



Insights: Publications

4 Top Takeaways Recent Trends Involving Intellectual Property in Bankruptcy

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Written by

Kilpatrick Townsend partner David Posner spoke at a recent New York State Bar Association event where he and other panelists discussed the topic “Around the Edges of IP: Complexities of IP in Bankruptcy.”

Mr. Posner provides four key takeaways from his presentation — “Recent Trends Involving Intellectual Property in Bankruptcy:”

Given the increasing value and importance to many businesses of intellectual property, it is critical to consult with bankruptcy counsel when structuring intellectual property agreements and as soon as you become aware that your contract/license counter-party is or may be in financial distress.

Counsel can provide advice on language that can be included in agreements to protect the continued use and enjoyment of key intellectual property, including the applicability of Section 365 of the Bankruptcy Code, the applicability of ipso facto language and other mechanisms to protect rights and business objectives. When a counter-party is or may be in distress, counsel can review agreements to provide guidance as to the best mechanisms to protect rights and guard against downside risks.

Case law is developing to address the fact that trademarks are not covered within the definition of intellectual property in the Bankruptcy Code.

Continuing a trend from the Crumbs Bake Shop and Sunbeam Products cases, the Bankruptcy Appellate Panel for the First Circuit held that a debtor/licensor's rejection under Section 365 of the Bankruptcy Code of a trademark license agreement did not terminate the rights of the non-debtor/licensee such that the non-debtor/licensee could continue to use a trademark despite the licensor's breach and subsequent rejection of the agreement.

Secured and unsecured creditors understand that intellectual property portfolios can be sold for greater value in a sale than as part of the distressed-entity's going concern value.

Recent trends in Chapter 11 cases have seen assets such as patent portfolios not necessary for the core reorganized business sold prior to other assets to fund the cases (Kodak, Wet Seal), residual patent portfolios sold after those necessary for the liquidation of the business (Nortel) and trade names, trademarks, domain names, and e-commerce platforms sold for significant amounts (Deb Stores, Nasty Gal, RadioShack, American Apparel etc.).

Trap or back door transactions are a recent trend to unlock the value of intellectual property assets or put it beyond the reach of creditors.

In a number of recent high profile situations (Claire's Stores, J. Crew, Gymboree, iHeart Communications), companies have utilized certain provisions in the secured credit facility to transfer valuable intellectual property assets to an unrestricted, typically foreign subsidiary. In doing so, the entity creates an unrestricted pool of assets to further borrow against to create liquidity, but in doing so, the entity is insulating such assets from the reach of creditors and using them as collateral to further leverage the company. In the case of retailers, this is adding more leverage to what in many instances is an already precarious capital structure.