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Section 549 of the Bankruptcy Code**

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Introduction

Under section 549 of title 11 of the United States Code (the “Bankruptcy Code”), a trustee may avoid an unauthorized post-petition transfer of property of the debtor’s estate. Property is not limited to tangible property. Thus, a trustee can avoid a post-petition transfer of intangible assets, including intellectual property.

This article explores a trustee’s ability to avoid a post-petition transfer of intellectual property. Part I analyzes the legal standard for avoidance of unauthorized post-petition transfers under section 549. Part II examines section 549 in relation to intellectual property. Part III discusses the procedure for remedies a trustee can seek under section 550 upon avoidance of their unauthorized intellectual property transfer.

I. Section 549 of the Bankruptcy Code Allows the Avoidance of Unauthorized Post-Petition Transfers.

Under section 549 of the Bankruptcy Code, a trustee may avoid a transfer of estate property: (1) that occurs after the commencement of the case; and (2)(A) that is authorized only under section 303(f) or 542(c) of this title; or (B) that is not authorized under this title or by the

court.”¹ To avoid such a post-petition transfer, the trustee must prove: (1) that a transfer occurred; (2) that the transfer occurred after the commencement of the case; (3) that the transfer was made without court authority; and (4) that the property transferred was property of the estate.² Thus, for liability of an unauthorized post-petition transfer under section 549, there must be an actual transfer of property that is part of the debtor’s estate. The Bankruptcy Code provides a clear definition of the term “transfer,” describing it as “every mode, direct or indirect, absolute or conditional, voluntary or involuntary, of disposing of or parting with property or with an interest in property.”³ Additionally, the Bankruptcy Code defines "property of the estate" broadly.⁴ Subject to some exceptions, the bankruptcy estate "is comprised of all of the following property, wherever located and by whomever held: (1) . . . all legal or equitable interests of the debtor in property as of the commencement of the case.”⁵

Consequently, “[t]o the extent that a transfer is avoided under § 549, the trustee may recover the property transferred from the initial transferee or the entity for whose benefit the transfer was made or any immediate or mediate transferee of such initial transferee.”⁶

II. A Court may Grant Avoidance of Intellectual Property Under Section 549.

A. Intellectual Property is Defined Under the Bankruptcy Code in Section 101.

For purposes of section 549, the Bankruptcy Code provides the following definition for “intellectual property:”

The term “intellectual property” means—

- (A) trade secret;
- (B) invention, process, design, or plant protected under title 35;
- (C) patent application;

¹ 11 U.S.C. § 549(a) (2018).

² *Id.*

³ 11 U.S.C. § 101(54).

⁴ *See generally* 11 U.S.C. § 541.

⁵ 11 U.S.C. § 541(a).

⁶ 11 U.S.C. § 550(a); *see infra*.

- (D) plant variety;
- (E) work of authorship protected under title 17 (copyrights); or
- (F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable non-bankruptcy law.⁷

The Bankruptcy Code, however, does not recognize property such as trademarks, trade names, or goodwill, which are otherwise considered to fall under the category of intellectual property. The reason for this is because other intellectual property rights, like patents and copyrights, are made with the primary goal to encourage innovation and prohibit monopolies in favor of the owners of those rights.⁸ Conversely, trademark law is designed with the goal of preventing customer confusion rather than to stimulate creativity.⁹ Although not explicitly stated in the Bankruptcy Code, rights such as trademarks, trade names, and goodwill have nonetheless been recognized by courts as intellectual property for purposes of avoidance under section 549.¹⁰

B. Intellectual Property is Considered Property of the Estate Under Section 549.

To avoid and recover estate property pursuant to section 549 and section 550, the trustee must show that the complained of assets are property of the estate.¹¹ Property is considered everything of value the debtor possesses, even if the property or debtor's interest in that property is novel.¹² The bankruptcy estate includes such property even if applicable non-bankruptcy law restricts the debtor's ability to transfer the property.¹³

⁷ 11 U.S.C. § 101(35A).

⁸ See 1 J. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 6:3 (2009).

⁹ *Id.*

¹⁰ See *infra*.

¹¹ See *In re Longhorn Paving & Oilfield Servs.*, 64 B.R. 679 (Bankr. S.D. Tex. 2022).

¹² See *In re Bakersfield Westar, Inc.*, 226 B.R. 227, 233–34 (9th Cir. 1998) (holding that the mere interest in making or revoking an election to be treated as a subchapter S-corporation for federal income tax purposes is considered property of the estate).

¹³ 11 U.S.C. § 541(c)(1).

Courts continuously find the term "property of the estate" to include intangible property interests.¹⁴ One reason is because, like tangible assets, intangibles can be validly sold, assigned, or transferred by the estate.¹⁵

Additionally, when an intangible asset is an integral part of a business, it can be synonymous to the physical assets of the business.¹⁶ For example, when a partnership between two companies dissolved under chapter 7 of the Bankruptcy Code, a former partner using the goodwill of the dissolved partnership was an avoidable unauthorized post-petition transfer.¹⁷ The court reasoned that the advantages accruing to the former partner by virtue of favorable elements, although intangible, represent an integral aspect of the business.¹⁸

C. Courts Recognize Intellectual Property Encompasses Those Not Explicitly Defined in the Bankruptcy Code.

Although not expressly included as a form of intellectual property defined under the Bankruptcy Code, courts have held that other intangibles such as trademarks, trade names, and company goodwill are considered intellectual property of the estate.¹⁹ These are considered property of the estate for several reasons: they are valuable assets to a company, can be the subject of bargain and sale, may be damaged or destroyed, and are otherwise like other property with the right of the owner to recover damages for its destruction.²⁰ It follows, therefore, that intangibles, like the goodwill of the insolvent's trademark or trade name, are not automatically

¹⁴ *In re Gordo's Restaurant Corp.*, 643 B.R. 1, 21 (Bankr. S.D.N.Y. 2022).

¹⁵ *John C. Flood of Va., Inc. v. John C. Flood, Inc.*, 700 F. Supp. 2d 90, 95 (D. D.C. 2010); *Johanna Farms, Inc. v. Citrus Bowl, Inc.*, 468 F. Supp. 866, 874 (E.D.N.Y. 1978) (“[U]pon the bankruptcy of the trademark owner, the trademark together with the goodwill it symbolizes becomes vested in the Trustee in Bankruptcy . . . and may be sold by him as an asset of the estate.”).

¹⁶ *Texas & Pac. Ry. Co. v. Mercer*, 90 S.W.2d 557 (Tex. Comm’n App. 1936).

¹⁷ *See Taormina v. Culicchia*, 355 S.W.2d 569, 574 (Tex. Civ. App. 1962).

¹⁸ *Id.* Favorable elements included using the business at the same location, using the same name, and dealing with the same customers as the dissolved partnership.

¹⁹ *See, e.g., In re Gucci*, 202 B.R. 686, 690 (Bankr. S.D.N.Y. 1996) (noting trade names and trademarks are property of the estate).

²⁰ *Taormina*, 355 S.W.2d at 547.

destroyed upon adjudication of bankruptcy.²¹ For example, when a Texas company assumed assets belonging to the debtor, including their services, name, acronym, and goodwill without authorization from the trustee, and continued the operation of the service side of the debtor under the guise of a new name, it was an avoidable unauthorized post-petition transfer under section 549.²²

III. A Trustee can Recover the Avoided Transfer of Intellectual Property from Section 549 Under Section 550.

To the extent a transfer is avoided, and all the elements were met under section 549, a trustee may recover, for the benefit of the estate, (1) the property transferred, or, if the court so orders, (2) the value of such property.²³ The recovery to be allowed is wholly within the discretion of the court.²⁴ In the context of intellectual property, it is often difficult to grant a trustee the actual property transferred, so courts allow the trustee to recover the value of such property when it is itself unrecoverable.²⁵

However, the valuing of intellectual property by courts presents some difficulties. Firstly, the value of the intangible is usually at its highest when it is being actively used rather than sold or liquidated.²⁶ Secondly, most intangible assets are created for a specific purpose and within a particular enterprise, with the possibility of having little value outside such enterprise.²⁷ Thus, valuing of intellectual property usually requires utilizing expert testimony.²⁸ Thirdly, a

²¹ *Johanna Farms, Inc. v. Citrus Bowl, Inc.*, 468 F. Supp. 866, 874 (E.D.N.Y. 1978); *John C. Flood of Va., Inc. v. John C. Flood, Inc.*, 700 F. Supp. 2d 90, 95 (D. D.C. 2010) ("There is no reason to believe . . . that a company's priority of ownership over its trademark ceases merely because a company goes bankrupt.").

²² *See In re Advanced Modular Power Sys.*, 413 B.R. 643 (Bankr. S.D. Tex. 2009), *aff'd sub nom. Hsu v. West*, No. ADV 08-03177, 2009 WL 7760300 (S.D. Tex. Dec. 30, 2009).

²³ 11 U.S.C. § 550(a).

²⁴ *In re Vedaa*, 49 B.R. 409, 411 (Bankr. D.N.D. 1985).

²⁵ *Id.*

²⁶ *See* 6A WILLIAM L. NORTON, JR., NORTON BANKRUPTCY LAW AND PRACTICES 2D § 151:48 (1997).

²⁷ *Id.*

²⁸ *See, e.g., Taormina v. Culicchia*, 355 S.W.2d 569, 574 (Tex. Civ. App. 1962) (trustee's value of their company goodwill was established through expert testimony by a certified public accountant who frequented in the business world).

debtor's ownership of, or license interests in, intellectual property may be the only, or most valuable, asset of the estate.²⁹ Because of this, bankruptcy courts are increasingly required to engage in detailed analyses of the parties' interest in the intellectual property.³⁰

Lastly, complications can arise when multiple mediums of intellectual property weave together. For example, because of the importance of online branding today, one of the most valuable assets a company can own is its domain name.³¹ However, complications can arise when the domain name contains the trade name of the domain name holder because it can hold little value unless they are used and sold with the holder's other property.³² Thus, it may be easier to value a domain name that is not connected with or depends on the trade name of a holder. Valuing intellectual property like a domain name would require hiring experts in this area to testify about issues such as the income derived from sales on the website, the number of hits on the site, advertising income from the site, and the uniqueness of the relationship of the domain name to the company.

Conclusion

Section 549 of the Bankruptcy Code allows the avoidance of unauthorized post-petition transfer of intellectual property, including those not explicitly stated in the Bankruptcy Code. This is possible because intellectual property can be treated as a physical business asset that is able to be sold, assigned, or transferred. Moreover, a trustee can recover from a section 549 unauthorized post-petition transfer of intellectual property under section 550 for either the actual property transferred or the value of such property subject to a valuing analysis by the court.

²⁹ See *In re Gucci*, 202 B.R. 686 (Bankr. S.D.N.Y. 1996) (reasoning the debtor's sole business was the use of his name, and that his name and trademark was the estate's most valuable asset).

³⁰ See *In re C Tek Software, Inc.*, 127 B.R. 501, 503–07 (Bankr. D.N.H. 1991) (considering whether a distributor who modified a source code of software it licensed from the debtor had an actual copyright interest in that source code).

³¹ *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949, 951–52 (C.D. Cal. 1997).

³² See *supra*.