Stay prohibits an

action against the debtor's alleged infringement or else allow the intellectual property holder to proceed with its attempt to remedy the debtor's infringement.

This Article examines a number issues central to the bankruptcy court's analysis in making such a determination. First, this Article will discuss historical aspects of the conflict between intellectual property rights and bankruptcy. An examination of the Bankruptcy Code's treatment of other intellectual property issues and the policy decisions underlying them will provide useful insight. Second, this Article will examine jurisdictional issues that have profound effects on the eventual outcome of an infringement action. Debtors tend to favor presenting their case before the bankruptcy court because of the perception that it may be a more sympathetic forum for the debtor, while intellectual property holders generally prefer a federal district court to decide such issues because of their perceived expertise in intellectual property matters. Third, this Article examines the scope of the Automatic Stay and its application to actions against a debtor's violation of intellectual property rights. In conjunction with this examination, the Article reviews the process of seeking relief from the Automatic Stay and the potential dangers of proceeding against the debtor without seeking relief from the Automatic Stay.

I.Past as Prologue

The intersection of intellectual property [18] law and bankruptcy law, while relatively new, is not without its own history. Rather, lawmakers and the judicial system have been forced to deal with this conflict for a number of years. For much of this time, courts have looked to existing bankruptcy law when presented with an intellectual property issue. However, in some cases, existing bankruptcy law proved inadequate to deal with the changing circumstances intellectual property presented. [19] In at least one situation, these inadequacies prompted Congress to abandon its general policy against the creation of "special interest exceptions" [20] and to amend the Bankruptcy Code. Through the addition of section 365(n) of the Bankruptcy Code, Congress sought to curb what it viewed as a threat to the "development and licensing of intellectual property by providing certainty to licensees in situations where the licensor files bankruptcy and seeks to reject the license agreement as an executory contract." [21] An examination of the policy considerations that motivated this amendment provides a useful framework from which to approach the issues described in this Article.

A. The Intellectual Property Act

Before 1988, licenses for the use of intellectual property were treated just as any executory contract or unexpired lease. [22] A debtor/licensor could relieve itself of the burden of an intellectual property license by seeking bankruptcy protection and then rejecting the license agreement pursuant to section 365 of the Bankruptcy Code. The licensor's rejection extinguished not only the affirmative performance obligations under the executory license agreement, but also the passive obligations to permit the licensee to use the intellectual property as provided by the license. While the effect of such a rejection could be devastating to the licensee and leave it without the technology it needed to operate a substantial part of its business, such licensee had little more than a general unsecured claim for damages, [23] as was the case in the decision by the United States Court of Appeals for the Fourth Circuit in *Lubrizol Enterprises v. Richmond Metal Finishers, Inc.* (*In re Richmond Metal Finishers, Inc.*). [24]

In response to a concerted lobbying effort that was prompted by the *Lubrizol* decision, Congress enacted the Intellectual Property Act, which included the addition of section 365(n) of the Bankruptcy Code, to remedy this perceived inequity. Under section 365(n), if a debtor/licensor rejects an intellectual property license agreement, the licensee has two alternatives. First, the licensee may elect to treat the license as terminated and assert a claim for breach of contract damages. [25] Second and more importantly, the licensee has the option to retain its licensed rights in the intellectual property and continue to make all royalty payments due to the debtor under the license agreement, although the debtor will have no obligation to the licensee after rejection other than to grant the licensee unimpeded use of the technology. [26]

B. Policy Decisions Behind the Addition of Section 365(n)

It is helpful for the purposes of this Article to appreciate the policy considerations that inspired the addition of section 365(n). As a starting point, the stated purpose in amending section 365 was "to promote the development and

licensing of intellectual property by providing certainty to licensees in situations where the licensor files bankruptcy and seeks to reject the license agreement as an executory contract." [27] More specifically, there was substantial concern that the recent judicial interpretation of section 365 would create a chilling effect on licenses of intellectual property. [28]

The alternative to licensing, as Congress viewed it, would be an outright sale. [29] Indeed, after *Lubrizol*, many potential licensees of intellectual property demanded that their licensing arrangements be structured as sales of the intellectual property, while others required complex arrangements involving security interests and various escrow arrangements, all designed to defeat the ability of a debtor to reject the license agreement and to cause the licensee to forfeit its right to use the licensed intellectual property. [30] However, these techniques created obvious disincentives to the full development of intellectual property by sharply limiting the number of parties who could participate in new technological development. These changes were viewed as a fundamental threat to the creative process that nurtured innovation in the United States. [31] In response to this threat, Congress created section 365(n).

C. Application

While the primary purpose of the bankruptcy laws is to afford the debtor a meaningful chance to reorganize and make a fresh start, it is clear from the addition of section 365(n) that Congress is willing to protect the interests of the growing intellectual property and technology markets −− in some cases, even above the interests of the debtor. [32] The chilling effect Congress sought to avoid through the addition of section 365(n) may be equally as possible when, as discussed by this Article, a debtor infringes upon patents and copyrights owned by another person. In this situation, a person may gain unimpeded use of intellectual property owned by another person, without contracting for such use, simply by claiming the protections of bankruptcy. In some instances, filing for bankruptcy will protect the debtor from infringement suits or other legal remedies to enjoin the unlawful use. [33] In fact, it is arguable that the chilling effect is more severe in this scenario. Not only are intellectual property rights being unilaterally dispossessed, as was the case in *Lubrizol*, but they are being dispossessed without any colorable claim to them. This is certainly not a result Congress intended.

II.Jurisdiction Over Intellectual Property Matters in Bankruptcy Cases

An action against a debtor for intellectual property violations pits two very important issues of federal law against each other −− the protections provided pursuant to the Bankruptcy Code versus the proprietary rights provided by the intellectual property laws. Bankruptcy courts are specialized tribunals that have been established to handle the orderly administration of the debtor's bankruptcy case. The extent to which a bankruptcy court can hear matters relating to intellectual property issues involving a debtor is described below.

A. Jurisdiction Derived from District Courts

Bankruptcy courts are units of the federal district courts and derive their jurisdiction from the jurisdiction of the district courts. [34] Accordingly, an analysis of bankruptcy court jurisdiction begins with a review of the statutory grant of jurisdiction to the district courts.

1. Statutory Basis

Under section 1334 of the Judicial Code, [35] federal district courts have jurisdiction over the following types of bankruptcy cases and proceedings:

1. "cases under" the Bankruptcy Code;

2. civil proceedings "arising under" the Bankruptcy Code;

3. civil proceedings "arising in" a case under the Bankruptcy Code; and

4. civil proceedings "related to" a case under the Bankruptcy Code. [36]

2. Jurisdiction Over Bankruptcy Matters

The first three jurisdictional categories described above relate to bankruptcy−specific matters:

1. A "case under" the Bankruptcy Code is the bankruptcy case itself, which is commenced upon the filing of a bankruptcy petition. [37]

2. A proceeding "arising under" the Bankruptcy Code is a proceeding within the bankruptcy case involving a cause of action created by the Bankruptcy Code. [38]

3. Proceedings "arising in" bankruptcy cases have been defined as those matters that arise only because of the bankruptcy case. [39]

A bankruptcy court will be able to assert jurisdiction under one of these categories only if a party brings an action based upon the provisions of the Bankruptcy Code or other bankruptcy theory of relief.

3. "Related to" Jurisdiction

To establish jurisdiction for all other civil matters brought in a bankruptcy case, it must be shown that the proceedings are "related to" the chapter 11 case. Since actions relating to intellectual property issues are rarely, if ever, based on the Bankruptcy Code or other bankruptcy theory, the jurisdiction of a bankruptcy court to hear an intellectual property dispute will typically be examined under this "related to" standard. As described below, the courts have differing interpretations as to the scope of "related to" jurisdiction.

a.Broad Interpretation

A broad interpretation of "related to" jurisdiction was articulated by the Third Circuit in *Pacor, Inc. v. Higgins*: [40]

The . . . test for determining whether a civil proceeding is related to bankruptcy is whether *the outcome of that proceeding could conceivably have any effect on the estate being administered in bankruptcy*. Thus, the proceeding need not necessarily be against the debtor or against the debtor's property. An action is related to bankruptcy if the outcome could alter the debtor's rights, liabilities, options, or freedom of action (either positively or negatively) and which in any way impacts upon the handling and administration of the bankrupt estate. [41]

The majority of federal appellate circuits have followed *Pacor* in construing "related to" jurisdiction broadly. [42]

b.Narrow Interpretation

The Seventh Circuit, however, has adopted a more narrow interpretation of "related to" jurisdiction. Under current Seventh Circuit precedent, a proceeding falls within a court's "related to" jurisdiction only if the proceeding "affects the amount of property for distribution [i.e., the debtor's estate] or the allocation of property among creditors." [43]

c.Applicability to Intellectual Property Matters

Intellectual property matters and similar nonbankruptcy causes of action may be brought in the Bankruptcy Court under the "related to" jurisdiction found in section 1334(b) of the Judicial Code. [44] Although courts have rarely addressed the jurisdiction of bankruptcy courts in intellectual property matters, a patent action could affect the property available for distribution to creditors (as well as other rights and obligations of the debtor) and therefore arguably is a matter within the Bankruptcy Court's "related to" jurisdiction, possibly even under the more narrow Seventh Circuit standard. The debtor's activities that allegedly violated intellectual property rights can often represent a substantial portion of the debtor's business. Additionally, damage claims arising out of the debtor's alleged infringement can often times be substantial, thereby affecting the distributions to all of the debtor's creditors. Thus, a dispute involving the debtor's alleged infringement of intellectual property rights could have a substantial impact on the debtor's bankruptcy estate and creditors and arguably falls within the Bankruptcy Court's "related to" jurisdiction.

B. Referral of Bankruptcy Matters to the Bankruptcy Courts

1. Referral Generally

Under section 157(a) of the Judicial Code, each district court may enter a general order referring all bankruptcy matters to the bankruptcy courts for that particular district. Virtually all district courts have referred all bankruptcy matters arising in the district to the bankruptcy courts. [45]

2. Authority of Bankruptcy Courts to Hear Core Proceedings

Notwithstanding the jurisdiction granted under section 1334(a) of the Judicial Code and the general referral of bankruptcy matters by the district courts, pursuant to section 157(b) of the Judicial Code, bankruptcy courts may finally determine only "core proceedings." [46] The term "core proceeding" is not defined in the Judicial Code. [47]

3. Authority of Bankruptcy Courts to Hear Non−Core Proceedings

If an action is a not a core proceeding, but nonetheless falls within the "related to" jurisdiction of section 1334 of the Judicial Code, the bankruptcy court's role is limited to submitting proposed findings of fact and conclusions of law for the consideration of the district court, unless all of the parties to the proceeding otherwise consent and the district court otherwise allows. [48]

4. Potential Treatment of Intellectual Property Actions

One circuit court explained the test to determine if an action is a core proceeding as follows:

If the proceeding does not involve a substantive right created by the federal bankruptcy law and is one that could exist outside of bankruptcy it is not a core proceeding; it may be *related* to the bankruptcy because of its potential effect, but under section 157(c)(1) it is an "otherwise related" or non−core proceeding. [49]

Under this standard, a cause of action related strictly to intellectual property rights that could be brought outside of the bankruptcy context −− such as an action to determine rights under the federal patent or copyright statute −− likely would be a non−core proceeding. [50] To be treated as a core proceeding subject to final determination by the bankruptcy court, any intellectual property action would have to be asserted in conjunction with bankruptcy issues, such as the assumption or rejection of an executory contract or the treatment of patent claims in bankruptcy. [51] The determination of "core" status thus may depend upon the characterization of a cause of action under the particular facts. As a result, "courts frequently reach inconsistent results in an effort to identify core proceedings." [52] In order to give the court "core" jurisdiction over intellectual property issues, a debtor could attempt to characterize a cause of action as raising or affecting bankruptcy issues. For example, an action to enforce an agreement regarding intellectual property between the parties potentially could be raised as an executory contract issue under section 365 of the Bankruptcy Code or a declaratory judgment action to determine infringement issues could be characterized as addressing potential claims against the bankruptcy estate. [53]

C. Withdrawal of the Reference

Under certain circumstances, the general referral of bankruptcy matters to the bankruptcy courts may be withdrawn, resulting in certain matters being returned to the district court for determination.

1. Permissive Withdrawal

Under section 157(d) of the Judicial Code, a district court may withdraw any case or proceeding [54] referred to a bankruptcy court "for cause." [55] Although appropriate "cause" is not defined in the Judicial Code, courts have identified numerous factors that may be considered when faced with a request for permissive withdrawal of the reference, including the policies of "advancing uniformity in bankruptcy administration, decreasing forum shopping and confusion, promoting the economical use of the parties' resources, and facilitating the bankruptcy process." [56]

Certain of these and other factors are described in greater detail below. [57]

a.Considerations of Bankruptcy Administration

In determining if sufficient cause exists to withdraw the reference, courts typically consider whether general policies of efficient administration of bankruptcy cases will be advanced by a transfer of a matter to the district court. As a result, withdrawal of the reference may be granted where a determination of underlying issues by the district court will promote judicial economy, [58] eliminate improper forum shopping [59] or conserve the debtors' resources. By contrast, if these policies are promoted by the bankruptcy court retaining jurisdiction, the reference typically will not be withdrawn.

b.Core/Non−Core Status

Because bankruptcy courts cannot issue final rulings in non−core proceedings without the consent of the parties, considerations of judicial economy may favor withdrawal of the reference in non−core matters. [60] Courts, however, have not adopted a *per se* rule for the withdrawal of the reference in all non−core proceedings. [61] Nevertheless, it is apparent that "[t]he reference is much more likely to be withdrawn if the proceeding is characterized as non−core since . . . a bankruptcy judge may not enter a final order or judgment in non−core proceedings." [62] Characterization of a matter as a core proceeding, on the other hand, does not preclude withdrawal of the reference on other grounds such as judicial economy or deference to another court's expertise. [63]

c.Right to Jury Trial

Although section 157(e) of the Judicial Code provides that a bankruptcy court may conduct a jury trial, it may do so only if "specially designated to exercise such jurisdiction by the district court" and only "with the express consent of all the parties." [64] Accordingly, in many cases a bankruptcy court may be unable to conduct a jury trial. Where a party has a right to a jury trial that cannot be exercised in the bankruptcy court, withdrawal of the reference may be appropriate (if not necessary) to promote judicial fairness. [65] Yet, some courts have denied requests to withdraw the reference made while pre−trial matters were pending, even where the bankruptcy court could not conduct the eventual jury trial. [66]

2. Mandatory Withdrawal

Under section 157(d) of the Judicial Code, a district court is *required* to withdraw the reference on the timely motion of a party if the court "determines that resolution of the proceeding requires consideration of both title 11 [*i.e.*, the Bankruptcy Code] and other laws of the United States regulating organizations or activities affecting interstate commerce." [67] Notwithstanding the apparently simple language of this statute, it has been subject to varying interpretations.

a.Plain Language Interpretation

The plain language of section 157(d) indicates that withdrawal of the reference is mandatory only if *both* the Bankruptcy Code and another federal statute must be construed to resolve the proceeding. Some courts have strictly followed this view. [68]

b.Policy−Based Interpretation

Other courts have recognized that this strict reading of the statute's "plain language" conflicts with the apparent goal of mandatory withdrawal to remove nonbankruptcy actions from the bankruptcy courts. Under the statute's "plain language," a district court would be required to withdraw the reference only in actions involving both bankruptcy and nonbankruptcy law −− not in matters involving nonbankruptcy law alone. This would lead to the anomalous result that proceedings involving only nonbankruptcy issues may be retained by the bankruptcy court. [69]

i. The "Substantial and Material" Standard

Using this reasoning, most courts have declined to enforce the literal language of section 157(d) for mandatory withdrawal. Instead, these courts require that the reference be withdrawn if an action involves a "substantial and material" consideration of a nonbankruptcy federal statute regulating interstate commerce, regardless of whether the action also involves consideration of the Bankruptcy Code. [70]

ii. Interpretation v. Application of Nonbankruptcy Statute

A number of courts have held that the "substantial and material" standard is satisfied −− thereby requiring withdrawal of the reference −− only if resolution of the proceeding requires *interpretation* of a nonbankruptcy federal statute, not merely its *application* to a particular set of facts. For example, choosing among competing case law interpretations or applying relevant precedent constitutes application, not interpretation, of a statute for which withdrawal of the reference would not be required. [71] Examining an unclear statute or unclear precedent, on the other hand, constitutes interpretation of a statute for which withdrawal of the reference would be required. [72] Similarly, deciding an issue of first impression or an issue that presents a conflict with the Bankruptcy Code constitutes interpretation of a statute for which withdrawal of the reference would be required, while an examination of well−settled law constitutes application of a statute for which withdrawal would not be mandated. [73]

iii. Predominate and Essential Nonbankruptcy Issues

Other courts have adopted a more liberal interpretation of the "substantial and material" standard that favors mandatory withdrawal of the reference where the federal nonbankruptcy issues are predominant and essential to the resolution of the dispute. [74]

3. Withdrawal of the Reference in Intellectual Property Cases

A nondebtor party seeking to withdraw the reference in any intellectual property action has available to it a variety of arguments. Actions based upon the federal patent or copyright law may be subject to mandatory withdrawal, particularly if the bankruptcy court is asked to interpret novel issues of law or if such issues predominate and are essential to the proceeding. For instance, in *United States Gypsum Co. v. National Gypsum Co.* (*In re National Gypsum Co.*), [75] a claimant sought the withdrawal of the reference with respect to: (a) its proof of claim alleging damages based on patent infringement; and (b) the debtor's objection to the infringement claim. The *National Gypsum* court found that the patent issues raised by the proof of claim required "substantial and material consideration" of nonbankruptcy federal law (including both patent and antitrust law), thereby requiring withdrawal of the reference. [76] The court further explained that "it is apparent that the nature of the alleged patent infringement is such that its effect, if infringement is found, would be on items placed in the stream of interstate commerce." [77]

4. Procedural Issues

In addition to the substantive issues regarding the bankruptcy court's jurisdiction to hear patent issues, there are a number of procedural issues that a nondebtor party will want to consider in attempting to take the matter out of the hands of the bankruptcy court.

a.Timing

In many cases, the deadline to file a motion to withdraw the reference in any proceeding brought in a chapter 11 case is governed by the local rules for the United States District Court for the district in which the case is pending. In addition to the timing requirements established by the local rules, a timeliness requirement for withdrawal motions has been developed in the case law. Courts have indicated that a withdrawal motion must be filed "as soon as possible, or at the first reasonable opportunity after the moving party has notice of the grounds for withdrawal, depending on the facts of each case." [78] Any delay in filing a motion to withdraw the reference therefore increases the risk that it will be denied as untimely. In examining the timeliness of such a motion, courts consider: (i) whether the nonmoving party will suffer unfair prejudice; and (ii) whether the moving party is seeking withdrawal of the reference for an improper motive, such as forum shopping. [79]

b.Stay of Proceedings

Under Rule 5011(c) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), a motion to withdraw the reference does not automatically stay administration of the matter for which withdrawal is sought. [80] Nevertheless, a court may stay any proceedings pending a determination of a motion to withdraw the reference "on such terms and conditions as are proper." [81] Typically, a party files a request to stay proceedings pending determination of a withdrawal motion directly with the bankruptcy court. If, however, a motion for a stay is filed in the district court, it must state why such relief has not been sought or obtained from the bankruptcy judge. [82]

c.Filing with Appropriate Court and Related Requirements

A determination to withdraw the reference may be made only by the district court that referred the matter in the first instance. [83] In some districts, however, local rule or practice dictates that a withdrawal motion be filed in the bankruptcy court, which then transmits the motion to the District Court. [84]

d.Prior Determination of Core/Non−Core Status by the Bankruptcy Court

"Although the district court must decide the motion to withdraw the reference under 28 U.S.C. § 157(d), the issue of whether [the] proceeding is core or non−core is determined in the first instance by the bankruptcy court." [85] Accordingly, if a party seeks withdrawal of the reference on the basis that a proceeding is non−core, the district court may defer its determination of the withdrawal motion until the bankruptcy court first determines if the underlying action is core or non−core. [86]

e.Appeals

Section 1291 of the Judicial Code states that "[t]he courts of appeals . . . shall have jurisdiction of appeals from all *final decisions* of the district courts of the United States." [87] Generally, a final judgment subject to appeal is a judgment that "ends the litigation on the merits and leaves nothing for the court to do but exercise the judgment." [88] Withdrawal orders typically are not appealable because they are not final judgments under the test articulated above. [89] Nevertheless, orders granting or denying the withdrawal of the reference might fall within one of the exceptions to the final judgment rule and therefore be subject to appeal. [90]

The primary exception to the final judgment rule is the collateral order doctrine, [91] which applies to orders that "(1) finally determine[] claims collateral to and separable from the substance of other claims in the action; (2) cannot be reviewed along with the eventual final judgment because by then effective review will be precluded and rights conferred will be lost, and (3) are too important to be denied review because they present a serious and unsettled question of law." [92]

III.The Automatic Stay

A. The General Provisions of the Automatic Stay

Section 362 of the Bankruptcy Code lists an array of actions that a third party is prohibited from taking against a debtor once the debtor files (either voluntarily or involuntarily) for protection under the Bankruptcy Code. Among the provisions most relevant when the debtor is engaged in a violation of intellectual property rights are sections 362(a)(1) and 362(a)(3). Section 362(a)(1) of the Bankruptcy Code prohibits "the commencement or continuation, including the issuance or employment of process, of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under [the Bankruptcy Code], or to recover a claim against the debtor that arose before the commencement of the case under [the Bankruptcy Code]." [93] Section 362(a)(3) of the Bankruptcy Code, on the other hand, prevents "any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate." [94] Both section 362(a)(1) and 362(a)(3) have been used by debtors as a means to forestall actions alleging violations of intellectual property rights.

1. Infringement as a Prepetition Act

Since section 362(a)(1) of the Bankruptcy Code prohibits the commencement or continuation of litigation against a debtor that "was or could have been commenced before the commencement of the case," [95] the crucial issue in determining whether the Automatic Stay applies to an action against infringement by a debtor is whether such action could have been commenced prepetition. To the extent the action could have been commenced prepetition, section 362(a)(1) will prevent the intellectual property holder from bringing an action against the debtor's infringement. To the extent the action against the debtor's infringement arose postpetition, however, such action will not be stayed by section 362(a)(1).

In analyzing when a cause of action against an intellectual property violation arises, certain situations are relatively easy to assess. For instance, if an intellectual property holder is suing for damages based upon wholly prepetition infringement, section 362(a)(1) would clearly apply to stay such action. [96] In contrast, if a debtor first started to infringe intellectual property *after* it commenced its bankruptcy case, it would have been impossible for the intellectual property holder to commence the action prepetition, so section 362(a)(1) would not prevent an action to enjoin such infringement. [97] For example, in *Larami Limited v. Yes! Entertainment Corporation*, [98] a chapter 11 debtor moved to enforce the automatic stay with respect to a patent infringement action brought by the patent owner. The court stated that because the bankruptcy petition was filed on February 9, 1999 and the patent was not issued until three months later on May 25, 1999, the alleged infringement was clearly postpetition. The court recognized that if section 362 were "read to prevent the injunctive relief sought here, bankrupt businesses which operated post−petition could violate patent rights with impunity." [99] Accordingly, the court held that section 362 does not bar the plaintiff's suit for postpetition damages, nor would it bar the court from issuing an injunction which prevented the debtor from manufacturing and selling the infringing products. [100]

A more difficult situation to analyze occurs when the debtor commences its infringement prepetition and that infringement continues after the commencement of the bankruptcy case. In this situation, the courts have taken differing views as to whether section 362(a)(1) applies. Some courts view the postpetition infringement as separate and distinct from the prepetition infringement, while other courts treat the infringement as a single continuous act. The distinction is crucial because if the postpetition infringement is viewed as entirely distinct from the prepetition infringement, section 362(a)(1) will not apply to actions against the postpetition conduct. If, on the other hand, the postpetition infringement is viewed as a continuation of the prepetition infringement, the Automatic Stay will bar an action against the postpetition infringement as an action that could have been commenced prepetition.

a.Postpetition Infringement As Separate and Distinct From Prepetition Infringement

Although few bankruptcy courts have addressed this issue directly, at least one bankruptcy court has found that postpetition infringement is independent from prepetition infringement for purposes of section 362(a)(1) of the Bankruptcy Code, even when an action was brought prepetition against the infringer. In *Voice Systems and Services, Inc. v. VMX, Inc.*, [101] the plaintiff had brought a prepetition action against the debtor alleging patent infringement. The plaintiff also sought a preliminary injunction to enjoin the debtor's alleged patent infringement. After the debtor filed its bankruptcy petition, the court found that the Automatic Stay did not apply to the injunction action since "the relief sought [by the plaintiff] does not involve pre−petition claims, but only seeks to enjoin post−bankruptcy petition alleged acts of patent infringement." [102]

The *Voice Systems* court relied on 28 U.S.C. § 959(a) for the proposition that a debtor in possession may be sued for its postpetition conduct without relief from the Automatic Stay. [103] Section 959(a) provides as follows:

Trustees, receivers or managers of any property, including debtors in possession, may be sued, without leave of the court appointing them, with respect to any of their acts or transactions in carrying on business connected with such property. Such actions shall be subject to the general equity power of such court so far as the same may be necessary to the ends of justice, but this shall not deprive a litigant of his right to trial by jury. [104]

The rationale of 28 U.S.C. § 959(a) is that debtors are responsible for their ongoing postpetition conduct and must comply with applicable laws in the conduct of their business. The *Voice Systems* court noted specifically that 28 U.S.C. § 959(a) "has been held to constitute an exception to the section 362 automatic stay." [105] The last sentence of 28 U.S.C. § 959(a) nonetheless gives the bankruptcy court the power to stay an act against the debtor's postpetition

conduct if required for the purposes of equity. [106]

This view that postpetition infringement should be treated separately from prepetition infringement, and therefore not subject to the Automatic Stay, is consistent with those courts that have held that infringement by a debtor occurring prior to confirmation of the debtor's plan of reorganization is separate and distinct from postconfirmation infringement. These cases recognize that even if a plaintiff fails to participate in a bankruptcy by failing to file a timely proof of claim and is consequently barred from pursuing claims based on preconfirmation infringement, the plaintiff is still able to pursue a cause of action based on infringement that continues postconfirmation. [107]

In addition, treating postpetition infringement separately from prepetition infringement is supported by the proposition under intellectual property law that each infringing act by an entity constitutes a separate and distinct wrong. [108] Under this proposition, each act of infringement is an independent tort. As a result, the intellectual property holder's cause of action against the postpetition infringement could not have been commenced prepetition since it is separate from the holder's cause of action against the prepetition infringement and section 362(a)(1) does not apply.

b.Postpetition Conduct As Continuation of Prepetition Conduct

Other courts have found that infringement beginning prepetition and continuing postpetition is one perpetual wrong. Thus, any action to enjoin the conduct is precluded by section 362(a)(1) of the Bankruptcy Code because such action could have been commenced prepetition. For instance, in *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litigation*, [109] the court found that the Automatic Stay applied to the plaintiff's request for an injunction against the debtor's postpetition patent infringement since "the continuation during bankruptcy of conduct (such as the sale of [infringing products]) begun beforehand is most certainly one in which an action 'was or could have been commenced before the commencement of the case under this title.'" [110] These courts view the prepetition and postpetition infringement as a single wrong and refuse to allow a party to sever postpetition infringement from prepetition infringement to escape the Automatic Stay. [111]

2. Infringement As Property of the Estate

In addition to section 362(a)(1) of the Bankruptcy Code, a debtor may attempt to use section 362(a)(3) to stay an action against the debtor's infringement of intellectual property rights. As described above, section 362(a)(3) of the Bankruptcy Code acts as a stay of any act to "obtain possession of" or "exercise control over" property of the estate. Property of a debtor's estate is generally defined very broadly and includes intellectual property. [112] Whether it is defined broadly enough to stay actions for postpetition infringement is, as described below, a matter which the courts have reached conflicting results.

a.Infringing Use As Property of the Estate

In order to determine what is property of the estate protected by section 362(a)(3) of the Bankruptcy Code, it is necessary to look at section 541 of the Bankruptcy Code, which defines the property of the debtors estate. Section 541(a)(1) provides generally that the debtor's estate is comprised of "all legal or equitable interests of the debtor in property as of the commencement of the case." [113] The legislative history of section 541 made expressly clear that this phrase is to be interpreted quite broadly to include intangible rights such as patents and copyrights. [114]

It follows that any attempt to restrict or limit a debtor's use of its intellectual property, even if such use by the debtor infringes on another party's intellectual property, could be construed as an attempt to "exercise control" over property of the estate if that phrase is interpreted broadly. There is, however, very little case law examining the meaning of the "exercise control" language of section 362(a)(3) and the legislative history of that phrase is sparse. Courts that have attempted to trace the root of the "exercise control" provision note that it probably comes from committee reports that refer to property of the estate as "property over which the estate has control or possession." [115]

At least one court, however, has held that the "exercise control" language of section 362(a)(3) is broad enough to stay an injunction action against a debtor's infringement. In *Taxel v. Electronic Sports Research* (*In re Cinematronics, Inc.*), [116] a creditor brought an action seeking a temporary restraining order ("TRO") against the debtor's use of the

debtor's software that allegedly infringed on the creditor's software. The court found that the TRO "[was] clearly intended to wrest the possession and management of the [software] away from the debtor . . . ." [117] As a result, the TRO was a violation of section 362(a)(3) of the Bankruptcy Code. [118] The court reasoned that if the creditor wanted to "exercise control" of the debtor's intellectual property by seeking a TRO, it needed first to seek relief from the Automatic Stay. [119]

b.Infringing Use Not Property of the Estate

The *Taxel* court reasoned that section 362(a)(3) must be interpreted broadly to protect the debtor's use of its property, even if such use infringes on another party's intellectual property rights. Other courts have refused to apply section 362(a)(3) so expansively. These courts rely on the legislative history of section 362(a)(3) that indicates that the purpose of section 362(a)(3) is to keep the property of the estate out of the hands of creditors. [120]

The courts and commentators have noted that section 362(a)(3) must not be interpreted more broadly than is necessary to meet its legislative intent. [121] In particular, section 362(a)(3) should not be read so expansively to allow a debtor to use its property in manner that violates applicable law. For instance, in *Amplifier Research Corp. v. Hart,* [122] the plaintiff brought an action against the debtor arising from the debtor's distribution of a report allegedly defaming the plaintiff. Among the relief requested was an injunction against further circulation of the debtor's report. The debtor argued that the plaintiff's attempts to enjoin the debtor's circulation of the report constituted an action to "exercise control over" the debtor's property in violation of section 362(a)(3) of the Bankruptcy Code. The court disagreed, finding that the plaintiff's action was not an attempt to obtain or control the debtor's property, but simply an attempt to stop a tortious act. [123] The court noted that if it accepted the debtor's interpretation of section 362(a)(3), it "would effectively permit a bankrupt company which stays in business post−petition to commit torts with impunity, a privilege not afforded to non−bankrupts." [124] Reasoning that the Bankruptcy Code never "intended such a bizarre result," the court allowed the plaintiff's action to enjoin the debtor's tortious conduct to continue. [125] Simply put, while section 362(a)(3) protects the property of the estate, it is not intended to allow the debtor to commit postpetition wrongs with such property.

Another reason that an action against a debtor for the violation of intellectual property rights −− particularly an action to enjoin infringing conduct by a debtor −− should not be stayed by section 362(a)(3) of the Bankruptcy Code is that the requested relief against the debtor will only be granted upon a finding that the debtor has no valid property rights in the infringing product. That is, upon a finding of a violation of intellectual property rights, the debtor's alleged property rights in the infringing product will be deemed unlawful and invalid. With the debtor having no legitimate property rights in the infringing product, the product is not protected by section 362(a)(3) of the Bankruptcy Code. [126]

3. Jurisdiction to Determine Scope of the Automatic Stay

As described above, whether the Automatic Stay applies to an action against a debtor's violation of intellectual property rights is not always a clear−cut issue and often will require the judicial involvement to resolve. The issue thus arises as to which court is the proper forum to decide whether the Automatic Stay applies −− the bankruptcy court in which the debtor's case is pending or the nonbankruptcy forum in which the intellectual property holder wishes to commence or continue an infringement action against the debtor. The courts appear to be unanimous in holding that the nonbankruptcy forum, such as a state court or federal district court, has concurrent jurisdiction with the bankruptcy court to determine whether the Automatic Stay applies to an action pending in the nonbankruptcy forum. [127]

In certain circumstances, the nonbankruptcy forum may defer to the bankruptcy court to determine the scope of the Automatic Stay in a particular lawsuit. For instance, in *Erti v. Paine Webber Jackson & Curtis Inc.* (*In re Baldwin−United Corp. Litig.*), [128] the Second Circuit found that the equities of the situation favored that the bankruptcy court should determine the scope of the Automatic Stay rather the district court in which certain contribution and indemnity claims against the debtor were pending. The appeals court noted that the reorganization proceedings involved multiple contribution and indemnity claimants in various districts throughout the country. [129] In order to avoid conflicting views among the district courts as to the scope of the stay, and to ensure equal treatment among the claimants, the Second Circuit determined that the "necessary uniformity is best achieved by centralizing

construction of the automatic stay in the Bankruptcy Court." [130]

In addition, even if a nonbankruptcy forum determines that the Automatic Stay does not apply to a particular action, the bankruptcy court may nonetheless stay the proceeding using its equitable powers pursuant to section 105 of the Bankruptcy Code. [131] Moreover, if it is determined that the Automatic Stay applies to an action against the debtor, only the bankruptcy court may grant relief from the Automatic Stay. [132] Granting relief from the Automatic Stay is described in the following section.

B. Relief From the Automatic Stay

1. Standards in Granting Relief from the Automatic Stay

Even if a court determines that the Automatic Stay applies to an action against a debtor's infringement of intellectual property, a party may proceed with such an action if it is able to obtain relief from the Automatic Stay. Pursuant to section 362(d) of the Bankruptcy Code, relief from the Automatic Stay may be granted by the bankruptcy court on a number of grounds, including "for cause." [133]

The Bankruptcy Code does not define "cause" for granting relief from the Automatic Stay. Thus, the courts have developed a number of tests, depending on the action for which relief is sought, to determine whether cause exists to lift the Automatic Stay. When a party seeks relief to commence or continue outside civil litigation, the courts generally consider the following factors:

(1) Is there a more appropriate forum to hear the appeal? [134]

(2) Is the moving party likely to succeed on the merits? [135]

(3) Will modifying the stay promote judicial economy? [136]

(4) Will modifying the Automatic Stay harm the debtor, its creditors, or the debtor's ability to reorganize? [137]

(5) Will the movant be prejudiced if the Automatic Stay is not modified? [138] (This factor often is compared against the previous factor under a "balancing of hardships" analysis.)

2. Relief from the Automatic Stay for an Action Against a Debtor's Infringement

The application of the above factors to any stay relief request relating to an action against a debtor will necessarily be fact dependent, although certain considerations will be important in nearly all intellectual property infringement cases.

a.The Most Appropriate Forum

Holders of intellectual property rights generally have a strong argument that relief from the Automatic Stay should be granted to allow their cases to be heard in a nonbankruptcy forum. Patent and copyright issues, for instance, tend to be highly specialized areas of federal law for which the bankruptcy court may defer to a more experienced forum that is better equipped to deal with such issues. [139]

b.Judicial Economy

The judicial economy factor will be dependent on a number of considerations, including perhaps most importantly, whether an action against the debtor is already pending in another forum and the stage of that proceeding. To the extent an action against the debtor has been pending in another forum and the nonbankruptcy court has already become familiar with the facts and legal issues in such action, the bankruptcy court may be willing to grant relief from the Automatic Stay to allow such action to continue rather than waste its and the parties' resources in starting the action all over again in the bankruptcy court. [140] On the other hand, if no action has yet been brought in an outside forum, the judicial economy factor may weigh against granting relief from the Automatic Stay and in favor of settling

all issues concerning the debtor in one forum −− the bankruptcy court.

c.The Debtors Reorganization Efforts

The debtor's reorganization efforts is a factor that often may suggest that relief from the Automatic Stay should be denied. The debtor's activity that is being challenged as a violation of another party's intellectual property rights may be very important to the debtor's business and thus of crucial importance to the debtor's reorganization efforts. For instance, one of the debtor's major products or services may be the subject of an infringement suit. Obviously, if the debtor is forced to abandon or alter such activities, its long−term survival could be put in jeopardy. To the extent an intellectual property action could have a significant impact on the debtor's operation, and thus its ability to successfully reorganize, the bankruptcy court may lean towards hearing the matter itself, so the interests of all the debtor's creditors may be taken into consideration. Of course a bankruptcy court may still defer to a court specialized in intellectual property issues as long as the matter can be resolved quickly or the debtor's reorganization efforts will not otherwise be derailed.

d.Prejudice to the Nondebtor Party

Conversely, prejudice to the nondebtor party will usually weigh in favor of granting relief from the Automatic Stay. The owner of intellectual property has a strong interest in making sure that its property rights are protected from unauthorized use. Refusing to grant relief from the Automatic Stay will often cause delay in protecting its rights and force the nondebtor party to litigate the issues in a forum that may be less familiar with the facts and legal issues.

C. Violations of the Automatic Stay

If the Automatic Stay applies to an action against a debtor's infringement and such action is taken without first obtaining relief from the Automatic Stay, the action generally is considered completely void and not just voidable. [141] In addition, the party taking such action −− and in certain situations such party's agents and professionals −− faces a variety of sanctions. Remedies available to a debtor for a violation of the Automatic Stay include statutory provisions, as well as the bankruptcy court's civil and criminal contempt powers. Further, the debtor may seek not only actual damages resulting from the Automatic Stay violation, but may also collect punitive damages under certain circumstances.

1. Methods of Enforcing the Automatic Stay

a.Section 362(h) of the Bankruptcy Code

The Automatic Stay provision of the Bankruptcy Code contains its own remedy for a violation of the Automatic Stay. Section 362(h) of the Bankruptcy Code provides that "[a]n individual injured by any willful violation of a stay provided by this section shall recover actual damages, including costs and attorneys' fees, and, in appropriate circumstances, may recover punitive damages." [142] Although the circuits are not uniform, the majority of circuits hold that the term "individual" in section 362(h) of the Bankruptcy Code means that section 362(h) may only be used by natural persons to collect damages for a violation of the Automatic Stay, and that it is unavailable to corporate debtors. [143] The minority position is that section 362(h) may be used by corporate and noncorporate debtors alike. [144]

b.General Contempt Powers

While section 362(h) is not available to corporate debtors in many circuits, corporate debtors arguably can rely on two independent powers of the bankruptcy court to enforce the Automatic Stay. First, the bankruptcy court has an *inherent* power to enforce its orders. [145] Second, the bankruptcy court has a separate *statutory* power pursuant to section 105(a) of the Bankruptcy Code [146] to enforce the Automatic Stay. [147] Because the circumstances in which the court may use its inherent contempt power is more limited than its use of its section 105 contempt power, as described below, bankruptcy courts generally rely on section 105 for finding contempt due to a violation of the Automatic Stay. [148]

2. Standards and Damages for Civil Contempt

a.Willful Conduct −− Objective Test

The basic standard used by courts in determining whether a violation of the Automatic Stay constitutes civil contempt pursuant to its *statutory* power under section 105 of the Bankruptcy Code is "willfulness." That is, a court will find a violation of the Automatic Stay to be civil contempt if the violation is willful. [149] By contrast, the standard used to determine civil contempt according to the court's *inherent* power is "bad faith." [150] A finding of bad faith requires that the entity violating the Automatic Stay had an improper purpose or motive. [151] No such finding of an improper motive needs to be made to find a party in civil contempt under section 105.

A number of courts have adopted the following two prong test to determine whether an Automatic Stay violation was willful for purposes of civil contempt under section 105 of the Bankruptcy Code:

(i) the violator knew of the Automatic Stay; and

(ii) the violator committed the violative act, regardless whether the violator specifically intended to violate the Automatic Stay. [152]

In other words, "the focus of the court's inquiry in civil contempt proceedings is not on the subjective beliefs or intent of the alleged contemnors in complying with the order, but whether in fact their conduct complied with the order at issue." [153] As a result, in some circuits, a creditor can be held in civil contempt under section 105 for violating the Automatic Stay even if it believed in good faith that its actions did not violate the Automatic Stay.

b.Willful Conduct −− Subjective Test

Some courts have recognized that a strict objective test for determining whether an Automatic Stay violation is willful can yield harsh results. As a result, a number of courts have adopted a subjective approach for willfulness, at least in the section 362(h) context, that looks at the intent and good faith of the alleged violator. For instance, in *University Medical Center v. Sullivan* (*In re University Medical Center*), [154] the Third Circuit was faced with the issue of appropriate damages under section 362(h) for a violation of the Automatic Stay. The court found that the violator of the Automatic Stay acted in good faith and had persuasive legal authority to support its position that the Automatic Stay did not apply. [155] Although it was ultimately determined that the Automatic Stay did apply, the violator was not held in contempt since the violation was not "willful" and no damages were assessed. [156] Although those courts using the subjective test for willfulness have done so pursuant to section 362(h), that analysis should apply equally to the section 105 willfulness standard as well.

c.Actual Damages for Civil Contempt

If an entity that violates the Automatic Stay is found in civil contempt, the debtor may seek actual damages plus costs and attorney fees. [157] In determining the proper measure of damages under section 105, courts have generally recognized the following two purposes for civil contempt sanctions:

(i) to compensate the complaintant for losses and expenses it incurred because of the contemptuous act, and

(ii) to coerce the contemnor into complying with the court order. [158]

Generally, punitive damages may not be awarded for civil contempt. Courts have distinguished coercive sanctions that are associated with civil contempt from punitive sanctions that are associated with criminal contempt. Since sanctions for civil contempt are simply meant to compensate the debtor and coerce compliance with the court's order, such sanctions must not be so excessive as to be punitive in nature. [159]

3. Standards and Damages for Criminal Contempt

a.Bankruptcy Court's Criminal Contempt Power

The courts have been inconsistent in determining whether a debtor may seek to hold a party violating the Automatic Stay in criminal contempt. For instance, a number of courts have relied on Rule 9020 of the Federal Rules of Bankruptcy Procedure for the proposition that a bankruptcy court has inherent criminal contempt powers. [160] Bankruptcy Rule 9020 contains procedural safeguards for contempt proceedings and specifically states that the bankruptcy court shall give notice that "describe[s] the contempt as criminal or civil." [161]

Other courts, however, have found that bankruptcy courts lack criminal contempt powers. [162] In a well reasoned opinion, the Eighth Circuit explained why bankruptcy courts should not have criminal contempt powers to grant punitive damages to a corporate debtor for a violation of the Automatic Stay. In *Sosne v. Reinert & Duree, P.C.* (*In re Just Brakes Corp. Sys., Inc.*), [163] the circuit court found that "the power to punish for a statutory violation is a criminal law power. It must be expressly conferred by Congress, and its exercise is often subject to the procedural safeguards that protect the criminally accused." [164] Noting that criminal contempt must be carefully distinguished from civil contempt, the court concluded "that Congress has conferred no power to punish for a violation of section 362(a), other than the punitive damage authority in section 362(h)." [165] As result, the Eighth Circuit held that a bankruptcy court has no criminal contempt power to award punitive damages under either section 105 or its inherent power.

b.Standards for Criminal Contempt −− Egregious Conduct

For those courts recognizing criminal contempt powers, a violation of the Automatic Stay will typically amount to criminal contempt when the violation is particularly egregious. Generally, the violation of the Automatic Stay must be blatant and with complete disregard to the debtor's rights and the bankruptcy court's authority. [166]

c.Damages for Criminal Contempt

In addition to compensating the injured party for actual losses, damages for criminal contempt may be punitive. The principle purpose of the court's criminal contempt powers is to vindicate the authority of the court and the public interest. [167] Most of the punitive damages cases are found in the context of individual debtors, since they may specifically seek punitive damages pursuant to section 365(h) of the Bankruptcy Code. Moreover, it appears courts are more sympathetic to individual, as opposed to corporate, debtors, making punitive damages more likely in individual cases. Nevertheless, a corporate debtor has been awarded punitive damages on more than one occasion. [168]

Generally, a bankruptcy court will consider the following factors in determining the appropriate amount of punitive damages:

(i) the nature of the defendant's conduct;

(ii) the defendant's ability to pay;

(iii) the motives of the defendant; and

(iv) any provocation by the debtor. [169]

Conclusion

Although we have been experiencing unprecedented growth in this "New World" economy −− particularly in the knowledge−based and high tech industries where intellectual property plays a crucial role −− it is inevitable that a good thing cannot last. With the possibility of a "bust" facing a technology−driven economy, the holders of intellectual property rights under patent and copyright laws must have the ability to protect their rights from infringement in a down economy. However, as this Article illustrates, the Bankruptcy Code is not always fully equipped to deal with the collision that is likely to occur as intellectual property becomes increasingly important.

As always, choosing the battleground can have a tremendous impact on who will win the war. While debtors will usually try to keep intellectual property battles within the friendly confines of the bankruptcy court, intellectual property holders will often try to have these issues removed to a more specialized forum. As described in Section III

of this Article, although the bankruptcy court may have jurisdiction to hear intellectual property issues related to a debtor, whether it can issue a final decision with respect to such issues as a "core proceeding" will be dependent on how the matter is framed before the bankruptcy court. Moreover, an intellectual property dispute may be subject to withdrawal of the bankruptcy court reference to the extent the intellectual property issues are novel or predominate the proceeding.

In addition, as elaborated in Section IV of this Article, the Automatic Stay is a potential roadblock for any holder of intellectual property that wishes to stop a debtor from infringing on such intellectual property rights. The Automatic Stay has been interpreted by a number of courts as staying (i) an action against infringement that began prepetition or (ii) an action against unlawful intellectual property of the debtor that is nonetheless protected as property of the estate. If a holder of intellectual property is in doubt as to whether the Automatic Stay applies to an action against the debtor, the holder should consider seeking relief from the Automatic Stay to proceed against the debtor's infringement. The court will weigh a number of factors, including the relative hardships to the parties, to determine whether such relief is appropriate. Without seeking such relief, the nondebtor party runs the risk of sanctions under the Bankruptcy Code and the court's contempt powers for violating the Automatic Stay.

FOOTNOTES:

[*] Richard M. Cieri is a partner with Jones, Day, Reavis & Pogue in Cleveland, Ohio and is the Chairman of the Firm's Bankruptcy/Restructuring Practice Area. Back To Text

[**] Neil P. Olack is of counsel with Jones, Day, Reavis & Pogue in Atlanta, Georgia and is a member of the Firm's Bankruptcy/Restructuring Practice Area. Back To Text

[***] Joseph M. Witalec is a counsel with Jones, Day, Reavis & Pogue in Columbus, Ohio and is a member of the Firm's Bankruptcy/Restructuring Practice Area. The views expressed in this Article are those of its authors and are not those of Jones, Day, Reavis & Pogue or any of its clients. Back To Text

[1] Andrew Sentance, Economic Analysis – The New Millennium Will Usher in a New Kind of World Economy. But. . ., Fin. Director, Jan. 4, 2000, at 39. See Robert J. Eaton, The New New Economy, 15 Executive Speeches 1, Aug. 1, 2000, available in 2000 WL 16660104 ("[T]he Digital Age, and the New Economy seem to contradict a lot of what we always thought were fundamental truths."); Antonio Fins, The Engine of the New Economy Thanks to Technology That is Making Our Jobs Easier, Americans Are Producing More Than Ever – In the Same Amount of Time, Sun−Sentinel (Fort Lauderdale Fla.), Aug. 13, 2000, available in 2000 WL 22190348 (stating new economy defies conventional business cycles). Back To Text

[2] Sentance, supra note 1, at 39. A new set of economic rules may need to be developed for this New World to reflect the emerging markets being driven by the convergence of information technology and telecommunications, the Internet, globalization and the increasing concentration and interdependence of industries. See John H. Roberts, Developing New Rules for New Markets, 28 J. Academy of Marketing Sci. 1 (2000). See, e.g., Douglas Ostrom, Corporate Japan Boosts Capital Spending Plans, JEI Rep., Sept. 1, 2000, available in 2000 WL 11698978 (discussing Japan's economic prospects as it relates to increased investment in information technology). Back To Text

[3] See Michael J. Mandel, The New Economy, Bus. Wk., Jan. 31, 2000, at 73; see also Thalif Deen, Development: World Economy on Road To Recovery, Says U.N. Report, Inter Press Service, July 3, 2000, available in 2000 WL 4091893 (stating New Economy is adding $100 billion yearly to total output in United States) (citing Ian Kinniburgh, director of policy analysis at U.N. Department of Economic and Social Affairs); Drew DeSilver, Strength in Numbers, Seattle Times, Aug. 27, 2000, at E1 (noting new economy and service jobs are where most new jobs are being created). Back To Text

[4] See Mandel, infra note 3, at 73. Back To Text

[5] See Laura D'Andrea Tyson, Though It's a New Economy, It's Got Some Old Flaws, Bus. Wk., Jan. 10, 2000, at 32 (stating "most of the economic benefits of information technologies are ahead of us, not behind"). See, e.g., Brendan

Sobie, Freight's Yield Signs, Air Cargo World, July 1, 2000, at 28 (stating that benefits from information technology may take years before fully realized in freight carrier industry). Back To Text

[6] Tyson, supra note 5, at 32. See generally Anna Bernasek, Pattern for Prosperity, Fortune Mag., Oct. 2, 2000, at 100+ (noting that each technological breakthrough creates a ripple effect); Strategy – Make Sure Your Business Thrives in the 21st Century, Computing, Aug. 31, 2000, at 21 (observing that productivity gains resulting from new technologies will help many more businesses in years to come). Back To Text

[7] Sentance, supra note 1, at 39. See also Nortel Networks to Acquire Alteon WebSystems for US $7.8 Billion; Will Establish Leadership Position In Delivering High−Performance Internet Data Centers For The New Networked Economy, M2 Presswire, July 31, 2000, available in 2000 WL 24923682 (quoting Chief Operating Officer Clarence Chandran as saying new economy's value and richness of content over Internet is rapidly increasing). Back To Text

[8] Sentance, supra note 1, at 39; see also Anthony Rowley, Japan Invests Big to Catch Up in Global Net Race, Bus. Times (Singapore), Jan. 31, 2000, at 2 (discussing technological advancements in Japan will allow it to gain ground on United States); India: Restoring Fiscal Health a Prerequisite, The Hindu, Feb. 29, 2000, available in 2000 WL 16304872 (discussing India's economic growth resulting from technological advances). Back To Text

[9] Federal Reserve Chairman Alan Greenspan suggested that the American economy is experiencing either a "once in a century" technology boom or it is in a "euphoric, speculative bubble." Patrice Hill, Booming Economy Baffles Greenspan; Answer Might be 'Once−in−a−Century' Burst of Technology, Wash. Times (D.C.), Jan. 14, 2000, at B9. The Federal Chairman states that he continues "to be bedeviled by concerns that the so−called new economy is spurring imbalances that at some point will abruptly adjust, bringing the economic expansion, its euphoria, and wealth creation to a debilitating halt." Id. See also Pam Woodall, Solving the Paradox: IT is Making America's Productivity Grow Faster at Last, But for How Long?, Economist, Sept. 23, 2000 (noting that New Economy skeptic, Robert Gordon, believes increase in America's productivity is due to normal economic cycles rather than new economy). Back To Text

[10] Sentance, supra note 1, at 39. See also Heather Green, It's Layoff Time in Dot−Com Land, Bus. Wk., June 12, 2000, at 46 (stating Henry M. Blodget of Merril Lynch & Co. forecasts three out of four Net companies will probably fail); Keith Regan, Struggling Dot−Coms Can Pass the Torch, E−commerce Times, (June 19, 2000) <http://www.ecommercetimes.com/news/viewpoint2000/view−000619−1.shtml> ("Analysts have predicted that a wave of consolidations will halve the numbers of e−tailers by the end of the year."). Back To Text

[11] See Sentance, supra note 1, at 39 (stating that business restructuring is increased due to competitive prices); see also Lawrence Kudlow, What's More Important Than the Fed?, Wall St. J., Aug. 27, 1999, at A8 (remarking that increased competition resulting from new economy will substantially contribute to more growth and lower prices); Trevor Williams, "New Economy": Measuring the Economic Impact, Lloyds Bank Int'l Econ. Calendar, July 10, 2000, available in 2000 WL 10164788 (stating that "[f]ewer and fewer firms will have the power to charge whatever price they like"). Back To Text

[12] See Martin Kady II, E−Commerce Company Emerges from Ch. 11, 18 Wash. Bus. J. 6 (2000) (discussing financial problems IMark experienced that led to chapter 11 bankruptcy). Already at the start of this new millennium we have seen the bubble start to burst and investors becoming skeptical regarding many high−tech companies. See, e.g., John A. Byrne, The Fall of a Dot−Com, Bus. Wk., May 1, 2000, at 150 (discussing rise and fall of Value America, Inc.); Heather Green et al., The Dot−Coms Are Falling to Earth, Bus. Wk., April 17, 2000, at 48 ("Raging cash burn rates, weak business models, and a growing supply of publicly traded shares have dramatically tempered what was once unquestioned optimism in the Net sector."); Heather Green, The Fight for Survival, Bus. Wk., July 24, 2000, at EB70 (discussing problems facing new economy companies); David P. Hamilton, Reality Bites Hard as String of Dot−Coms Sees Funding Dry Up, Wall St. J., May 25, 2000, at A1 (forecasting numerous failures in dot−com industry); TOYSMART.COM INC.: Petition Is Made for Shelter under Bankruptcy Code, Wall St. J., June 29, 2000, at C6 (discussing failure of Toysmart.com). Back To Text

[13] 35 U.S.C. §§ 1−376 (1994) (setting forth provisions of patent law). Back To Text

[14] 17 U.S.C. §§ 101−1101 (1994) (setting forth provisions of copyright law). Back To Text

[15] 11 U.S.C. §§ 101−1330 (1994) (setting forth provisions of "Bankruptcy Code"). Back To Text

[16] The collision of the Bankruptcy Code and other areas of federal law, such as environmental, ERISA and tax statutes, have caused trouble for the courts as well. See, e.g., Maria A. Di Pippo & Gerald P. Wolf, ERISA and the Bankruptcy Code: Stepping into Quicksand or Something Else, Post Mackey, 8 Touro L. Rev. 521 (1992) (discussing use of Employee Retirement Insurance Security Act of 1974 in bankruptcy context to strip people of their retirement security); Jack E. Karns, ERISA Qualified Pension Plan Benefits as Property of the Bankruptcy Estate: The Unanswered Questions after Patterson v. Shumate, 16 Campbell L. Rev. 303 (1994) (discussing issue in bankruptcy law of whether ERISA qualified pension plan benefits should be considered assets of debtor); Stephen W. Sather, Tax Issues in Bankruptcy, 25 St. Mary's L.J. 1363 (1994) (discussing common situations where Bankruptcy Code clashes with tax codes); Lisa M. Hebenstreit, Comment, Tying Together the Tax and Bankruptcy Codes: What Is the Proper Tax Treatment of Abandonments in Bankruptcy?, 54 Ohio St. L.J. 859 (1993) (discussing how bankruptcy and tax codes contradict one another); Philippe J. Kahn, Note, Bankruptcy Versus Environmental Protection: Discharging Future CERCLA Liability in Chapter 11, 14 Cardozo L. Rev. 1999 (1993) (discussing Comprehensive Environmental Response Compensation Liability Act's conflicts with Bankruptcy Code); Jill Thompson Losch, Comment, Bankruptcy v. Environmental Obligations: Clash of the Titans, 52 La. L. Rev. 137 (1991) (discussing clash between environmental protection policy and bankruptcy policy). Back To Text

[17] 11 U.S.C. § 362 (establishing Automatic Stay). Back To Text

[18] The Bankruptcy Code defines "intellectual property" as any:

> a. trade secret;
> b. invention, process, design or plant protected by title 35 [of the United States Code];
> c. patent application;
> d. plant variety;
> e. work of authorship protected by title 17 [of the United States Code]; or
> f. mask work protected under chapter 9, title 17 [of the United States Code]; to the extent protected by applicable nonbankruptcy law.

11 U.S.C. § 101(35A). This definition of intellectual property does not include trademarks. See, e.g., Licensing by Paolo, Inc. v. Sinatra (In re Gucci), 126 F.3d 380, 394 (2d Cir. 1997) (stating that trademarks are not in Bankruptcy Code's definition of intellectual property); Richard Lieb, The Interrelationship of Trademark Law and Bankruptcy Law, 64 Am. Bank. L.J. 1, 4 (1990) ("At present there is no bankruptcy law statute which deals specially with trademarks or one that even uses the word 'trademark.'"). Back To Text

[19] See Noreen M. Wiggins, Note, The Intellectual Property Bankruptcy Protection Act: The Legislative Response to Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 16 Rutgers Computer & Tech. L.J. 603, 616−17 (1990) (commenting that intellectual property is unique, and unlike most other assets, is not fungible and cannot be replaced by another party because that party may not have same knowledge, intellectual property rights, or expertise as licensor) (citing S. Rep. No. 100−505, at 4 (1988)); Steven D. Homan, Attorneys and Wall Street Deal with the Dot−Com Downturn, N.Y.L.J., Aug. 29, 2000, at 5 (2000) (discussing uncertainty surrounding perfection of security interests for unregistered copyrights and domain names). Back To Text

[20] 8 Norton Bankruptcy Law & Practice 2d at 366 (William L. Norton, Jr. et al. eds. 1999) (citing House Bill 5348). "The Committee believes that continued creation of special interest exceptions to § 365 is not desirable . . . ." Id. See Intellectual Property Bankruptcy Protection Act of 1988, Pub. L. No. 100−506, 102 Stat. 2538 (1988) (codified at 11 U.S.C. § 365(n) (1988)) ("Intellectual Property Act")). Back To Text

[21] 8 Norton, supra note 20, at 369 (reprinting House Bill 5348). Back To Text

[22] See 8 Norton, supra note 20, at 365 (citing House Bill 5348). Back To Text

[23] See 11 U.S.C. § 502(g) (allowing for claim arising from rejection under § 365 of Bankruptcy Code). Back To Text

[24] 756 F.2d 1043 (4th Cir. 1985), cert. denied, 475 U.S. 1057 (1986). Back To Text

[25] See 11 U.S.C. § 365(n)(1)(A); see also In re El Paso Refinery, L.P., 220 B.R. 37, 46 (Bankr. W.D. Tex. 1998) (noting that under § 365 intellectual property is one area where nondebtor party may terminate executory contracts). Back To Text

[26] See 11 U.S.C. § 365(n)(1)(B); see also Encino Bus. Management v. Prize Frize, Inc. (In re Prize Frize, Inc.) 150 B.R. 456, 459 (B.A.P. 9th Cir. 1993) (noting if licensee retains its rights, licensee must make all royalty payments and deemed to have waived setoff), aff'd, 32 F.3d 426 (9th Cir. 1994). In re Prize Frize, Inc., 32 F.3d at 428 (observing that § 365(n) is fair balance between interests of bankruptcy and interests of licensee in intellectual property bankruptcy and that "[i]t is essential to the balance struck that the payments due for the use of the intellectual property … be analyzed as 'royalties'"). Back To Text

[27] 8 Norton, supra note 20, at 366 (summarizing and commenting on House Bill 5348). Back To Text

[28] See Lubrizol, 756 F.2d at 1046. It is important to note that while the Lubrizol court permitted rejection of the intellectual property license, it specifically recognized that "allowing rejection in this and comparable cases could have a general chilling effect upon the willingness of such parties to contract at all with businesses in possible financial difficulty." Id. at 1048. See also Wheeling−Pittsburgh Steel Corp. v. West Penn Power Co. (In re Wheeling−Pittsburgh Steel Corp.), 72 B.R. 845, 847 (Bankr. W.D. Pa. 1987) (noting sole focus for court is effect of rejection on debtor's estate). Back To Text

[29] See S. Rep. No. 100−505, at 3 (1988), reprinted in 1988 U.S.C.A.A.N. 3200, 3202 ("If the innovator sells his innovation at its genesis, he passes the entire risk of development onto the purchaser."); see also Susan H. Nycum, Contracts for Software Development Acquisition, Marketing and Use: Warranties, Indemnities, Limitations of Liability and Certain Bankruptcy Issues, 276 PLI/Pats 585, 613 (1989) ("The most effective solution is to avoid the potential rejection altogether by having the licensee acquire the intellectual property outright from the licensor."). Back To Text

[30] See Michael J. Shpizner, Congress Passes New Legislation Protecting Licensees of Intellectual Property, 30 IDEA 1 (1989) (asserting that § 365 is in response to decision in Lubrizol); see also John P. Musone, Note & Comment, Crystallizing the Intellectual Property Licenses in Bankruptcy Act: A Proposed Solution to Achieve Congress' Intent, 13 Bankr. Dev. J. 509, 512 (1997) (asserting that after Lubrizol intellectual property community was powerless to retain benefit of its bargain or to recoup investment costs); Nycum, supra note 29, at 612 (commenting that "[l]awyers crafted various solutions to address the potential rejection of an intellectual property license by a licensor in bankruptcy"). Back To Text

[31] See S. Rep. No. 100−505, at 3−4 (1988), reprinted in 1988 U.S.C.A.A.N. 3200, 3202 ("If the legal environment forces reliance on sale rather than licensing, the number of parties who can participate in new technological development is sharply curtailed."). But see Musone, supra note 30, at 509−10 (asserting that § 365 does not achieve Congress' goal regarding threat to development of technology). Back To Text

[32] See 8 Norton, supra note 20, at 366 ("Because of the seriousness of this problem, the need to foster the development in the United States of new technology and new ideas, and the need to maintain the United States' world leadership in the area of new technology development . . . the overall interests of the economy are best served by creating another exception to § 365 now."). Back To Text

[33] See infra Section II and accompanying text. Back To Text

[34] See 28 U.S.C. § 151. As described in the text accompanying footnote 45, infra, district courts in each district generally have referred all bankruptcy matters to the bankruptcy courts. Back To Text

[35] 28 U.S.C. §§ 1−3704 (1994) (setting forth provisions of "Judicial Code"). Back To Text

[36] 28 U.S.C. §§ 1334(a), (b). Back To Text

[37] See Simmons v. Johnson, Curney & Fields, P.C. (In re Simmons), 205 B.R. 834, 837−38 (Bankr. W.D. Tex. 1997) (stating that "cases under" title 11 applies to bankruptcy petition itself). Back To Text

[38] See In re Simmons, 205 B.R. at 838 n.9 (noting that courts addressing "arising under" have held it applies to causes of action created by title 11); see also 1 Collier on Bankruptcy ¶ 3.01[4][c][i], at 3−20 to 3−21 (Lawrence P. King et al. eds., 15th ed. rev. 1997) (stating "arising under" has broad meaning and jurisdiction applies to all procedures arising under title 11). Examples of proceedings arising under the Bankruptcy Code include fraudulent conveyance and preference actions under §s 546 and 547 of the Bankruptcy Code, actions seeking turnover of estate property under § 542 of the Bankruptcy Code and other statutory causes of action under the Bankruptcy Code. Back To Text

[39] See Wood v. Wood (In re Wood), 825 F.2d 90, 96−97 (5th Cir. 1987) (stating that "arising in" refers to proceedings "that are not based on any right expressly created by title 11, but nevertheless, would have no existence outside of bankruptcy"); In re Simmons, 205 B.R. at 840 ("[M]atters falling into the category [of 'arising in'] must at the very least be of a sort that could not have occurred but for the bankruptcy."). Examples of proceedings arising in bankruptcy cases include actions to determine the priority of liens in bankruptcy or the dischargeability of a debt in bankruptcy. Back To Text

[40] 743 F.2d 984 (3d Cir. 1984), overruled on other grounds by Things Remembered, Inc. v. Petrarca, 516 U.S. 124 (1995). Back To Text

[41] Pacor, 743 F.2d at 994 (citations omitted). Back To Text

[42] See Celotex Corp. v. Edwards, 514 U.S. 300, 308 n.6 (1995) (noting that eight federal circuits have adopted Pacor test); Munford v. Munford, Inc. (In re Munford, Inc.), 97 F.3d 449, 453 (11th Cir. 1996) (noting that action is "related to" bankruptcy if it in any way impacts upon handling or administration of estate); Miller v. Kemira, Inc. (In re Lemco Gypsum, Inc.), 910 F.2d 784, 788 (11th Cir. 1990) (stating same) (quoting Pacor, 743 F.2d at 994). Back To Text

[43] In re Memorial Estates, Inc., 950 F.2d 1364, 1368 (7th Cir.1991) (quoting Elscint, Inc. v. First Wisconsin Fin. Corp. (In re Xonics, Inc.), 813 F.2d 127, 131 (7th Cir. 1987)), cert. denied, 504 U.S. 986 (1992); see also In re FedPak Sys., Inc., 80 F.3d 207, 214 (7th Cir. 1996) (holding that bankruptcy court did not have "related to" jurisdiction to issue order clarifying intellectual property rights of creditor in chapter 11 case after transfer of such rights to third party). Back To Text

[44] See Adams v. Prudential Sec., Inc. (In re Foundation for New Era Philanthropy), 201 B.R. 382, 398 n.16 (Bankr. E.D. Pa. 1996) (indicating that bankruptcy court can hear patent and other matters even if they are related to bankruptcy case); see also In re Simmons, 205 B.R. at 837 n.3 (stating that provisions in title 28 describe court's jurisdiction as including patents and copyrights). Back To Text

[45] See, e.g., In re Simmons, 205 B.R. at 837 (indicating that district courts generally refer bankruptcy matters to bankruptcy courts and adding that "[i]n practice, therefore, the district court has no interaction with bankruptcy cases unless a bankruptcy court decision is appealed, or unless a party requests withdrawal of reference of a particular case or matter"); id. at 837 n.5 (noting that there is "no such thing as 'bankruptcy court jurisdiction,' per se" since it is conferred to district court and bankruptcy court exercises that jurisdiction through referral). Chief Judge Joseph J. Farnan, Jr. of the District of Delaware, however, issued an order on January 27, 1997 withdrawing the general reference order in that district. The stated reason for the withdrawal of the reference was the large number of significant corporate chapter 11 filings in the Delaware District Court. As a result, instead of an automatic referral to a bankruptcy judge, Delaware cases are now distributed by the district court to either a bankruptcy judge or one of the district court judges. Back To Text

[46] See 28 U.S.C. § 157(b)(1). Back To Text

[47] See 28 U.S.C. § 157(b)(2). Examples of core proceedings identified in § 157(b)(2) of the Judicial Code include the following: (a) matters concerning the administration of the estate; (b) allowance or disallowance of most claims against the estate; (c) orders with respect to obtaining credit; (d) orders to turnover property of the estate; (e) proceedings to determine, avoid or recover preferences; (f) motions to terminate, annul or modify the automatic stay; (g) proceedings to determine, avoid or recover fraudulent conveyances; (h) determinations of the validity, extent or priority of liens; (i) confirmation of plans of reorganization; (j) orders approving the use, sale or lease of estate property; and (k) most other proceedings affecting the liquidation of the assets of the estate or the adjustment of the debtor−creditor relationship. See id.; see also Helmer v. Murray (In re Murray) 149 B.R. 383, 386 (E.D. Va. 1993) (recognizing that core proceedings are not defined in Bankruptcy Code). Back To Text

[48] See 28 U.S.C. § 157(c)(1); IRS v. Brickell Inv. Corp. (In re Brickell Inv. Corp.), 922 F.2d 696, 701 (11th Cir. 1991) (stating that bankruptcy court can submit proposed findings of fact and conclusions of law to district court). Back To Text

[49] Gower v. Farmers Home Admin. (In re Davis), 899 F.2d 1136, 1140−41 (11th Cir. 1990) (quoting Wood v. Wood (In re Wood), 825 F.2d 90, 97 (5th Cir. 1987)) (emphasis in original), cert. denied, 498 U.S. 981 (1990). See Burger Boys, Inc. v. South Street Seaport Ltd. Partnership (In re Burger Boys, Inc.), 183 B.R. 682, 685 (S.D.N.Y. 1994) (defining core proceeding as "a matter which would have no existence outside of the bankruptcy case"). Back To Text

[50] See In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig., 140 B.R. 969, 974 (N.D. Ill. 1992) (addressing attempt of defendant to stay pending patent litigation by filing bankruptcy case in another district and stating that "multidistrict patent litigation is not a core proceeding by any stretch of the imagination"); see also In re Wood, 825 F.2d at 97 (denying state contract claim as non−core issue); Marr Broad. Co. (In re Marr Broad. Co.), 79 B.R. 673, 677 (Bankr. S.D. Tex. 1987) (affirming that proceedings not involving substantive rights created by Bankruptcy Code and that can exist outside of bankruptcy are considered non−core). Back To Text

[51] See Franklin Computer Corp. v. Apple Computer, Inc. (In re Franklin Computer Corp.), 60 B.R. 795, 803 (Bankr. E.D. Pa. 1986) (holding that adversary proceeding brought by chapter 11 debtor for breach of settlement agreement relating to patent infringement action was core proceeding because dispute related to use of patented programs, which were property of estate); see also Bicoastal Corp. v. Semi−Tech Mircroelectronics (Far East) Ltd. (In re Bicoastal Corp.), 130 B.R. 597, 600 (Bankr. M.D. Fla. 1991) (finding jurisdiction over counterclaim interposed by debtor against those who claimed against bankruptcy estate during dispute over reassignment of royalties contract); Reilly v. Nettie Lee Shops of Bristol (In re Nettie Lee Shops of Bristol, Inc.), 49 B.R. 946, 947−48 (Bankr. W.D. Va. 1985) (including use of trade name within core proceedings since there were court orders permitting use of debtor's property). Back To Text

[52] Sheri Bluebond, Recent Developments in Jurisdiction, Venue, Abstention, Remand, Removal, Withdrawal of the Reference, Jury Trials and Appeals, Practicing Law Institute, Commercial Law and Practice Course Handbook Series, PLI Order No. A4−4519, April 1997 at 293. See generally 28 U.S.C. § 157(b)(2) (1994) (compiling non−exhaustive list of core examples). Back To Text

[53] See, e.g., Institut Pasteur v. Cambridge Biotech Corp. (In re Cambridge Biotech Corp.), 186 B.R. 9, 12 (Bankr. D. Mass. 1995) (referencing earlier determination of court that pending patent infringement adversary proceeding brought against debtor is core proceeding "because it is in essence a claim against the Debtor's bankruptcy estate"), aff'd, 212 B.R. 10 (D. Mass. 1997); In re Franklin Computer Corp., 60 B.R. at 803 (finding core proceeding where court order authorized debtor to use patented programs); In re Nettie Lee Shops of Bristol, Inc., 49 B.R. at 948 (defining trademark as bankruptcy estate property). Back To Text

[54] "[T]he entire bankruptcy case may be withdrawn, although in practice, this is extremely rare; . . . an entire proceeding may be withdrawn; . . . a proceeding, initiated by a motion made within a proceeding, such as a summary judgment motion, may itself be withdrawn; or . . . an adversary proceeding or any part thereof may be withdrawn." 1 Norton Bankruptcy Law & Practice 2d § 8.1, at 8−3 (William L Norton, Jr. et al. eds., 2d ed. 1997). See also Naylor v. Case & McGrath, Inc., 585 F.2d 557, 563 (2d Cir. 1978) (recognizing court's option of raising abstention sua sponte). Back To Text

[55] See 28 U.S.C. § 157(d) (1994); see also Parklane Hosiery Co. v. Parklane/Atlanta Venture (In re Parklane/Atlanta Joint Venture), 927 F.2d 532, 536 (11th Cir. 1991) (stating that district court may withdraw reference to bankruptcy court under permissive withdrawal only for cause, which is "not an empty requirement"); Citicorp North America, Inc. v. Finley (In re Washington Mfg. Co.), 133 B.R. 113, 116 (M.D. Tenn. 1991) (reasoning that there would have to be compelling cause justifying withdrawal from automatic reference); Judge v. Ridley & Schweigert (In re Leedy Mortgage Co.), 62 B.R. 303, 306 (E.D. Pa. 1986) ("The district court may withdraw the references to the bankruptcy court for cause shown."). Back To Text

[56] In re Parklane/Atlanta Joint Venture, 927 F.2d at 536 n.5. Accord Orion Pictures Corp. v. Showtime Networks, Inc. (In re Orion Pictures Corp.), 4 F.3d 1095, 1101 (2d Cir. 1993) (stating same); Holland Am. Ins. Co. v. Succession of Roy, 777 F.2d 992, 999 (5th Cir. 1985) (stating same). Back To Text

[57] Although § 157(d) of the Judicial Code requires only a showing of "cause" to obtain a withdrawal of the reference, a small minority of courts have adopted an apparently more stringent standard, under which the reference may be withdrawn only upon a demonstration of "compelling" or "extraordinary" circumstances. This more stringent standard was adopted by the court in Chrysler Credit Corp. v. Fifth Third Bank of Columbus (In re Onyx Motor Car Corp.), 116 B.R. 89 (S.D. Ohio 1990). The court indicated that it would apply a two−prong test. Id. at 90. First, the court required the movant to demonstrate the statutorily mandated "cause." Id. Second, the court required a showing that "extraordinary circumstances" were present. Id. The court found authority for this additional requirement in both "[t]he broad language of § 157(d) [of the Judicial Code]" and legislative history indicating that § 157(d) was not intended to operate as a "segue from the bankruptcy court to the district court." Id. at 91. Accord Federated Dep't Stores, Inc. v. United States Environmental Protection Agency (In re Federated Dep't Stores, Inc.), 189 B.R. 142, 144 (S.D. Ohio 1995). See, e.g., In re Washington Mfg. Co., 133 B.R. at 116 (holding that jury demand is not sufficient cause for permissive withdrawal). In In re Onyx Motor Car Corp., the debtor filed a motion for withdrawal of the reference in a proceeding involving a priority dispute between certain creditors and a related fraudulent conveyance action. Under these facts, the court determined that, in addition to insufficient "cause," there likewise was no showing of extraordinary circumstances that would justify withdrawing the reference because the bankruptcy judge's expertise, experience and familiarity with the facts permitted the matter to be heard most efficiently by the bankruptcy court. In re Onyx Motor Car Corp., 116 B.R. at 91. Back To Text

[58] See In re Philadelphia Training Center Corp., 155 B.R. 109, 112 (E.D. Pa. 1993) (holding that permissive withdrawal was not warranted where related matters were pending before bankruptcy court and could be more efficiently litigated together); see also In re Sevko, Inc., 143 B.R. 114, 117 (N.D. Ill. 1992) (withdrawing reference in fraudulent conveyance action where related suit was pending in district court based on "essentially the same core of transactional facts" and withdrawal would promote judicial economy and avoid inconsistent results); Hackling v. Kahn (In re Luis Elec. Contracting Corp.), 100 B.R. 155, 156 (E.D.N.Y. 1989) ("Where defendants have a right to a trial by jury, withdrawal of reference promotes judicial economy."). Back To Text

[59] See Coe−Truman Tech., Inc. v. United States (In re Coe−Truman Tech., Inc.), 214 B.R. 183, 187 (N.D. Ill. 1997) (opining that withdrawal would not promote forum shopping because majority of issues were non−title 11); Vista Metals Corp. v. Metal Brokers Int'l Inc., 161 B.R. 454, 456 (E.D. Wis. 1993) (Using "higher interest" standard for permissive withdrawal, with reduction of forum shopping as part of criteria); In re Sevko, Inc., 143 B.R. at 117 (citing forum shopping reduction as "[a]mong the factors to be considered"). Back To Text

[60] See In re Orion Pictures Corp., 4 F.3d at 1101 ("[T]he fact that a bankruptcy court's determination on non−core matters is subject to de novo review by the district court could lead the latter to conclude that in a given case unnecessary costs could be avoided by a single proceeding in the district court"); In re Coe−Truman Tech. Inc., 214 B.R. at 187 ("As a non−core proceeding, the bankruptcy court's decision will be subject to de novo review in this Court. . . . We find, therefore, that it is a more efficient use of judicial resources for this Court to decide this case in the first instance.") (citation omitted). Back To Text

[61] See, e.g., Hatzel & Buehler, Inc. v. Central Hudson Gas & Elec. Corp., 106 B.R. 367, 370 (D. Del. 1989) ("Although § 157(d) is a relatively new statute, there is an emerging consensus that the nature of a proceeding (i.e., core or non−core) is not sufficient cause for withdrawal."). Cf. Eastern Elec. Sales Co. v. General Elec. Co., 94 B.R.

348, 349 (E.D. Pa. 1989) (finding cause to withdraw on basis that proceeding was non−core). Back To Text

[62] Valley Forge Plaza Assoc. v. Fireman's Fund Ins. Cos., 107 B.R. 514, 516 (E.D. Pa. 1989). See 28 U.S.C. § 157 (c)(1) (1994) ("[A]ny final order or judgment shall be entered by the district judge after considering the bankruptcy judge's findings. . . ."); see also Sandersville Prod. Credit Ass'n v. Douthit (In re Douthit), 47 B.R. 428, 431 (M.D. Ga. 1985) (distinguishing pendant jurisdiction claim as non−core). Back To Text

[63] See Ameritel Corp. v. Isoetec Communications, Inc., 109 B.R. 965, 968 (D. Or. 1990) (citing judical efficiency as reason for addressing core counterclaims); Judge v. Ridley & Schweigert (In re Leedy Mortgage Co.), 62 B.R. 303, 306 (E.D. Pa. 1986) (withdrawing reference in a core proceeding because "bankruptcy courts do not commonly hear lengthy trials. . .where extensive discovery and pretrial proceedings are necessary and inevitable"); Enviro−Scope Corp. v. Westinghouse Elec. Corp. (In re Enviro−Scope Corp.), 57 B.R. 1005, 1008−09 (E.D. Pa. 1985) (finding that withdrawal of reference in core proceeding would promote judicial economy where separate proceeding already pending in district court involved common legal and factual questions). Back To Text

[64] 28 U.S.C. § 157(e) (applying its terms, § 157(e) of Judicial Code covers both core and non−core proceedings). See Lender's Decision, Inc. v. Comerica Bank−Illinois (In re The Lender's Decision, Inc.), No. 96 C 5470, 1997 U.S. Dist. LEXIS 16654, at *11 (N.D. Ill. Oct. 14, 1997) (specifying local rule that specially designates bankruptcy judges to conduct trials). But see Renaissance Cosmetics, Inc. v. Oleg Cassini, Inc., No. 99 Civ. 11248, 2000 U.S. Dist. LEXIS 9198, at *10 (S.D.N.Y. June 30, 2000) (transferring out of state would cause defendant to lose his jury trial entitlement). Back To Text

[65] See Ellenberg v. Bouldin, 125 B.R. 851, 856 (N.D. Ga. 1991) (withdrawing reference in fraudulent transfer action because (a) defendant had right to jury trial; (b) bankruptcy court did not have authority to conduct jury trial; and (c) as result, judicial fairness required withdrawal of reference); see also Hassett v. BancOhio Nat'l Bank (In re CIS Corp.), 172 B.R. 748, 755 (S.D.N.Y. 1994) (identifying Second Circuit prohibition of bankruptcy court jury trials in non−core matters); Tidwell v. Omni Petroleum, Inc., 164 B.R. 188, 189 (M.D. Ga. 1994) (following Ellenberg). Back To Text

[66] See Kenai Corp. v. National Union Fire Ins. Co. (In re Kenai Corp.), 136 B.R. 59, 61 (S.D.N.Y. 1992) (denying motion to withdraw reference, court expressly declined to adopt per se rule that right to jury trial requires immediate withdrawal of reference; court explained that "[a] rule that would require a district court to withdraw a reference simply because a party is entitled to a jury trial, regardless of how far along toward trial a case may be, runs counter to the policy favoring judicial economy"); Business Communications, Inc. v. Freeman, 129 B.R. 165, 166 (N.D. Ill. 1991) (suggesting that bankruptcy judge's pretrial supervision would not be harmful to estate or reorganization goals); Wedtech Corp. v. Banco Popular De Puerto Rico (In re Wedtech Corp.), 94 B.R. 293, 297 (S.D.N.Y. 1988) (refusing to withdraw reference during pre−trial phase of case, but indicating that reference would be withdrawn with respect to dispositive motions and other matters that would be "beyond the scope" of bankruptcy court's authority). Back To Text

[67] 28 U.S.C. § 157(d). But see Davis v. Mahlmann (In re Mahlmann) 149 B.R. 866, 870 (N.D. Ill. 1993) (discussing narrow application of 157(d) to prevent its use as escape hatch); O'Connell v. Terranova (In re Adelphi Inst., Inc.), 112 B.R. 534, 537 (S.D.N.Y. 1990) (holding RICO claim too weak to require substantial and material consideration). Back To Text

[68] See, e.g., Brizendine v. Montgomery Ward & Co., 143 B.R. 877, 879 (N.D. Ill. 1992) (explaining that withdrawal not necessary for simple interstate commerce claim); Auto Specialties Mfg. Co. v. Sachs (In re Auto Specialties Mfg. Co.), 134 B.R. 227, 228 (W.D. Mich. 1990) (espousing narrow § 157(d) view); Block v. Anthony Tammaro, Inc. (In re Anthony Tammaro, Inc.), 56 B.R. 999, 1006−07 (D.N.J. 1986) (stating that federal law in question must have "more than a de minimis effect on interstate commerce"). Back To Text

[69] The court in Sullivan v. Hiser (In re St. Mary Hosp.), 115 B.R. 495 (E.D. Pa. 1990), reasoned that a literal reading "defeats the whole purpose of § 157(d), [i.e., to withdraw] matters requiring the application of non−bankruptcy law from the relatively less experienced bankruptcy court to the more experienced district court." Id. at 497. The court

concluded that "it would seem incongruous to prevent . . . withdrawal just because there are no substantial and material bankruptcy questions . . . involved." Id. But see Price v. Craddock 85 B.R. 570, 573 (D. Colo. 1988) (upholding literal reading of § 157(d)); Central Illinois Savings & Loan Ass'n v. Rittenberg Co. (In re IQ Telecomm., Inc.), 70 B.R. 742, 745 (N.D. Ill. 1987) (invoking mandatory withdrawal provisions because of RICO claim). Back To Text

[70] See In re St. Mary Hosp., 115 B.R. at 497 (analyzing legislative history of 157(d) and then supporting substantial and material standard); see also 1 Norton, supra note 54, § 8.2, at 8−11 (stating that "the majority rule is that withdrawal is mandatory even absent any title 11 issue provided that the other § 157(d) requirements are met"); 1 Collier, supra note 38, ¶ 3.04[2], at 3−64 (stating that at least one court has indicated that mandatory withdrawal may be appropriate where district court is better suited to hear matter, even if consideration of nonbankruptcy issues is not substantial and material). See, e.g., Contemporary Lithographers, Inc. v. Hibbert (In re Contemporary Lithographers, Inc.), 127 B.R. 122, 127−28 (M.D.N.C. 1991) (holding that mandatory withdrawal was warranted in proceeding involving federal securities laws due to greater experience of district court with respect to such matters). Back To Text

[71] See Wittes v. Interco Inc., 137 B.R. 328, 329 (E.D. Mo. 1992) (holding that split among circuits on issue arising under Age Discrimination in Employment Act did not mandate withdrawal of reference because "the bankruptcy court need only choose among similar standards to resolve [the] issue and need not fashion its own standard"); In re Ionosphere Clubs, Inc., 133 B.R. 5, 8 n.3 (S.D.N.Y. 1991) (notwithstanding split among circuits in interpreting non−bankruptcy federal statute at issue, withdrawal of reference was not required where bankruptcy court would need only to decide which circuit's precedent was controlling); see also Shugrue v. Air Line Pilots Ass'n, Int'l (In re Ionosphere Clubs, Inc.), 922 F.2d 984, 995 (2d Cir. 1990) (interpreting federal statute without "engag[ing] itself in the intricacies" and held not to demand substantial consideration), cert. denied, 502 U.S. 808 (1991); In re Laventhol & Horwath, 139 B.R. 109, 115 (S.D.N.Y. 1992) (continuing trend of finding RICO claims as "not necessarily dictat[ing] withdrawal of the reference"). Back To Text

[72] See United States v. Johns−Manville Corp. (In re Johns−Manville Corp.), 63 B.R. 600, 602−03 (S.D.N.Y. 1986) (granting motion to withdraw reference where resolution of proceedings would involve significant interpretation of CERCLA and "[n]either the language of the statute nor existing interpretative precedents provide clear answers"). See, e.g., Maislin Indus., U.S., Inc. v. C J Van Houten E Zoon (In re Maislin Indus., U.S., Inc.), 50 B.R. 943, 948 (Bankr. E.D. Mich. 1985) (granting withdrawal motion on substantial and material consideration of interstate commerce grounds). Back To Text

[73] See American Body Armor & Equip., Inc. v. Clark (In re American Body Armor & Equip., Inc.), 155 B.R. 588, 590 (M.D. Fla. 1993) (holding that mandatory withdrawal of the reference was not warranted where Securities and Exchange Act issues raised by debtor's complaint were straightforward, not issues of first impression or ones that presented conflict with Bankruptcy Code); In re St. Mary Hosp., 115 B.R. at 498 ("When the bankruptcy court must engage in a complex search for the appropriate interpretation of a nonbankruptcy federal statute involving an issue of first impression, § 157(d) withdrawal is required."); see also In re Image Storage/Retrieval Sys., Inc., No. 90−22061T, 1992 U.S. Dist. LEXIS 1576, at *12−14 (E.D. Pa. 1992) (holding that mandatory withdrawal of reference should not be ordered since there was nothing "but routine or simple application of non−bankruptcy law"). Back To Text

[74] See United States v. ILCO, Inc., 48 B.R. 1016, 1021 (N.D. Ala. 1985) (requiring withdrawal of reference because consideration of federal statutes was "essential to the resolution" of case); see also In re Johns−Manville Corp., 63 B.R. at 602 (stating that mandatory withdrawal should be exercised only for "issues requiring significant interpretation of federal laws that Congress would have intended to have decided by a district judge rather than a bankruptcy judge"); Levine v. Central States, S.E. & S.W. Areas Pension Fund (In re Ottawa Cartage, Inc.), 55 B.R. 371, 374 (N.D. Ill. 1985) (withdrawing reference from proceedings). Back To Text

[75] 145 B.R. 539 (N.D. Tex. 1992). Back To Text

[76] Id. at 542. Back To Text

[77] Id. See also Baldwin Tech. Corp. v. Dahlgren Int'l, Inc. (In re Dahlgren Int'l, Inc.), 147 B.R. 393, 396 (N.D. Tex. 1992) (referencing prior decision that withdrawal of reference was mandatory in connection with request for payment of administrative expense claim based on patent infringement suit brought against debtor). But see Institut Pasteur v. Cambridge Biotech Corp. (In re Cambridge Biotech Corp.), 186 B.R. 9, 12 (Bankr. D. Mass. 1995) (referencing earlier decision of court denying withdrawal of reference in patent infringement adversary proceeding). Back To Text

[78] In re Sevko, Inc., 143 B.R. 114, 116 (N.D. Ill. 1992). Accord In re Texaco, Inc., 84 B.R. 911, 919 (S.D.N.Y. 1988) (acknowledging that timeliness "must be evaluated in the context of the specific situation"). Back To Text

[79] See In re Sevko, Inc., 143 B.R. at 116; In re Texaco, Inc., 84 B.R. at 919. In Sevko, for example, the court held that a creditor's motion to withdraw the reference filed five months after the creditor had notice of the grounds for such a motion nevertheless was timely where the creditor delayed seeking a withdrawal of the reference pending the court's determination of the debtor's motion to dismiss the action. The district court stated that "[t]he only matter of substance conducted before the bankruptcy judge on the merits of this matter was Sevko's motion to dismiss, which merely saves the district court the trouble of rebriefing." In re Sevko, Inc., 143 B.R. at 116−17. Under these facts, the debtor could not show that either (i) the creditor was engaging in improper forum shopping or (ii) the debtor would be unfairly prejudiced by withdrawal of the reference. Id.; see also Auto Specialties Mfg. Co. v. Sachs (In re Auto Specialties Mfg. Co.), 134 B.R. 227, 228 n.1 (W.D. Mich. 1990) (filing motion to withdraw reference nine months after initiation of RICO action was timely where there was no showing that defendant was prejudiced by delay). A different result is found in Laine v. Gross, 128 B.R. 588 (D. Me. 1991), where a motion to withdraw the reference was filed by the defendants six months after the commencement of a lawsuit, following the denial of the defendants' motion to dismiss the action. The district court determined that the request to withdraw the reference was untimely and amounted to improper forum shopping by the defendants. In reaching this conclusion, the court emphasized that "[o]nly after the Bankruptcy Court denied their motion to dismiss, having invested a significant amount of time and energy, did Defendants try another tack and seek withdrawal of the reference." Id. at 589; see also Brizendine v. Montgomery Ward & Co., 143 B.R. 877, 878 (N.D. Ill. 1992) (finding that motion to withdraw reference brought seven months after commencement of adversary proceeding was untimely). Back To Text

[80] See Fed. R. Bankr. P. 5011(c); see also Marshall v. City of Atlanta, 195 B.R. 156, 166 (N.D. Ga. 1996) (denying motion to withdraw reference). Back To Text

[81] Fed. R. Bankr. P. 5011(c). Back To Text

[82] See id. (requiring that "[a] motion for a stay or relief from a stay filed in the district court shall state why it has not been presented to or obtained from the bankruptcy judge"). Back To Text

[83] See id. Fed. R. Bankr. P. 5011(a); see also Samuel R. Maizel & Philip Ziperman, The Doctrine of Abstention: How to Avoid Litigating Your Claim Before a Bankruptcy Court, 767 PLI/Comm 115, 126 (1998) (discussing Bankruptcy Rule 5011(a)). Back To Text

[84] 1 Norton, supra note 54, § 8.1, at 8−9. Back To Text

[85] Marshall, 195 B.R. at 165 n.3. See 28 U.S.C. § 157(b)(3) (stating that bankruptcy judge shall determine whether proceeding is core proceeding); see also Double TRL, Inc. v. F.S. Leasing, Inc. (In re Double TRL, Inc.), 65 B.R. 993, 1000 (Bankr. E.D.N.Y. 1986) ("Determination of whether a proceeding is core is entrusted to the bankruptcy judge under § 157(b)(3)."). Back To Text

[86] See Hatzel & Buehler, Inc. v. Central Hudson Gas & Elec. Corp., 106 B.R. 367, 370 (D. Del. 1989) (stating that party moving for withdrawal of reference on grounds relating to core or non−core status of proceeding "must look first to the bankruptcy court to make [the core/non−core] determination. Otherwise, § 157(b)(3) [of the Judicial Code] would be circumvented"); see also Mellon v. Delaware & Hudson Ry. Co. (In re Delaware & Hudson Ry. Co.), 122 B.R. 887, 891 (D. Del. 1991) (concluding that "28 U.S.C. § 157(b)(3) requires the bankruptcy judge to determine whether a proceeding is core or non−core"). Back To Text

[87] 28 U.S.C. § 1291 (emphasis added). Back To Text

[88] Hialeah Hosp., Inc. v. Department of Health & Rehabilitative Servs. (In re King Mem'l Hosp., Inc.), 767 F.2d 1508, 1510 (11th Cir. 1985) (quoting Catlin v. United States, 324 U.S. 229, 233 (1945)); see also 15A Charles Alan Wright et al., Federal Practice and Procedure § 3905 (2d ed. 1992 & Supp. 2000) (explaining final judgment rule). Back To Text

[89] See In re King Mem'l Hosp., Inc., 767 F.2d at 1510 (stating that motions to withdraw reference from bankruptcy court under § 157(d) essentially only determine forum in which final decisions will be reached and therefore are not themselves final appealable judgments); see also Dalton v. United States (In re Dalton), 733 F.2d 710, 714 (10th Cir. 1984) (stating that order by district court granting or denying withdrawal of reference is not final order). Back To Text

[90] See In re King Mem'l Hosp., Inc., 767 F.2d at 1510 (determining that order does not fall into final judgment rule exception); Providers Benefit Life Ins. Co. v. Tidewater Group, Inc. (In re Tidewater Group, Inc.), 734 F.2d 794, 796−97 (11th Cir. 1984) (upholding district court's decision that bankruptcy court's order denying approval of settlement was not final order); Farr v. Heckler, 729 F.2d 1426, 1427 (11th Cir. 1984) (finding that decision by district court did not fall within exception to final judgment rule). Back To Text

[91] Other exceptions to the final judgment rule include (i) the practical finality doctrine, under which "a judgment requiring immediate delivery or sale of property while further proceedings in the action continue is final for purposes of appellate review," 19 Moore's Federal Practice § 202.08, at 202−40.7 (Matthew Bender 3d ed. 2000), and (ii) the pragmatic finality doctrine, under which a marginally final order deciding an "unsettled issue of national significance" may be appealed, id. § 202.10, at 202−40.11. See also 15A Charles Alan Wright et al., Federal Practice and Procedure § 3913 (explaining pragmatic finality doctrines). Back To Text

[92] In re King Mem'l Hosp., Inc., 767 F.2d at 1510. In King Memorial, the Eleventh Circuit held that the order denying a motion to withdraw the reference did not fall within the collateral order exception and was not appealable because "it remains subject to review upon final judgment." Id. In a subsequent case, however, the Eleventh Circuit held that an order withdrawing the reference fell within the collateral order doctrine and thus was subject to appeal. See Parklane Hosiery Co. v. Parklane/Atlanta Venture (In re Parklane/Atlanta Joint Venture), 927 F.2d 532, 534 (11th Cir. 1991). After the Eleventh Circuit's decision, § 305 of the Bankruptcy Code was amended to allow an appeal to the district court. See Camden Ordnance Mfg. Co. of Ark., Inc. v. United States Trustee (In re Camden Ordnance Mfg. Co. of Ark., Inc.), 245 B.R. 794, 805 n.11 (E.D. Pa. 2000) (noting that § 305 was amended thereby "negating the problem described in Parklane/Atlanta"). Back To Text

[93] 11 U.S.C. § 362(a)(1). Back To Text

[94] 11 U.S.C. § 362(a)(3). Back To Text

[95] 11 U.S.C. § 362(a)(1). Back To Text

[96] See, e.g., Bambu Sales, Inc. v. Sultana Crackers, Inc., 683 F. Supp. 899, 917 (E.D.N.Y. 1988) (recognizing that in trademark infringement case "plaintiff could not pursue its claim for [prepetition] damages" without seeking relief from the Automatic Stay); Richard Lieb, The Interrelationship of Trademark Law and Bankruptcy Law, 64 Am. Bankr. L.J. 1, 17 (1990) (applying § 362(a)(1) to trademark infringement suit). Back To Text

[97] See Broadcast Music, Inc. v. Game Operators Corp., 107 B.R. 326, 327 (D. Kan. 1989) (holding that Automatic Stay did not apply to postpetition copyright infringement action against debtor since all of alleged copyright infringements occurred postpetition and thus could not have been brought prepetition); see also Holland Am. Ins. Co. v. Succession of Roy, 777 F.2d 992, 996 (5th Cir. 1985) (holding that Automatic Stay did not apply to insurer's interpleader action when fire at debtor's storage facility that gave rise to action occurred postpetition); Rogers v. Overstreet (In re Rogers), 164 B.R. 382, 393 (Bankr. N.D. Ga. 1994) (recognizing that Automatic Stay did not apply to action against debtor for child support payments to extent plaintiff was only pursuing payments that accrued postpetition). But see In re Telegroup, Inc., 237 B.R. 87, 92−94 (Bankr. D. N.J. 1999) (refusing to grant patent

holder's motion for relief from Automatic Stay to institute action against chapter 11 debtor for its alleged wholly postpetition infringement since infringement had ceased and patent holder was only seeking to liquidate administrative claim).

Although § 362(a)(1) of the Bankruptcy Code would not stay an action based upon infringement that commenced postpetition, § 362(a)(3) could still apply to stay such an action. See infra notes 112−126 and accompanying text. Back To Text

[98] 244 B.R. 56 (D.N.J. 2000). Back To Text

[99] Id. at 60. Back To Text

[100] See id. at 58; see also Martino v. First Nat'l Bank of Harvey (In re Garofalo's Finer Foods, Inc.), 186 B.R. 414, 436 n.17 (N.D. Ill. 1995) (asserting that Automatic Stay does not preclude defendant from raising postpetition claim for damages); Continental Air Lines, Inc. v. Hillblom (In re Continental Air Lines, Inc.), 61 B.R. 758, 778 (S.D. Tex. 1986) (asserting that proceedings based upon postpetition claim against debtor is generally not controlled by § 362(a)(3)). Back To Text

[101] 26 U.S.P.Q.2d (BNA) 1106 (N.D. Okla. Nov. 5, 1992). Back To Text

[102] Id. at 1113. Back To Text

[103] See id. (finding that injunctive relief sought did not violate Automatic Stay that was in effect); see also In re Newman Cos. of Wis., Inc., 45 B.R. 308, 309 (Bankr. E.D. Wis. 1985) (finding that pursuant to § 959(a), Automatic Stay did not apply to state court action brought by former employee against the debtor relating to postpetition enforcement of noncompetition agreement since debtor was being sued with respect to acts or transactions carried on for postpetition business). Back To Text

[104] 28 U.S.C. § 959(a). Back To Text

[105] Voice Systems, 26 U.S.P.Q.2d at 1113. Additionally, in In re Television Studio School of N.Y., 77 B.R. 411 (Bankr. S.D.N.Y. 1987), the plaintiff sought relief from the Automatic Stay to commence a postpetition suit for alleged prepetition and postpetition copyright infringement by the debtor. The court noted that "[t]he post−petition infringement claim, by definition, is not protected by 11 U.S.C. § 362" and thus the debtor was subject to suit pursuant to 28 U.S.C. § 959(a). Id. at 412. Back To Text

[106] For instance, in Television Studio School of N.Y., the court found that an injunction action against the debtor's postpetition copyright infringement was not subject to the Automatic Stay and could be brought pursuant to 28 U.S.C. § 959(a), but nonetheless used its equitable powers pursuant to the last sentence of § 959(a) to stay the action since it would divert the attention of the debtor's management and cause a great detriment to the debtor's reorganization efforts. See In re Television Studio School of N.Y., 77 B.R. at 412−13. Generally, courts will weigh the relative benefits and harms of an action to determine whether the action may proceed against the debtor under 28 U.S.C. § 959(a). See Jaytee−Penndel Co. v. Bloor (In re Investors Funding Corp. of N.Y.), 547 F.2d 13, 16 (2d Cir. 1976) (staying state court suit against debtor to alter wraparound mortgage for postpetition breach which, if successful, would substantially change value of debtor's major asset and noting "that a court action against reorganization trustees relating to business activities of the bankrupt carried on by the trustee may proceed unless the bankruptcy court, exercising sound discretion, finds that the action would embarrass, burden, delay or otherwise impede the reorganization proceedings"); Hudson River Sloop Clearwater, Inc. v. Revere Copper Prod., Inc. (In re Revere Copper and Brass, Inc.), 32 B.R. 725, 728 (S.D.N.Y. 1983) (affirming order enjoining party from bringing action against debtor under Clean Water Act, even for postpetition conduct, since Clean Water Act could "embarrass, burden, delay or otherwise impede the reorganization proceedings"). Back To Text

[107] See Baldwin Tech. Corp. v. Dahlgren Int'l, Inc. (In re Dahlgren Int'l, Inc.), 147 B.R. 393, 404 n.16 (N.D. Tex. 1992) (finding that although plaintiff was barred from pursuing claims based on pre−confirmation infringement due to

three year bar date in debtor's plan, plaintiff could pursue cause of action based on post−confirmation infringement since "alleged acts of infringement that occur post−confirmation are separate causes of action from those that occur pre−confirmation, and the former necessarily give rise only to post−confirmation claims"). See, e.g., A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1031 (Fed. Cir. 1992) (holding patent infringement constituted continuing tort). Back To Text

[108] See Stone v. Williams, 970 F.2d 1043, 1049−50 (2d Cir. 1992) (finding that each act of copyright infringement is distinct harm giving rise to independent claim for relief such that infringement during statute of limitations period did not allow recovery for infringement prior to limitations period), cert. denied, 508 U.S. 906 (1993); Hotaling v. Church of Jesus Christ of Latter−Day Saints, 118 F.3d 199, 204 (4th Cir. 1997) (stating same); Fisher v. United Feature Syndicate, Inc., 37 F. Supp.2d 1213, 1216−17 (D. Colo. 1999), aff'd, 203 F.3d 834 (10th Cir. 2000). But see Taylor v. Meirick, 712 F.2d 1112, 1119 (7th Cir. 1983) (finding that plaintiff could recover for copyright infringements that occurred both before and after statute of limitations period since infringement was "continuing wrong" and "initial copying was not a separate and completed wrong but simply the first step in a course of wrongful conduct that continued till the last copy of the infringing map was sold"). See generally John E. Theuman, Construction and Application of 17 U.S.C.A. § 507(B), Requiring That Civil Copyright Actions Be Commenced Within 3 Years After Claim Accrued, 140 A.L.R. Fed. 641 (1997) (discussing theory of continuing violation for purposes of accrual or tolling of statutory period); David E. Harrell, Comment, Difficulty Counting Backwards from Three: Conflicting Interpretations of the Statute of Limitations on Civil Copyright Infringement, 48 SMU L. Rev. 669, 676 (1995) (noting separateness of acts of copyright infringements by stating "[d]espite being allowed to recover for acts of infringement even though the first act is outside the statutory period, a plaintiff generally may only recover for damages and infringements that occur within the statutory period"). Back To Text

[109] 140 B.R. 969 (N.D. Ill. 1992). Back To Text

[110] Id. at 976. Back To Text

[111] See In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig., 140 B.R. at 976 (stating that injunction should not be granted unless wrongful conduct is ongoing). In Nike, Inc. v. National Shoes, Inc. (In re National Shoes, Inc.), 18 B.R. 507 (Bankr. D. Me. 1982), the court also found that the Automatic Stay applied to plaintiff's action against the debtor's post−petition trademark infringement and noted that "[b]ifurcating its claim [between pre−petition and post−petition infringement] does not change the fact that its claim is one which arose before the commencement of the Defendant's chapter 11 case and that this proceeding could have been commenced before the commencement of the Defendant's chapter 11 case within the meaning of § 362(a)(1)." Id. at 509. See also Advanced Computer Servs. of Mich., Inc. v. MAI Sys. Corp., 161 B.R. 771, 775 (E.D. Va. 1993) (holding that Automatic Stay applied to antitrust action against debtor based on debtor's conduct of allegedly using copyrights to preclude competition since Automatic Stay bars claims based on conduct that commenced prepetition and continued postpetition). Moreover, as noted before, some courts find infringement of copyrights as a single "continuous" wrong for purposes of determining actions falling within the applicable statute of limitations. See supra note 108 and accompanying text. Back To Text

[112] See 11 U.S.C. § 541 (defining property of estate); United States v. Whiting Pools, Inc., 462 U.S. 198, 204 (1983) ("Both the congressional goal of encouraging reorganizations and Congress' choice of methods to protect secured creditors suggest that Congress intended a broad range of property to be included in the estate."); see also 5 Collier, supra note 38, ¶ 541.01, at 541−7 ("Congress' intent to define property of the estate in the broadest possible sense is evident from the language of the statute, which initially defines the scope of estate property to be all legal or equitable interests of the debtor in property as of the commencement of the case, wherever located and by whomever held."). Back To Text

[113] 11 U.S.C. § 541(a). Back To Text

[114] H.R. Rep. No. 95−595, at 175−76 (1977), reprinted in 1978 U.S.C.C.A.N. 5963, 6136 ("[Property of the estate] includes all interests, such as interests in real or personal property, tangible and intangible property, choses in action, causes of action, rights such as copyrights, trade−marks, patents, and processes, contingent interests and future interests, whether or not transferable by the debtor."). Back To Text

[115] See United States v. Inslaw, Inc., 932 F.2d 1467, 1473 n.3 (D.C. Cir. 1991); see also Amplifier Research Corp. v. Hart, 144 B.R. 693, 694 (E.D. Pa. 1995) ("Congress evidently believed that the purpose of staying acts for possession was defeated if plaintiffs were still free to try to control or otherwise direct how the debtor used his property."). Back To Text

[116] 111 B.R. 892 (Bankr. S.D. Cal. 1990). Back To Text

[117] Id. at 897. Back To Text

[118] See id. The court also found that 28 U.S.C. § 959(a) "should not be construed to permit suits that aim to establish adverse rights in the estate's property or otherwise interfere with the trustee's control and management of the estate." Id. See supra notes 103−106 and accompanying text (discussing § 959(a)). Back To Text

[119] See In re Cinematronics, Inc., 111 B.R. at 897 (stating that "[creditor's] proper remedy . . . should have been to intervene in the bankruptcy proceeding by filing its motion for relief from stay to proceed with the State Court TRO"). Back To Text

[120] See Inslaw, 932 F.2d at 1473 (stating that "[t]he object of [§ 362(a)(3)] is essentially to solve a collective action problem — to make sure that creditors do not destroy the bankrupt estate in their scramble for relief") (citing to H.R. Rep. No. 95−595, at 340 (1977), reprinted in 1978 U.S.C.C.A.N. 5963, 6296−97); Continental Air Lines, Inc. v. Hillblom (In re Continental Air Lines, Inc.), 61 B.R. 758, 779 n.41 (S.D. Tex. 1986) ("The purpose of [§ 362(a)(3)] is to prevent dismemberment of the estate.") (quoting H.R. Rep. No. 95−595, at 341 (1977), reprinted in 1978 U.S.C.C.A.N. 5963, 6298). "Congress amended § 362(a)(3) to stay not only those acts intended to 'obtain possession of' the property of an estate, but also those seeking to 'exercise control over' such property." Amplifier Research Corp., 144 B.R. at 694. Back To Text

[121] See Checkers Drive−In Restaurants, Inc. v. Commissioner of Patents & Trademarks, 51 F.3d 1078, 1082 (D.C. Cir. 1995) (noting that while Automatic Stay was intended to be construed broadly, "[i]ts breadth is not unlimited"); Chugach Timber Corp. v. Northern Stevedoring & Handling Corp. (In re Chugach Forest Prods.), 23 F.3d 241, 245 (9th Cir. 1994) (stating that Automatic Stay should not be interpreted beyond congressional purposes); In re Continental Air Lines, Inc., 61 B.R. at 779 (cautioning that "while seemingly broad in scope, the automatic stay provisions should be construed no more expansively than is necessary to effectuate legislative purpose"); James O. Johnston, Jr., Note, The Inequitable Machinations of Section 362(a)(3): Rethinking Bankruptcy's Automatic Stay over Intangible Property Rights, 66 S. Cal. L. Rev. 659, 665 (1992) (stating that "in order to adhere to legislative intent, courts should apply § 362(a)(3) only in situations that resemble typical creditor collection actions"). Back To Text

[122] 144 B.R. 693 (E.D. Pa. 1992). Back To Text

[123] See id. at 694−95; id. at 695 (explaining why "courts must not stretch or distort the bankruptcy stay to impede post−petition tort claims") (citing In re Continental Air Lines, Inc., 61 B.R. at 778); In re Bock Laundry Mach. Co., 37 B.R. 564, 567 (Bankr. N.D. Ohio 1984) (stating that Automatic Stay was not intended to preclude tort liability). Back To Text

[124] Amplifier Research Corp., 144 B.R. at 695. Back To Text

[125] Id. Similarly, in Continental Air Lines, the court found that the Automatic Stay did not apply to a derivative action brought by minority shareholders of a company that the debtor was seeking to take over postpetition, even though the shareholders were seeking, among other things, an injunction against the completion of transfer of shares to the debtor. In so doing, the court noted:

Although the definition of property for purposes of the Code is broad, and encompasses all kinds of property, including tangible and intangible property, choses in action, and causes of action, subsection 362(a)(3) does not bar every proceeding hostile to a debtor's claimed interest in property, no matter how intangible, unmatured or unliquidated the debtor's claim, and no matter how indirect the attack upon the estate's interest in property. The

commencement of proceedings based upon a post−petition cause of action against the debtor is generally not encompassed by subsection 362(a)(3), even when a substantial claim adverse to the debtor's claimed interest in property is asserted which might ultimately establish that the estate has no legal or equitable interest in the claimed property.

In re Continental Air Lines, Inc., 61 B.R. at 778. Back To Text

[126] See In re Continental Air Lines, Inc., 61 B.R. at 779 n.41 (finding that § 362(a)(3) did not apply to injunction action since "the injunctive relief requested could only be premised upon an initial judicial determination that [the debtor's] estate possesses no equitable interest in the claimed property"); Amplifier Research Corp., 144 B.R. at 695 (allowing suit to enjoin debtor's alleged tortious distribution of report to continue since "if [the plaintiff's] allegations are true, [the debtor] has no property right in distributing the report in the first place [and] [i]f the allegations are false, the injunction will not issue"). Back To Text

[127] See Picco v. Global Marine Drilling Co., 900 F.2d 846, 850 (5th Cir. 1990) ("[O]ther district courts retain jurisdiction to determine the applicability of the stay to litigation pending before them, and to enter orders not inconsistent with the terms of the stay."); Brock v. Morysville Body Works, Inc., 829 F.2d 383, 387 (3d Cir. 1987) ("The court in which the litigation claimed to be stayed is pending thus 'has jurisdiction to determine not only its own jurisdiction but also the more precise question whether the proceeding pending before it is subject to the automatic stay.'") (quoting Erti v. Paine Webber Jackson & Curtis, Inc. (In re Baldwin−United Corp. Litig.), 765 F.2d 343, 347 (2d Cir. 1985)); In re Baldwin−United Corp. Litig., 765 F.2d at 347 ("Whether the stay applies to litigation otherwise within the jurisdiction of a district court or court of appeals is an issue of law within the competence of both the court within which the litigation is pending and the bankruptcy court supervising the reorganization.") (citations omitted); In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig., 140 B.R. 969, 973 (N.D. Ill. 1992) (holding that district court had jurisdiction to determine whether Automatic Stay applied to action to enjoin postpetition patent infringement); Pope v. Wagner (In re Pope), 209 B.R. 1015, 1020 (Bankr. N.D. Ga. 1997) ("[T]he applicability of the automatic stay falls concurrently within the purview of the bankruptcy court and that of the state court."); Mother African Union Methodist Church v. Conference of AUFCMP Church (In re AUFCMP Church), 184 B.R. 207, 215 (Bankr. D. Del. 1995) ("The Debtor has not cited any authority, and I find no such authority, for the proposition that when a bankruptcy petition is filed the parties to an action pending in a non−bankruptcy court and the presiding judicial officer of that non−bankruptcy court are deemed to violate the stay order by considering and deciding the applicability of the stay order to the non−bankruptcy court proceeding. Indeed, all the reported authority on the issue is to the contrary.") (emphasis added); Rogers v. Overstreet (In re Rogers), 164 B.R. 382, 391 (Bankr. N.D. Ga. 1994) ("It is settled law that bankruptcy courts do not have exclusive jurisdiction in determining the applicability of the automatic stay."). Back To Text

[128] 765 F.2d 343 (2d Cir. 1985). Back To Text

[129] See id. at 348−49. Back To Text

[130] Id. at 349. Cf. In re Rogers, 164 B.R. at 391 ("Since the state court heard the underlying civil action, entered a judgment, and had custody of the Debtor, it likely was the best forum in which to decide the applicability of the automatic stay.") Back To Text

[131] § 105 of the Bankruptcy Code states that "[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of [the Bankruptcy Code]." 11 U.S.C. § 105(a). See, e.g., Wedgewood Inv. Fund, Ltd. v. Wedgewood Realty Group, Ltd. (In re Wedgewood Realty Group, Ltd.), 878 F.2d 693, 701 (3d Cir. 1989) ("Congress clearly envisioned that § 105(a) would be available to issue an injunction on a case−by−case basis in situations expressly excepted from the automatic stay under § 362(a)."); In re Baldwin−United Corp. Litig., 765 F.2d at 348 ("[T]he Bankruptcy Court has authority under § 105 broader than the automatic stay provisions of § 362 and may use its equitable powers to assure the orderly conduct of the reorganization proceedings."); 2 Collier, supra note 38, ¶ 105.03, at 105−22.1 ("The most notorious use of § 105 has been to seek to enjoin actions which, for one reason or another, are not stayed by the automatic stay of § 362."). A court's power under § 105 is not unlimited, however. As one court explained it, § 105 does not "authorize the bankruptcy courts to create substantive rights that

are otherwise unavailable under applicable law, or constitute a roving commission to do equity." United States v. Sutton, 786 F.2d 1305, 1308 (5th Cir. 1986). Back To Text

[132] See, e.g., In re Pope, 209 B.R. at 1020 n.6 ("If the automatic stay does apply to a given action, however, only the bankruptcy court may grant relief from its terms."); In re AUFCMP Church, 184 B.R. at 215 ("Under 11 U.S.C. § 362(d), a motion to modify or lift the provisions of the automatic stay with respect to a particular action must be made to the bankruptcy court which is supervising the reorganization.") (quoting LTV Steel Co. v. Board of Educ. of Cleveland City Sch. Dist. (In re Chateaugay Corp, Reomar, Inc.), 93 B.R. 26, 30 (S.D.N.Y. 1988)). Back To Text

[133] 11 U.S.C. § 362(d)(1). Back To Text

[134] See, e.g., Sonnax Indus., Inc. v. Tri Component Prods. Corp. (In re Sonnax Indus., Inc.), 907 F.2d 1280, 1286 (2d Cir. 1990) (noting reasons to grant relief); White v. White (In re White), 851 F.2d 170, 173 (6th Cir. 1988) (affirming bankruptcy court's and district court's orders granting creditor relief from Automatic Stay to continue state court domestic relations proceeding); In re AUFCMP Church, 184 B.R. at 217−18 (granting creditor's motion for relief from Automatic Stay because district court was familiar with complex fact pattern of dispute underlying prepetition action and debtor's bankruptcy case constituted bad faith filing); In re Milestone Educ. Inst., Inc., 167 B.R. 716, 724 (Bankr. D. Mass. 1994) (granting motion for relief from Automatic Stay where dispute involved receivership issues more appropriately decided by state court); Murray Indus., Inc. v. Aristech Chem. Corp. (In re Murray Indus., Inc.), 121 B.R. 635, 636−37 (Bankr. M.D. Fla. 1990) (granting creditor's motion for relief from Automatic Stay where prepetition litigation had been pending for two and half years prior to debtor's bankruptcy case and initial forum was more familiar with case). Back To Text

[135] See, e.g., In re South Oakes Furniture, Inc., 167 B.R. 307, 310 (Bankr. M.D. Ga. 1994) (finding that bankruptcy court needs only to determine whether creditor "has demonstrated a probability of success" on merits in analyzing whether to grant relief from stay); American Airlines, Inc. v. Continental Airlines, Inc. (In re Continental Airlines, Inc.), 152 B.R. 420, 425−26 (D. Del. 1993) (stating that "[e]ven a slight probability of success on the merits may be sufficient to support lifting an automatic stay"). Back To Text

[136] See, e.g., Benedor Corp. v. Conejo Enters., Inc. (In re Conejo Enters., Inc.), 96 F.3d 346, 352−54 (9th Cir. 1996) (approving bankruptcy court's reasons for denying creditor's motion for relief from Automatic Stay where forcing the debtor to litigate in two forums would not promote an efficient administration of the debtor's estate); In re Sonnax Indus., Inc., 907 F.2d at 1286 (noting judicial economy and expedience must be weighed); IRS v. Robinson (In re Robinson), 169 B.R. 356, 359 (E.D. Va. 1994) (affirming bankruptcy court's order denying Internal Revenue Service's motion for relief from Automatic Stay where dispute involved solely federal issues appropriate for bankruptcy court to determine and requiring debtor to litigate in two forums would waste estate assets). Back To Text

[137] See, e.g., International Bus. Machs. v. Fernstrom Storage & Van Co. (In re Fernstrom Storage & Van Co.), 938 F.2d 731, 733 (7th Cir. 1991) (affirming bankruptcy court's and district court's orders granting creditor's motion for relief from Automatic Stay where state court action only sought to determine liability of debtor and would not harm debtor's reorganization efforts); In re Sonnax Indus., Inc., 907 F.2d at 1286 (finding that harm to movant was not sufficient to justify lifting of Automatic Stay where such relief would devastate debtor's reorganization efforts); Hudson Valley Cablevision Corp. v. Route 202 Developers, Inc., 169 B.R. 531, 532−33 (S.D.N.Y. 1994) (reversing bankruptcy court's decision and granting creditor's motion for relief from Automatic Stay where allowing state court action filed prepetition to enforce easement would not prejudice debtor's reorganization efforts); In re Robinson, 169 B.R. at 359 (noting Automatic Stay should be lifted only in correct legal standards); In re Continental Airlines, Inc., 152 B.R. at 424 (noting lack of rigid test to modify stay); In re Anton, 145 B.R. 767, 770−71 (Bankr. E.D.N.Y. 1992) (granting creditor's motion for relief from Automatic Stay where causing debtor to defend action in district court would not prejudice debtor; court noted that "[t]he cost of defending litigation, by itself, has not been regarded as constituting 'great prejudice,' precluding relief from the automatic stay") (citing In re Unioil, 54 B.R. 192, 195 (Bankr. D. Colo. 1985)). Back To Text

[138] See, e.g., Baldino v. Wilson (In re Wilson), 116 F.3d 87, 90 (3d Cir. 1997) (reversing bankruptcy court's and district court's order and granting creditor's motion for relief from Automatic Stay because not modifying Automatic

Stay would prejudice creditor where issue preclusion would prevent creditor from relitigating her malicious prosecution claim in bankruptcy case); Milne v. Johnson (In re Milne), 185 B.R. 280, 285 (N.D. Ill. 1995) (affirming bankruptcy court's order granting motion for relief from Automatic Stay filed by holder of certificate of purchase in order to allow holder to obtain tax deed where title to property could be adversely affected and holder prejudiced if Automatic Stay was not modified); Hudson Valley Cablevision Corp., 169 B.R. at 532−33 (finding that movant would be prejudiced if Automatic Stay was not modified where movant sought relief from Automatic Stay to pursue state court action involving cable easements used in operation of its business); In re Continental Airlines, Inc., 152 B.R. at 424 (finding that movant would be prejudiced if Automatic Stay was not modified because movant would be subject to having court, that was unfamiliar with facts of its dispute with debtor, interpret release provision in prepetition settlement agreement). Back To Text

[139] Although there are apparently no reported cases in which a bankruptcy court has granted relief from the Automatic Stay in deference to another court's expertise relating to intellectual property rights, there are numerous examples of a bankruptcy court's deference to another court's special knowledge. See, e.g., Robbins v. Robbins (In re Robbins), 964 F.2d 342, 345 (4th Cir. 1992) (holding that federal courts owe deference to state courts' expertise in equitable distribution cases); Universal Life Church, Inc. v. IRS (In re Universal Life Church, Inc.), 127 B.R. 453, 455 (E.D. Cal. 1991) (holding that bankruptcy court properly modified Automatic Stay in deference to tax court given its expertise and faster speed with which it could assess debtor's tax liability), aff'd., 965 F.2d 777 (9th Cir. 1992); Lewis v. Wells (In re Bob Lee Beauty Supply Co.), 56 B.R. 17, 20 (Bankr. N.D. Ala. 1985) (deferring to state court's expertise in landlord−tenant law); Eastern Consol. Util., Inc. v. Commonwealth (In re Eastern Consol. Utils., Inc.), 17 B.R. 809, 811 (Bankr. E.D. Pa. 1982) (deferring to administrative panel designed to hear appeals). Back To Text

[140] See, e.g., Packerland Packing Co. v. Griffith Brokerage Co. (In re Kemble), 776 F.2d 802, 807 (9th Cir. 1985) (finding that prior extensive trial preparation in another forum justifies decision to lift Automatic Stay and to let trial go forward); In re Davis, 91 B.R. 470, 471 (Bankr. N.D. Ill. 1988) (granting relief from stay to allow state court claim and avoid inconsistent results, conflict of interpretation of state law and duplication of lawyer and judicial effort). Back To Text

[141] See Schwartz v. United States (In re Schwartz), 954 F.2d 569, 571 (9th Cir. 1992) ("Our decision today clarifies this area of the law by making clear that violations of the automatic stay are void, not voidable."); 3 Collier, supra note 38, ¶ 362.11[1], at 362−115 ("Most courts have held that actions taken in violation of the stay are void and without effect."). Cf. Sikes v. Global Marine, Inc., 881 F.2d 176, 178 (5th Cir. 1989) ("We are persuaded that the better reasoned rule characterizes acts taken in violation of the automatic stay as voidable rather than void."). Back To Text

[142] 11 U.S.C. § 362(h). Back To Text

[143] See Sosne v. Reinert & Duree, P.C. (In re Just Brakes Corp. Sys., Inc.), 108 F.3d 881, 884 (8th Cir.) (agreeing with bankruptcy court's ruling that "§ 362(h) only applies to 'individual' debtors, not to corporate entities"), cert. denied, 118 S. Ct. 364 (1997); Jove Eng'g, Inc. v. IRS, 92 F.3d 1539, 1550 (11th Cir. 1996) ("We conclude the plain meaning of the term 'individual' does not include a corporation, and applying this meaning is not demonstrably at odds with Congress's intent."); Maritime Asbestosis Legal Clinic v. LTV Steel Co. (In re Chateaugay Corp.), 920 F.2d 183, 186−87 (2d. Cir. 1990) (holding that "a bankruptcy court may impose sanctions pursuant to § 362(h) . . . only for violating a stay as to debtors who are natural persons."). Back To Text

[144] See Cuffee v. Atlantic Bus. & Community Dev. Corp. (In re Atlantic Bus. & Community Corp.), 901 F.2d 325, 329 (3d. Cir. 1990) ("Although § 362(h) refers to an individual, the section has uniformly been held to be applicable to a corporate debtor."); Budget Serv. Co. v. Better Homes of Va., Inc., 804 F.2d 289, 292 (4th Cir. 1986) ("We agree that it seems unlikely that Congress meant to give a remedy only to individual debtors against those who willfully violate the automatic stay provisions of the Code as opposed to debtors which are corporations or other like entities."). Back To Text

[145] See Chambers v. NASCO, Inc., 501 U.S. 32, 44 (1991) (acknowledging that all courts have inherent power to punish for contempt, whether contempt occurs inside or outside courtroom); Jove Eng'g, Inc., 92 F.3d at 1553 (maintaining that bankruptcy court, like all courts, possesses inherent power to hold parties in contempt); In re

Williams, 213 B.R. 189, 193 (Bankr. M.D. Ga. 1997) (recognizing that bankruptcy court's have inherent contempt powers). Back To Text

[146] See supra note 129 and accompanying text; see also Jove Eng'g, Inc., 92 F.3d at 1554 (maintaining that bankruptcy court possesses special statutory contempt authority under 11 U.S.C. § 105(a), and that this authority is generally exercised when Automatic Stay provisions are violated); In re Williams, 213 B.R. at 193 (citing Jove Eng'g, and noting that bankruptcy court's statutory contempt powers are distinct from and in addition to inherent contempt powers). Back To Text

[147] See Jove Eng'g, Inc., 92 F.3d at 1554 (monetary relief is "necessary or appropriate" for some violations of Automatic Stay, thereby making such relief appropriate under court's statutory contempt power); see also In re Just Brakes Corp. Sys., Inc., 108 F.3d at 885 (finding that "§ 362(a), buttressed by § 105(a), confers broad equitable power to remedy adverse effects of automatic stay violations"); Georgia Scale Co. v. Toledo Scale Co. (In re Georgia Scale Co.), 134 B.R. 69, 72 (Bankr. S.D. Ga. 1991) ("The bankruptcy court, pursuant to its power of civil contempt [under § 105], may afford corporate debtors an appropriate remedy for a violation of the automatic stay."). Back To Text

[148] See Jove Eng'g, Inc., 92 F.3d at 1554 ("If the automatic stay provision is violated, courts generally award damages under the separate statutory contempt power of § 105."); see also First RepublicBank Corp. v. NCNB Texas Nat'l Bank (In re First RepublicBank Corp.), 113 B.R. 277, 279 (Bankr. N.D. Tex. 1989) (holding that in cases against non−individuals, it is appropriate for court to impose contempt sanctions under § 105(a)). Back To Text

[149] See Jove Eng'g, Inc., 92 F.3d at 1555 (noting that courts usually find contempt when violation of Automatic Stay is willful); see also Havelock v. Taxel (In re Pace), 67 F.3d 187, 193 (9th Cir. 1995) (finding that civil contempt and award of damages was appropriate when Automatic Stay was willfully violated); Maritime Asbestosis Legal Clinic v. LTV Steel Co. (In re Chateaugay Corp.), 920 F.2d. 183, 187 (2d. Cir. 1990) (maintaining that bankruptcy court may use contempt proceedings as means of compensation and punishment for willful violations of Automatic Stay). Back To Text

[150] See Hardy v. United States (In re Hardy), 97 F.3d 1384, 1390 (11th Cir. 1996) ("[A] defendant may be cited for contempt under the court's inherent powers only upon a showing of 'bad faith.'") (quoting Glatter v. Mroz (In re Mroz), 65 F.3d 1567, 1575 (11th Cir. 1995)). Back To Text

[151] See In re Mroz, 65 F.3d at 1576 (maintaining that case should be remanded before imposing contempt sanctions for finding of whether attorneys in question acted as result of improper purpose or simply out of negligence); Fellheimer, Eichen & Braverman, P.C. v. Charter Techs, Inc., 57 F.3d 1215, 1222−23 (3d. Cir. 1995) (upholding exercise of inherent powers by bankruptcy court to impose sanctions in case where sanctioned attorneys acted in bad faith and for improper purpose). Back To Text

[152] See Jove Eng'g, Inc., 92 F.3d at 1555 (noting that Automatic Stay is violated for purposes of § 105(a) if violator knew of stay and committed violative act, even if there was no intent to violate stay); Price v. United States (In re Price), 42 F.3d 1068, 1071 (7th Cir. 1994) ("A 'willful violation' does not require a specific intent to violate the automatic stay."); Citizens Bank of Md. v. Strumpf (In re Strumpf), 37 F.3d 155, 159 (4th Cir. 1994) ("To constitute a willful act, the creditor need not act with specific intent but must only commit an intentional act with knowledge of the automatic stay."), rev'd on other grounds, 516 U.S. 16 (1995); Cuffee v. Atlantic Bus. & Community Dev. Corp. (In re Atlantic Bus. & Community Corp.), 901 F.2d 325, 329 (3d Cir. 1990) ("The bankruptcy courts have construed 'willful' as used in the code to mean an intentional or deliberate act done with knowledge that the act is in violation of the stay."). Back To Text

[153] Howard Johnson Co. v. Khimani, 892 F.2d 1512, 1516 (11th Cir. 1990). See also Jim Walter Resources, Inc. v. International Union, United Mine Workers of Am. 609 F.2d 165, 168 (5th Cir. 1980) (indicating that in civil contempt proceeding intent of party violating order is irrelevant, because only question is actual violative conduct) (citing United States v. Ross, 243 F. Supp. 496, 499 (S.D.N.Y. 1965)). Back To Text

[154] 973 F.2d 1065 (3d Cir. 1992). Back To Text

[155] Id. at 1088. Back To Text

[156] Id. (finding that violator's actions were not truly willful, because it acted in good faith and with persuasive legal authority). See In re Reinhardt, 209 B.R. 183, 188 (Bankr. S.D.N.Y. 1997) (denying damages since although creditor "did in fact violate the bankruptcy stay, he relied on valid case law and [a] reasonable construction of the relevant statutes"); Mother African Union Methodist Church v. Conference of AUFCMP Church (In re AUFCMP Church), 184 B.R. 207, 217 (Bankr. D. Del. 1995) (Bankr. D. Del. 1995) (finding that entities were not in contempt for violation of Automatic Stay since they had "persuasive legal authority for their position"); Tidewater Mem'l Hosp., Inc. v. Bowen (In re Tidewater Mem'l Hosp., Inc.), 106 B.R. 876, 882 (Bankr. E.D. Va. 1989) (holding that even though attempted recoupment by Medicare authorities violated Automatic Stay, there was no basis for contempt holding since such act "was supported by [a] plausible legal argument"). Back To Text

[157] See United States v. Ruff (In re Rush−Hampton Indus., Inc.), 98 F.3d 614, 617 (11th Cir. 1996) ("[N]othing herein is meant to detract from the bankruptcy court's well−established power under § 362(h), and also under other provisions like § 105(a) and its so−called inherent power, to impose proper sanctions, including damages, costs and attorney's fees, for violations of the automatic stay."); Glatter v. Mroz (In re Mroz), 65 F.3d 1567, 1575 (11th Cir. 1995) (recognizing that court has "inherent power to police itself" which includes power to "'mak[e] the prevailing party whole for expenses caused by his opponent's obstinacy,'" including awarding of attorney fees) (quoting Chambers v. NASCO, Inc., 501 U.S. 32, 46 (1991) (citation omitted)); Havelock v. Taxel (In re Pace), 67 F.3d 187, 193 (9th Cir. 1995) ("[A] trustee can recover damages in the form of costs and attorney's fees under § 105(a) as a sanction for ordinary civil contempt."). Back To Text

[158] See Jove Eng'g, Inc. v. IRS, 92 F.3d 1539, 1557 (11th Cir. 1996) (maintaining that civil contempt sanctions are designed to both compensate complainant and to coerce violator into compliance); see also United States v. City of Miami, 195 F.3d 1292, 1298 (11th Cir. 1999) (noting that civil contempt sanctions may be used either for coercing violator or compensating other party) (citing Jove Eng'g, Inc., 92 F.3d at 1557); Norman Bridge Drug Co. v. Banner, 529 F.2d 822, 827 (5th Cir. 1976) (observing that civil contempt is proper remedy when purpose is to compel obedience or compensate for effects of disobedience). Back To Text

[159] See Jove Eng'g, Inc., 92 F.3d at 1557−58 (maintaining that sanctions imposed under civil contempt authority may be coercive but not punitive); see also Hardy v. United States (In re Hardy), 97 F.3d 1384, 1390 (11th Cir. 1996) ("The court may only impose sanctions for contempt that are coercive and not punitive."); United States v. Trinity Indus., Inc. (In re Trinity Indus., Inc.), 876 F.2d 1485, 1493 (11th Cir. 1989) (observing that civil contempt sanctions may be imposed for purposes of coercion, but may not be punitive in nature). Back To Text

[160] See Bartel v. Shugrue (In re Ionosphere Clubs, Inc.), 171 B.R. 18, 21 (S.D.N.Y. 1994) (recognizing "the power of bankruptcy courts to order sanctions for criminal contempt" and noting that "Bankruptcy Rule 9020(a) permits summary determination of contempts committed in the presence of the court"); Utah State Credit Union v. Skinner (In re Skinner), 90 B.R. 470, 477 (D. Utah 1988) ("Bankruptcy Rule 9020 . . . recognizes the inherent powers of the bankruptcy judge to determine civil or criminal contempt."), aff'd, Mountain Am. Credit Union v. Skinner (In re Skinner), 917 F.2d 444 (10th Cir. 1990); see also In re Williams, 213 B.R. 189, 195−96 (Bankr. M.D. Ga. 1997) (recognizing that whether bankruptcy judges have inherent power to punish for criminal contempt is disputed issue, but noting that "[w]hether the contempt is criminal or civil, Rule 9020 provides the essential safeguards"). Back To Text

[161] Fed. R. Bankr. P. 9020(b). Back To Text

[162] See Elder−Beerman Stores Corp. v. Thomasville Furniture Indus. Inc. (In re Elder−Beerman Stores Corp.), 206 B.R. 142, 152−53 (Bankr. S.D. Ohio 1997) (recognizing that "bankruptcy courts have the power under § 105(a) to award civil contempt damages for automatic stay violations" but that "[s]uch damages are limited to actual damages and attorney fees, and may not include punitive damages"); A & J Auto Sales, Inc. v. United States (In re A & J Auto Sales, Inc.), 205 B.R. 676, 678 (Bankr. D.N.H. 1996) ("The Court finds that, even if it has statutory contempt powers to award damages to the Debtor under § 105 for the IRS's alleged violation of the automatic stay . . . punitive damages are not available for contempt."). Both of these cases, however, focused on the bankruptcy court's statutory contempt

power under § 105 and did not analyze whether the bankruptcy court had an inherent criminal contempt power to award punitive damages. See Griffith v. Oles (In re Hipp, Inc.), 895 F.2d 1503, 1511 (5th Cir. 1990) (addressing issue of inherent criminal contempt power in bankruptcy courts and holding that "bankruptcy courts do not have the inherent criminal contempt powers, at least with respect to the criminal contempts not committed in (or near) their presence"); id. at 1511 n.16 ("Our concerns over the constitutionality of bankruptcy courts exercising criminal contempt powers also leads us to doubt that criminal contempt powers are inherent in bankruptcy courts."). Back To Text

[163] 108 F.3d 881, 885 (8th Cir.), cert. denied, 118 S. Ct. 364 (1997). Back To Text

[164] Id. at 885. Back To Text

[165] Id. § 362(h) provides:

An individual injured by any willful violation of a stay provided by this section shall recover actual damages, including costs and attorneys' fees, and, in appropriate circumstances, may recover punitive damages.

11 U.S.C. § 362(h) (1994). Back To Text

[166] See In re Latanowich, 207 B.R. 326, 337 (Bankr. D. Mass. 1997) (finding that bankruptcy court had power under § 105 to find creditor Sears in criminal contempt and liable for punitive damages for violating discharge injunction through unapproved affirmation agreement since such actions were "predatory" and in "disregard [of] the clear requirements of the law"); Fry v. Today's Homes, Inc. (In re Fry), 122 B.R. 427, 432 (Bankr. N.D. Okla. 1990) (finding that punitive damages could be awarded even in absence of § 362(h) and that creditor Citicorp had acted with "complete reckless and wanton disregard[] of another's rights" by repossessing debtor's home and belongings even after notice of bankruptcy filing and refusing to return property after being contacted by debtor's attorney). Back To Text

[167] See International Union, United Mine Workers of Am. v. Bagwell, 512 U.S. 821, 828 (1994) (noting that although distinction is not clear, principal difference between criminal and civil contempt sanctions is that criminal sanctions are designed to vindicate authority of court, and are therefore punitive in nature) (citing Gompers v. Buck's Stove & Range Co., 221 U.S. 418, 441 (1911)); Jove Eng'g, Inc. v. IRS, 92 F.3d 1539, 1558 (11th Cir. 1996) (noting that principal distinction between civil and criminal contempt is that criminal contempt is designed to serve public interest, not solely to compensate complainant). Back To Text

[168] Compare Krigel v. Drake (In re National Marine Sales & Leasing, Inc.), 79 B.R. 442, 447−48 (Bankr. W.D. Mo. 1987) (awarding punitive damages in amount of $1,500 to corporate debtor under § 362(h) where creditor had violated Automatic Stay intentionally and willfully and had expressed "disdain for any legal technicalities" associated with Automatic Stay), with Pester Ref. Co. v. Mapco Gas Prods., Inc. (In re Pester Ref. Co.), 845 F.2d 1476, 1487 (8th Cir. 1988) (reversing bankruptcy court award of $36,500 in punitive damages to corporate debtor since creditor had not acted with "malice or willful disregard of the [other party's] rights" as required for punitive damages under state law because there was reasonable disagreement as to creditor's legal authority to convert debtor's property). Back To Text

[169] See In re B. Cohen & Sons Caterers, Inc., 108 B.R. 482, 487 (E.D. Pa. 1989) (noting that nature of defendant's conduct, defendant's ability to pay, defendant's motive, and debtor's provocation are relevant factors in determining whether to award punitive damages and amount of any such award); see also Tigue v. Steger (In re Tigue), 82 B.R. 724, 737 n.3 (Bankr. E.D. Pa. 1988) (stating that amount of punitive damages should be determined after considering motive of defendant, relation between parties, and provocation for act) (quoting Restatement (Second) of Torts § 908 cmt. c (1979)); Wagner v. Ivory (In re Wagner), 74 B.R. 898, 905 (Bankr. E.D. Pa 1987) (observing that Judge must consider nature of defendant's conduct and his ability to pay in determining amount of punitive damage award). Back To Text