

# THE TRANSACTIONAL LAWYER

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## CAN A CONTRACT PROVIDE FOR DOUBLE ATTORNEY’S FEES?

*Scott J. Burnham*

A recent case in the New York Appellate Division raises interesting questions regarding the drafting of attorney’s fees provisions. In *Loughlin v. Meghji*,<sup>1</sup> the plaintiff claimed that the defendant had breached a non-solicitation and non-compete agreement. The agreement provided that “the substantially prevailing party shall be entitled to an award of the costs and expenses of such litigation, including two times reasonable attorneys’ fees.”<sup>2</sup> This provision raises two issues. First, it awards the fees to the “substantially” prevailing party, rather than to the prevailing party.<sup>3</sup> Second, and more significantly, it awards “two times” reasonable attorney’s fees, rather than reasonable attorney’s fees. These two aspects of the provision may be related. The dissenting judge in the Appellate Division opined that the intent of the parties was that while it may suffice for a party to merely prevail in order to be awarded normal attorney’s fees, it would have to substantially prevail in order to obtain the doubled attorney’s fees.<sup>4</sup>

On a motion for summary judgment, the trial court found that the defendant had breached the agreement and that the plaintiff was entitled to \$825,000 in lost profits as damages. On its own motion, the court determined that the term providing for a doubling of attorney’s fees provision was an unenforceable penalty. It nevertheless awarded reasonable attorney’s fees of \$755,160.<sup>5</sup>

On appeal, the Appellate Division, in a 4-1 decision, determined that while the defendant had breached the contract, the plaintiff had not offered sufficient proof of damages, and reduced the plaintiff’s award to \$1 nominal damages.<sup>6</sup> However, determining that the plaintiff was the substantially prevailing party, the court held that the plaintiff was entitled to the award of two times the reasonable attorney’s fees provided for in the agreement.<sup>7</sup>

The majority expressed strong disagreement with the trial court’s characterization of the double attorney’s fees as a penalty, upholding the right of “two sophisticated businesspeople with the benefit of counsel” to freely draft the terms of their agreement.<sup>8</sup> Moreover, because neither party had argued in the trial court that the provision should not be enforced, the majority thought the trial judge should not have raised the issue *sua sponte*.<sup>9</sup> The dissenting judge strenuously argued that a party who recovers only nominal damages is not a “substantially prevailing party,” but expressed no objection to the doubling feature of the attorney’s fees provision as such.<sup>10</sup>

There should be little doubt that the provision provides for punitive damages. When a party is awarded attorney’s fees, the recovery goes to the party itself, who presumably uses the money to pay its attorney. In this case, if the plaintiff recovered double attorney’s fees of \$1,510,320, it would pay its attorney \$755,160 and pocket \$755,160. Because it had nothing to do with compensating the plaintiff for its loss, this recovery can be characterized only as punitive damages.

There are two questions raised by the majority’s opinion. First, do parties have the freedom of contract to provide for punitive damages? While statutes and courts sometimes provide for punitive damages,<sup>11</sup> few rules in contract law appear to be as immutable as the prohibition on the parties’ agreeing to punitive damages in their contract. The Restatement (Second) of Contracts states that “punitive damages are not recoverable for a breach of contract unless the conduct constituting the breach is also a tort for which punitive damages are recoverable.”<sup>12</sup> This rule does not state whether it is a default rule, but because the reason for the rule is the principle that the purpose of contract damages is compensation, that purpose would be frustrated by the agreement of the parties. Also, liquidated damages clauses are scrutinized lest they be a disguised penalty.<sup>13</sup> The UCC provides that “neither consequential or special damages nor penal damages may be had except as specifically provided in [the Uniform Commercial Code] or by other rule of law.”<sup>14</sup> Nowhere does the Code specifically permit the parties to agree to punitive damages, though they might be recoverable in a statutory or complementary common law claim.<sup>15</sup>

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In *Loughlin*, the trial court, after declaring the provision to be an unenforceable penalty, nevertheless awarded reasonable attorney's fees.<sup>16</sup> A transactional lawyer might therefore conclude that there is nothing to lose by including a provision for double attorney's fees if at worst the client will still recover reasonable attorney's fees. But such a decision involves the risk that a court might well conclude that the entire provision is unenforceable, just as courts often strike overly broad restrictive covenants rather than rewrite them to make them reasonable.<sup>17</sup> And based on its emphasis on the parties' freedom of contract, presumably even the *Loughlin* court would not have upheld the provision if one of the parties had greater bargaining power, making it inutile in most contexts.

The second question raised by the decision is whether a court should raise an issue *sua sponte* even if the parties have no objection to it. The answer would at first blush appear to be unequivocally affirmative, for otherwise a provision that offends a fundamental policy of law might not be flagged. However, a recent decision by the U.S. Supreme Court raises some doubt due to the so-called "principle of party presentation."

In *United States v. Sineneng-Smith*,<sup>18</sup> the Supreme Court unanimously held that the Ninth Circuit's manner of adjudicating an appeal "departed so drastically from the principle of party presentation as to constitute an abuse of discretion."<sup>19</sup> According to the Court, the principle at stake was that a court should "rely on the parties to frame the issues for decision" and act as "neutral arbiter of matters the parties present."<sup>20</sup> The facts were unusual. The Ninth Circuit panel had not only raised an issue on its own, but largely turned the issue over to amici for re-argument. The court left some wiggle room for courts to distinguish other cases. The opinion stated that the party presentation principle is "not ironclad,"<sup>21</sup> and that courts are "not hidebound by the precise arguments of counsel."<sup>22</sup> Nevertheless, *Sineneng-Smith* offered little guidance to lower courts in distinguishing permissible *sua sponte* judicial practices from impermissible ones.<sup>23</sup>

The action by the lower court in *Loughlin* should fall clearly within a court's power to act on its own motion, for in that case there was no dispute about the issue between the parties - they agreed that the attorney's fees provision was enforceable. Therefore, the court had no choice but to rule *sua sponte* in order to address the issue. If parties wish to enforce a contract provision that the court in its police power deems to be illegal or unenforceable, the party presentation rule should not stand in the way.

In short, transactional lawyers should not read *Loughlin* as giving them a green light to provide for double attorney's fees in their agreements.

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#### Notes:

1. [132 N.Y.S.3d 65](#) (N.Y. Sup. Ct. App. Div. 2020).
2. *Id.* at 70.
3. It is hard enough for a court to determine whether a party is the "prevailing party" in litigation. *See, e.g.*, Thomas J. Goger, *Who is the "successful party" or "prevailing party" for purposes of awarding costs where both parties prevail on affirmative claims*, [66 A.L.R.3d 1115](#) (1975); Keith R. Opsal, Ian L. Brookwell & Stephen L. Sepinuck, *Defining the Prevailing Party under an Attorney's Fees Clause*, 11 *The Transactional Lawyer* 3 (2021); STEPHEN L. SEPINUCK AND JOHN FRANCIS HILSON, *TRANSACTIONAL SKILLS: HOW TO STRUCTURE AND DOCUMENT A DEAL*, at 108-09 (2d ed. 2018). For a drafter to require, on top of that, a determination of whether a party is the "substantially" prevailing party, is to invite additional litigation.
4. *Loughlin*, [132 N.Y.S.3d at 88](#).
5. *Id.* at 70-71.
6. *Id.* at 73-74.
7. *Id.* at 74-75.
8. *Id.* at 73.
9. *Id.*
10. *Id.* at 86-89.
11. For example, consumer protection statutes may provide for punitive damages and courts have allowed them in cases involving insurance bad faith. *See* ALLAN E. FARNSWORTH, *CONTRACTS* (3d ed.) § 12.8. Double attorney's fees have on occasion been awarded under statutes. *See, e.g.*, *Ford v. Blue Cross & Blue Shield of Connecticut, Inc.*, 578 A.2d 1054, 1065 (Conn. 1990) ("Although an award of what may amount in effect to double attorney's fees is unusual, we conclude that there is no legal impediment to such a dual award in an appropriate case.").
12. [RESTATEMENT \(SECOND\) OF CONTRACTS § 355](#).
13. *See* [RESTATEMENT \(SECOND\) OF CONTRACTS § 356](#); U.C.C. § 2-718.
14. U.C.C. § 1-305.
15. *See* U.C.C. § 9-625(c)(2), (e).
16. *Loughlin*, [132 N.Y.S.3d at 71](#).
17. *See* John F. Hilson and Stephen L. Sepinuck, *A Lesson on Drafting Overly Broad Nondisclosure Agreements*, [10 THE TRANSACTIONAL LAWYER 3](#), n.24 (December 2020).
18. [140 S. Ct. 1575](#) (2020).
19. *Id.* at 1578.

20. *Id.* at 1579 (quoting *Greenlaw v. United States*, 554 U.S. 237, 243 (2008)).

21. *Id.*

22. *Id.* at 1581.

23. See Timothy Macht & Derek Borchardt, *Can Courts Introduce Legal Issues Not Raised by the Parties?* [Law.com](#), (July 2, 2020).



## DEFINING THE PREVAILING PARTY UNDER AN ATTORNEY'S FEES CLAUSE

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Many agreements provide that, in the event of litigation, the party who prevails will be entitled to an award of reasonable attorney's fees. Transactional lawyers who draft such agreements might expect that "prevailing party" is determined somewhat holistically. That is, the trial court determines which party realized the bulk of its litigation objectives, whether through trial or otherwise. They might therefore expect that a plaintiff who gets a judgment for less than what the defendant offered to settle is not the prevailing party; instead the defendant would be.

However, that is not the approach courts in several states use. Instead, "prevailing party" in such states is determined in a more formalistic manner that focuses on which party obtained a judgment in its favor. Under this formalistic approach, a plaintiff who obtains a judgment, even if only for nominal damages, is the prevailing party.<sup>1</sup> Conversely, a defendant who is held liable, but only for nominal damages, is not the prevailing party, even though the defendant might be thrilled with such a result.<sup>2</sup> This formalistic approach might well be what the majority of jurisdictions use.<sup>3</sup>

Unfortunately, determining who is the prevailing party in this way might not be consistent with a contracting party's expectations or litigation strategy. For example, a defendant who frequently acknowledges liability and litigates only the amount of damages claimed is likely to be liable for the plaintiff's reasonable attorney's fees even if the defendant successfully disputes all of the plaintiff's claimed damages. Accordingly, a transactional lawyer drafting an agreement for such a party might, therefore, wish to specify how "prevailing party" is to be determined for the purposes of the agreement.

The following definition of "prevailing party" might accommodate the client's litigation strategy and be more consistent with the client's expectations:

"Prevailing party" means the party that realized the greater share of its litigation objectives, whether through trial or otherwise, taking into account the parties' contentions, the amounts claimed, and any settlement offers made before trial.

Note that by referring to settlement offers "before trial," rather than before judgment, this language implicitly excludes settlement offers made during trial. That might be desirable because otherwise a defendant might make a settlement offer after the evidence is submitted, when it seems apparent that the defendant will lose, solely for the purpose of shifting responsibility for attorney's fees.

One caveat is in order. This approach – *i.e.*, attempting to define what "prevailing party" means – is unlikely to work whenever attorney's fees are claimed pursuant to statute, rather than pursuant to the parties' agreement. For example, in a state with a reciprocity statute on attorney's fees,<sup>4</sup> the parties are unlikely to be able in their agreement to alter the meaning of the statute's reference to "prevailing party."<sup>5</sup>

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### Notes:

1. See, *e.g.*, *Loughlin v. Meghji*, [132 N.Y.S.3d 65](#), 74 (Sup. Ct. App. Div. 2020) (plaintiff that received a judgment for \$1 in nominal damages was the prevailing party and was therefore entitled to double attorney's fees); *Jones v. Rempert*, [2012 WL 6967265](#), at \*7-9 (Ill. Ct. App. 2012) (defendants who received a judgment for \$1 in nominal damages on their counterclaim were the prevailing parties and therefore entitled to attorney's fees pursuant to their contract with the plaintiffs); *Ivize of Milwaukee, LLC v. Complex Litig. Support, LLC*, [2009 WL 1111179](#), at \*13-14 (Del. Ch. Apr. 27, 2009) (a plaintiff who prevailed on the major substantive issues but was awarded only nominal damages of \$1 was entitled to attorney's fees under the parties' contract); *King v. Brock*, [646 S.E.2d 206](#), 207 (Ga. 2007) (a plaintiff who is entitled to nominal damages is entitled to reasonably attorney's fees under the parties' agreement, which provide for such fees to the prevailing party); *Premier*

Capital, Inc. v. Grossman, [887 A.2d 887](#) (Conn. Ct. App. 2005) (a plaintiff that received only nominal damages was the prevailing party under the parties' agreement and was entitled to \$10,000 in attorney's fees); Evans v. Werle, [31 S.W.3d 489](#), 493 (Mo. Ct. App. 2000) (plaintiffs who were awarded \$1 in nominal damages were entitled to \$1,000 in attorney's fees and costs as the "prevailing party" under their agreement with the defendant); MFD Partners v. Murphy, [850 P.2d 713](#), 715-16 (Haw. Ct. App. 1992) (a landlord that received a judgment for only nominal damages in an action for back rent was the "prevailing party" and was entitled to attorney's fees); Brown v. Richards, [840 P.2d 143](#), 154-55 (Utah Ct. App. 1992) (a plaintiff who received a judgment for only 10% of the amount sought was the prevailing party and was entitled to attorney's fees pursuant to the parties' contract). *See also* Marcum v. Wengert, [40 S.W.3d 230](#) (Ark. 2001) (to be a "prevailing party," one must prevail on the merits; a party who did not recover an amount close to the amount sought can still be the prevailing party).

2. *E.g.*, Dennis I. Spencer Contractor, Inc. v. City of Aurora, [884 P.2d 326](#) (Colo. 1994) (a defendant that breached a settlement agreement, but which was not liable for any damages, was not the prevailing party).

3. *See* King v. Brock, [646 S.E.2d at 207](#) (describing this approach as the majority rule); MFD Partners v. Murphy, [850 P.2d at 716](#) (same).

4. *See, e.g.*, [Cal. Civ. Code § 1717](#); [Fla. Stat. § 57.105\(7\)](#); [Mont. Code § 28-3-704](#); [Or. Rev. Stat. § 20.096](#); [Utah Code § 78B-5-826](#); [Wash. Rev. Code § 4.84.330](#). *See also* [Ct. Gen. Law § 42-150bb](#) (making reciprocal a contractual clause making a consumer responsible for a commercial party's attorney's fees); [Ariz. Rev. Stat. § 12-341.01](#) (authorizing the court to award attorney's fees to any successful party in a contract action); [Tex. Civ. Prac. & Rem. Code § 38.001](#) (authorizing award of attorney's fees to successful party in a variety of contract actions).

5. *See* Waterwood Enters., LLC v. City of Long Beach, [273 Cal. Rptr. 3d 12](#) (Ct. App. 2020) ("prevailing party" is defined in Cal. Civil Code § 1717 – the state's reciprocity statute – to be "the party who recovered a greater relief in the action on the contract," and the parties' lease could not alter that definition to "the party who, in light of the claims, causes of action, and defenses asserted, is afforded greater relief"; because the plaintiff received a judgment on its only claim, it was the prevailing party even though the amount of the judgment was far below what the plaintiff sought and only slightly above what the defendant offered in a settlement because the court may not consider settlement offers when determining who is the prevailing party under § 1717).



## A SECURED PARTY'S RIGHT TO LICENSE A COLLATERALIZED PATENT AFTER DEFAULT DESTROYS THE DEBTOR'S STANDING TO BRING AN INFRINGEMENT CLAIM

*Stephen L. Sepinuck*

In a pair of concerning decisions, two federal courts have ruled that a patentee's grant of a license to its secured lender, with express permission to sub-license the patent after default, coupled with a later default, divested the patentee of the right to sue anyone for infringement. Without exploring the merits of the decisions, this article alerts transactional lawyers to the decisions' potential significance and offers them advice on what to do about it.

### *The First Decision*

The first case, *Uniloc USA, Inc v. Apple Inc.*,<sup>1</sup> involved a patent purportedly for "controlling the charge and discharge currents in a battery as a function of temperature." In 2017, Hewlett Packard assigned the patent to Uniloc Luxembourg, which collateralized its patent portfolio in exchange for a loan from Fortress Credit Co.<sup>2</sup> One year later, Uniloc Luxembourg assigned the patent to Uniloc 2017 LLC, which in turn granted Uniloc USA a license to the patent and the authority to enforce it.<sup>3</sup>

Uniloc Luxembourg and Uniloc USA sued Apple, Inc. for infringement. The United States District Court for the Northern District of California initially entered judgment for Apple, concluding that the asserted patent covered patent-ineligible subject matter.<sup>4</sup> On appeal, the circuit court vacated the order and remanded for the district court to consider whether the plaintiffs had standing.<sup>5</sup>

On remand, the district court began its analysis by quoting the security agreement, which granted Fortress Credit "a non-exclusive, transferrable, sub-licensable," license to the patent, including the right to exploit the license "in any lawful manner . . . following an Event of Default."<sup>6</sup> This language granted Fortress Credit the right to license the patent after default. Because, according to the court, the Uniloc entities had defaulted in March 2017 by not achieving specified revenue targets, Fortress Credit had the right to license the patent, and as a result the Uniloc entities did not have the exclusive right to do so.

This conclusion was significant because the court then embraced the Federal Circuit's analytical framework for determining who has statutory standing to bring a claim for

patent infringement.<sup>7</sup> Under that framework, there are three categories of potential plaintiffs:

- Someone who holds “all substantial rights” to the patent;
- Someone who hold “exclusionary rights” to the patent.
- Someone who holds less than all substantial or exclusionary rights to the patent.

The first category has standing to sue for infringement. The second category has standing to sue but only alongside the person with all substantial rights. The third category has no standing to sue for infringement, and this defect cannot be cured by joinder.<sup>8</sup>

There is some question whether this framework is appropriate and consistent with recent Supreme Court jurisprudence on standing.<sup>9</sup> But the district court adhered to it, concluding that patent infringement requires “injury to a person’s “exclusive rights” to the patent.<sup>10</sup> Because the Uniloc entities lacked exclusive rights to the patent after default, and they had defaulted, they lacked standing to sue for infringement. It did not matter that Fortress Credit did not believe that a default had occurred.<sup>11</sup> It did not matter that the Uniloc entities were, collectively and in their own words, the patent “owner,” because the court concluded that term had no special significance.<sup>12</sup> Nor, according to the court, did it matter that this might mean that no one has the right to sue for infringement:

It is perhaps true that where a patent owner has granted multiple others the right to sublicense the patent that no one would have the right to sue a particular defendant for infringement. But such a result is not absurd. This is still America; the free market is our default, and the patent is an aberration. Among our ordinary property rights comes the right to destroy, a right consistent with and applicable to the fleeting property interest of a patent which might be destroyed by failure to pay maintenance fees, voluntary commitment to the public domain, or other means. Regardless, a licensing scheme that divests all interest holders of standing does not destroy a patent. It merely prevents suit until a restructuring of the interests among them.<sup>13</sup>

### *The Second Decision*

The second case, *Uniloc USA, Inc. v. Motorola Mobility, LLC*,<sup>14</sup> decided by the United States District Court for the District of Delaware less than four weeks after the first case, involved the same plaintiffs but a different defendant. The court’s analysis was in all material respects the same. Because the terms of the financing agreements granted Fortress Credit a sub-license to the patent which Fortress Credit agreed not to “use” prior to default, but a default had in fact occurred when the Uniloc entities missed revenue targets, the Uniloc entities lacked exclusive rights to the patent.<sup>15</sup>

This lack of exclusive rights, the court ruled, was fatal to the Uniloc entities’ standing to maintain the infringement action.<sup>16</sup> Relying on the same Federal Circuit cases, the court concluded that a patentee who has granted a licensee – even one with a nonexclusive license – the right to sub-license the patent has no legally cognizable injury when an unauthorized person infringes on the patent rights.<sup>17</sup> This result, the court continued using language similar to that in the earlier decision, was not absurd even if it meant that no one had standing to sue for infringement.<sup>18</sup> Moreover, this conclusion was not limited to future infringement – it applied even to infringement that occurred before the Uniloc entities defaulted under the financing agreements – because Fortress Credit had the ability to grant a retroactive license for past infringement.<sup>19</sup>

### *The Potential Impact of the Decisions*

Both courts’ analysis and conclusion rested on the terms of the credit agreement, which expressly granted Fortress the right to license the patent after default. However, it is not clear that the existence of such an express term really matters. After all, Article 9 of the U.C.C. grants secured parties the right to “sell, lease, *license*, or otherwise dispose of the collateral” after default.<sup>20</sup> Thus, unless the security agreement restricts or eliminates this right, a secured party may, after default, license a patent in which it has a security interest. Such a license must be commercially reasonable,<sup>21</sup> but there is nothing in either district court’s opinion to suggest that such a requirement preserves the debtor’s “exclusive rights” to the patent.<sup>22</sup>

As a result, one implication of the courts’ decisions is that any time a patentee grants a security interest in a patent, and then defaults under the terms of the security agreement, the patentee loses the right to sue for past or present infringement. Given that security agreements often define “default” to include many things other than nonpayment of the secured obligation – in fact, such a nonpayment default was what triggered Fortress Credit’s license rights in the *Uniloc* cases – debtors might find themselves divested of the right to enforce their patent rights against infringers because of minor or technical defaults on their secured loans. Such a result is unlikely to be what either the debtor or the secured party desires.

### *Potential Solutions*

Before discussing potential solutions to the inadvertent loss of the right to sue for infringement, it is useful to note one thing that probably would not work: obligating the secured party to join the debtor in bringing an infringement claim. Recall that, under the first court’s analysis, joinder works to solve the standing problem only when a party has “exclusionary rights.” But the court ruled that the Uniloc entities did not have exclusionary rights. Although the court did not say so, presumably Fortress Credit also lacked exclusionary rights

because the Uniloc entities retained the right to license the patent. It is not clear why, if all the parties having rights in a patent join together, they should collectively lack sufficient rights to be injured by infringement, but that seems to be the court's conclusion. Only a "restructuring" of their interests – not joinder – solves the problem.

Nevertheless, there are at least three potential solutions. First, the security agreement could restrict the secured party's rights by providing that the secured party may sell – but not license – the patent after default.<sup>23</sup> This would prevent any inadvertent loss of standing and probably prevent standing from being lost at all. Instead, the debtor would retain standing to sue for infringement until the sale, at which point standing would be transferred to the buyer.<sup>24</sup> If, at the inception of the secured transaction, the secured party thinks that it will probably not be interested in licensing the collateral after default, this approach would not impose much of a burden. And, if licensing the patent ends up being a desirable way to extract value, the secured party could conduct a public sale, buy at that sale,<sup>25</sup> and then grant one or more licenses.

Second, the security agreement could provide that, after default, the secured party gains – *and the debtor loses* – the right to license the patent. This should mean that the exclusionary rights transfer to the secured party, and they would not be lost. As a result, the secured party should have the right after the debtor defaults to enforce the patent against infringers.<sup>26</sup>

Third, the security agreement could provide that the secured party cannot license an encumbered patent until it sends the debtor notification of its intention to do so.<sup>27</sup> This would prevent a technical default from impacting standing unless and until such a declaration is made. The secured party could then consider, when deciding whether to send the notification, whether a temporary loss of standing until such time as the patent sold<sup>28</sup> would be significant.

### Conclusion

This Article has not staked out a position on whether the district courts' decisions in the *Uniloc* cases are sound. But unless the decisions are reversed or other developments render the decisions moot, transactional lawyers who draft or negotiate security agreements encumbering patents – whether on behalf of the secured party or the debtor – need to be aware of them. It would serve the interest of neither the secured party nor the debtor if the security agreement deprived both parties of the right to sue for infringement.

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### Notes:

1. *Uniloc USA, Inc v. Apple Inc.*, [2018 WL 2287675](#), at \*1 (C.D. Cal. 2018), *vacated and remanded*, [784 F. App'x 763](#) (Fed. Cir. 2019), *dismissed*, [2020 WL 7122617](#) (C.D. Cal. 2020).
2. The 2020 district court decision does not specify which Uniloc entity entered into the security agreement but the circuit court decision does. See [784 F. App'x at 765](#).
3. The 2020 district court decision mentions Uniloc 2017 LLC only in passing and without specifying its role in the transactions, see [2020 WL 7122617](#), at \*2, but the circuit court decision provides a bit more information, see [784 F. App'x at 765](#).
4. *Uniloc USA, Inc v. Apple Inc.*, [2018 WL 2287675](#).
5. [784 F. App'x 763](#).
6. [2020 WL 7122617](#), at \*1.
7. The bulk of the court's analysis appears to rest on who is an injured party – and, therefore, a potential plaintiff – within the meaning of the Patent Act, and thus appears to be based on statutory grounds. However, in its conclusion, the court stated that the Uniloc entities lacked "Article III standing." *Id.* at \*8.
8. *Id.* at \*3 (relying on *Lone Star Silicon Innovations LLC v. Nanya Tech. Corp.*, [925 F.3d 1225](#), 1236 (Fed. Cir. 2019); *Azure Networks, LLC v. CSR PLC*, [771 F.3d 1336](#), 1347 (Fed. Cir. 2014), *vacated on other grounds*, 575 U.S. 959 (2015); *Morrow v. Microsoft Corp.*, [499 F.3d 1332](#), 1339-40 (Fed. Cir. 2007)).
9. See [2020 WL 7122617](#), at \*3-4 (discussing *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, [572 U.S. 118](#) (2014)).
10. *Id.* at \*4.
11. *Id.* Nor did it matter that, eleven days before bringing the infringement action, the parties had amended the credit agreement because the amendment provided that it did not operate as a waiver of any right, power or remedy of the collateral agent or constitute a waiver of any provision of the agreement. *Id.* at \*5.
12. *Id.* at \*7.
13. *Id.* (internal citations omitted).
14. *Uniloc USA, Inc. v. Motorola Mobility, LLC*, [2020 WL 7771219](#) (D. Del. 2020).
15. *Id.* at \*1, 7-8.
16. *Id.* at \*5.
17. *Id.*
18. *Id.* at \*6.

19. *Id.* at \*8.
20. U.C.C. § 9-610(a).
21. *Id.*
22. The court in the first case did stress that Fortress Credit had the right under the agreement to “exploit” the patent “in any lawful manner” in its “sole and absolute discretion,” [2020 WL 7122617](#), at \*6, but this appears to be more a matter of emphasizing Fortress Credit’s right to sub-license the patent, not the absence of any limitation on that right.
23. *See* U.C.C. § 1-302(a) (indicating that the effect of most provisions of the U.C.C. may be varied by agreement).

Because the transactional lawyer might wish to preserve the secured party’s power to license the patent after default if the district courts’ decisions in the *Uniloc* cases are reversed or otherwise repudiated, the lawyer might prefer to prohibit the secured party from licensing the patent only if doing so would deprive the debtor of standing to sue for infringement.

24. *See infra* note 27, discussing § 9-617(b).
25. A secured party may buy at a public sale of collateral. *See* U.C.C. § 9-610(c)(1).
26. A transactional lawyer using this approach should include in the security agreement what duties the secured party has to prosecute infringement actions after default or, if none, include a statement to that effect.
27. Such a notification could be simply a notification of default, which the agreement might require for other purposes. However, the secured party might wish to distinguish between events that give rise to such things as a right to accelerate the secured obligation or to charge default-rate interest and events that trigger the power to license patents.

Although U.C.C. § 9-611 requires the secured party to provide the debtor with advance notification of a disposition, including disposition in the form of a license of the collateral, a secured party has the power to conduct an effective disposition even if it fails to provide such notification. *See* U.C.C. § 9-617(b) (providing that a transferee that acts in good faith acquires rights in the collateral even if the secured party fails to comply with Article 9). The security agreement could be drafted to change this by making notification a condition to the secured party’s power to license the patent. This is analogous to the distinction between an agreement that merely prohibits one party from assigning its contractual rights and an agreement that both prohibits assignment and states that any attempted assignment is void. *See* [Restatement \(Second\) of Contracts § 322\(2\)](#) (treating an attempted assignment in violation of a contractual prohibition on assignment as a breach but nevertheless effective). *See also* *Bel-Ray Co. v. Chemrite (Pty) Ltd.*, [181 F.3d 435](#) (3d Cir. 1999) (following the Restatement and concluding that under New Jersey law there is a difference

between the *right* to assign and the *power* to assign, and that a contractual limitation affects only the former); *Gallagher v. Southern Source Packaging, LLC*, [564 F. Supp. 2d 503](#) (E.D.N.C. 2008); *United Health Servs. Credit Union v. Open Solutions Inc.*, [2007 WL 433090](#) (E.D. Wash. 2007). *Contra* *Texas Dev. Co. v. Exxon Mobil Corp.*, [119 S.W.3d 875](#) (Tex. Ct. App. 2003).

28. A secured party’s sale of the patent both transfers the debtor’s rights therein to the buyer and discharges the security interest in the patent. *See* U.C.C. § 9-617(a)(1), (2). The sale therefore reunites in the buyer the rights previously dispersed between the debtor and the secured party. Presumably, therefore, such a sale constitutes the type of “restructuring” of interests to which the court referred. *See supra* text accompanying note 13.

It is possible that curing the default might also restore exclusionary rights in the debtor, and thereby allow the debtor to prosecute infringement claims, at least with respect to infringement occurring after the default is cured.



## Recent Cases

### SECURED TRANSACTIONS

#### *Scope Issues*

*In re Hawaii Motorsports, LLC*,  
[2020 WL 7233187](#) (Bankr. D. Mont. 2020)

Even though a Wholesale Finance Agreement provided that the financier “owns the Inventory Property and Sale Proceeds and the debtor merely holds such property in trust” for the financier, the transaction did not create a true trust, merely a security interest. The Agreement and a related financing agreement were intended to provide wholesale line-of-credit financing to the debtor and expressly provided for a security interest in the inventory financed and its proceeds. The language purporting to create a trust was inconsistent with the purpose and other terms of the Agreement. Because the financier failed to file a financing statement in the state where the debtor was located, the financier’s security interest was unperfected.

*In re Blackjewel LLC*,  
[2020 WL 7348228](#) (Bankr. S.D.W. Va. 2020)

A bank’s security interest in the debtor’s “Receivables,” a term defined in the agreement to mirror the Article 9 definition of “account,” included the debtor’s rights under a Master Coal Purchase and Sale Agreement (“PSA”), so that receivables generated post-petition under the PSA were proceeds of prepetition collateral, and encumbered by the security interest despite § 552 of the Bankruptcy Code.

### ***Perfection Issues***

*In re PES Holdings, LLC,*

[2021 WL 24719](#) (D. Del. 2021)

Pursuant to the terms of the parties' intercreditor agreement, the perfected security interest of a bank in the proceeds of the debtor's business interruption insurance had priority over a Term Loan Agent's apparently perfected security interest in the same insurance proceeds. The intercreditor agreement gave the bank priority in "general intangibles" relating to accounts and inventory, and their proceeds, and expressly defined general intangibles to include insurance policies. The business interruption insurance substitutes for accounts and inventory, and thus was a general intangible related to accounts and inventory, and the proceeds of the insurance were therefore proceeds of covered general intangibles. Moreover, the intercreditor agreement gave the bank priority in "money," as that term is defined in the UCC and the proceeds will take the form of cash payments, and hence are money. Finally, the intercreditor agreement also gave the bank priority in proceeds of "accounts" and the business interruption insurance proceeds are payable by reason of a loss of accounts, and hence are proceeds of accounts.

*In re Murray,*

[2020 WL 7390985](#) (Bankr. E.D.N.Y. 2020)

A financing statement covering the debtor's shares in a cooperative apartment and accompanying proprietary lease, and which correctly listed the debtor's name, the secured party's name, the parcel, and the property address, was effective despite the fact that it listed the issuing corporation as "235-21 79 St Tenants Corp" instead of "35-21 79 St Tenants Corp." (*i.e.*, adding a "2" and omitting a period). The errors would not have prevented a reasonably diligent searcher from discovering the financing statement or understanding that it might cover the collateral at issue. A later amendment to the financing statement describing the cooperative shares as "real property," rather than as "personal property," also did not render the financing statement ineffective. It was far from clear that statement was an error, given that the amendment identified the collateral as a "Single Residential Coop Unit."

### ***Enforcement Issues***

*Stream TV Networks, Inc. v. SeeCubic, Inc.,*

[2020 WL 7230419](#) (Del. Ch. Ct. 2020)

A transaction by which the debtor transferred all of its assets to a newly formed entity controlled by its secured creditors was valid. Even if the outside directors who approved of the transaction were not validly appointed, they were *de facto* directors because the existing directors intended to appoint them and the existing directors and the debtor represented to third parties that the outside directors were directors. Although Delaware law generally requires stockholder approval of a sale

of substantially all of a corporation's assets, that requirement does not apply to an insolvent corporation that transfers its assets to its creditors. The debtor's Articles of Incorporation, which track the statutory language by also requiring stockholder approval for an "asset sale," were to be interpreted similarly.

### ***Liability Issues***

*In re TransCare Corp.,*

[2020 WL 8021060](#) (Bankr. S.D.N.Y. 2020)

The individual who indirectly owned and controlled both the debtor and the administrative agent for the term loan lenders, and who shortly before the debtor's bankruptcy engineered an acceptance of collateral followed by a sale of the assets to newly formed entities, breached her duty of loyalty to the debtor and was liable for the \$44 million the assets were worth, minus the \$1 million needed in temporary financing and the \$1.2 million that the estate eventually recovered for those assets.

### **BANKRUPTCY**

*In re TransCare Corp.,*

[2020 WL 8021060](#) (Bankr. S.D.N.Y. 2020)

The administrative agent for the debtor's term loan lenders, which shortly before the debtor's bankruptcy conducted an acceptance of approximately \$40 million in collateral in satisfaction of \$10 million in debt, engineered by the individual who indirectly owned and controlled both the debtor and the administrative agent, received an intentionally fraudulent transfer and was liable for the full value of the assets. There was no defense for the amount of debt satisfied by the acceptance because only a transferee that acts in good faith is entitled to such a defense, and the transferee did not act in good faith.

### **LENDING, CONTRACTING & COMMERCIAL LITIGATION**

*Whitebox Relative Value Partners, LP v. Transocean Ltd.,*

[2020 WL 7406063](#) (S.D.N.Y. 2020).

A so-called "successor obligor" clause in an indenture, which required that, as a condition to the ability of a guarantor to dispose of "all or substantially all" of its assets, the transferee must assume the obligations of the guarantor with respect to the bonds, was not triggered by the creation of new subsidiaries, interposed between existing holding company guarantors and their wholly-owned asset holding subsidiaries, even though the stock of the asset holding subsidiaries was transferred to the new subsidiaries and even though those new subsidiaries guaranteed a new bond issue but not the preexisting bonds. Even though the stock of the asset holding subsidiaries was "all" of the assets of those holding company guarantors, the clause is not to be read literally. The interposition of the new subsidiaries allowed a new issue of bonds to obtain structural superiority over the existing bonds.



*Snow v. Eventbrite, Inc.*,

[2020 WL 6135990](#) (N.D. Cal. 2020)

A ticket seller did not prove that individuals who purchased tickets on the seller's web site had consented to arbitrate disputes because, even though the seller's Terms of Sale included an arbitration clause, and users of the seller's site allegedly assented to the Terms of Service by signing up or signing in on the seller's site, the seller provided no evidence of precisely what the web page said or how it looked when the individuals used it.

*Urdan v. WR Capital Partners, LLC*,

[2020 WL 7223313](#) (Del. 2020).

Investors who settled their breach of fiduciary duty claims against some defendants and, in connection therewith, entered into a Settlement Agreement and a Stock Repurchase Agreement, lost their standing to maintain their action against the remaining defendants. Although the Settlement Agreement expressly reserved the investors' claims against the non-settling defendants, the Stock Repurchase Agreement provided that the investors transferred all of their "right, title, and interest" in the stock and stated that any inconsistency with the Settlement Agreement was to be resolved in favor of the terms in the Stock Repurchase Agreement. As a result, their claim was transferred along with the stock.

*In re Spiech Farms, LLC*,

[2021 WL 303998](#) (6th Cir. 2021)

Transactions through which a financier purported to buy produce from a grower after the produce had already been sold and delivered to customers of the grower did not give rise to PACA claims by the financier because title to the goods had already passed to the debtor's customers. The financier therefore acquired no rights to the goods and thus was not a "seller" or "supplier" under PACA. The financier was also not entitled to assert the grower's PACA rights because, even if the transactions were transactions in receivables, they were not true sales due to the fact that the borrower retained all the risks associated with the receivables.

*Kauders v. Uber Technologies, Inc.*,

[159 N.E.3d 1033](#) (Mass. 2021)

A transportation service provider's online registration application did not provide users reasonable notice of its terms and conditions because: (i) reasonable users might not have understood from the language on application and registration process that they were entering into a contract; (ii) the notice of the terms was not prominently displayed; (iii) the link to the terms was on a third screen that required the input of payment information but, depending on how users input that information, they might not have seen the link, which was displayed less conspicuously than other text on that screen; (iv) the interface did not require users to view the terms; and (v) the interface did not require users to "agree to" or "accept" terms, and instead permitted users to register by clicking "done."



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