IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

ALAN J. SPIRO,)	
Plaintiff,)	
v.) C.A. No. 8287-V	СP
VIONS TECHNOLOGY INC.,)	
Defendant.)	

MEMORANDUM OPINION

Submitted: December 16, 2013 Decided: March 24, 2014

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PARSONS, Vice Chancellor.

This action arises from the plaintiff's attempt to recoup intellectual property rights that once belonged to a now-bankrupt corporation in which he was a shareholder. The plaintiff, who also is a creditor of the corporation by virtue of certain loans he made and other loans assigned to him by other creditors of the corporation, alleges that the defendant is liable for fraudulent transfer, conversion, and unjust enrichment of the company's only asset—its intellectual property. In terms of relief, the plaintiff seeks, among other things, avoidance of the fraudulent transfer, an injunction against the defendant's further disposition of the intellectual property, the return to the plaintiff of certain intellectual property transferred to the defendant by the majority shareholder, and damages.

The defendant has moved to dismiss or stay the complaint in its entirety on the grounds that this Court lacks subject matter jurisdiction over the plaintiff's claims. Having considered the parties' briefs and heard argument on the motion, I conclude that the defendant's motion to dismiss or stay the proceedings should be denied.

I. BACKGROUND

A. The Parties

Nonparty Ionsep Corporation Inc. ("Ionsep" or the "Company") was a privately held Delaware corporation founded by Daniel J. Vaughan in 1984. Ionsep developed

According to the plaintiff, before the bankruptcy, the corporation's founder

According to the plaintiff, before the bankruptcy, the corporation's founder impermissibly transferred valuable intellectual property rights from the corporation to the defendant, an entity purportedly controlled by the founder and his relatives.

technology and other intellectual property involving chemical processes. On January 20, 2010, the plaintiff and other creditors commenced an involuntary bankruptcy proceeding against Ionsep under Chapter 7 of the United States Bankruptcy Code.

Plaintiff, Alan J. Spiro, was an Ionsep shareholder from 2008 until its bankruptcy in 2010. Spiro was the only shareholder not related to Vaughan. Between 1991 and 2008, Spiro loaned over \$1.5 million to Ionsep, and currently holds liens against Ionsep for more than \$300,000.

Defendant, Vions Technology Inc. ("Vions"), is a privately held company incorporated under the laws of Delaware. Plaintiff contends that Vions is owned and controlled by Vaughan's relatives.

B. Facts²

1. Ionsep's business and Spiro's involvement with Ionsep

In 1984, Vaughan, a retired DuPont scientist, founded and incorporated Ionsep. Vaughan served as CEO and president of Ionsep until his death on April 2, 2009. All of Ionsep's other officers and directors were members of Vaughan's family (collectively, the "Principals"), and each of the Principals were Ionsep shareholders.

of subject matter jurisdiction, the Court also may consider material outside the allegations of the complaint. *See infra* notes 31 and 32 and accompanying text.

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The facts recited in this Memorandum Opinion are based on the allegations in Plaintiff's complaint, documents integral to or incorporated in the complaint, and facts of which the Court may take judicial notice. Additionally, because Defendant has moved to dismiss under Court of Chancery Rule 12(b)(1) for lack

Ionsep's business was developing chemical-related processes for items such as chromium hypophosphite, manganese hypophosphite, hypophosphorous acid, and technology referred to as New Membrane Electrodialytic Technology, as well as various other processes and advancements. The various rights to this technology are referred to collectively in this Memorandum Opinion as the Intellectual Property or the "IP."

From November 1999 to November 2008, Spiro issued a series of promissory notes (the "Plaintiff's Notes") to Ionsep. The purpose of the Plaintiff's Notes, which were guaranteed by each of the Principals, was to finance Ionsep's operations, including the further development of the IP. Plaintiff issued these notes based on representations by the Principals that the funds would be used to develop Ionsep's commercial assets. In 2008, Spiro also became an Ionsep shareholder. He was the first, and remained the only, shareholder that was not related to Vaughan.

Between December 3, 1999 and December 16, 2006, Wilmington Trust Company ("WTC") issued a different series of secured promissory notes, guaranteed by each of the Principals, to finance Ionsep's operations and the development of the Intellectual Property (the "WTC Notes"). As of February 7, 2013, the WTC Notes totaled \$2,850,000, and had an unpaid balance of \$318,837.78. In addition to the guarantees, the WTC Notes also were secured by property of Ionsep. WTC assigned its rights under the WTC Notes to Spiro in June 2010. Both Plaintiff's and the WTC Notes (collectively, the "Notes") are currently in default.

Mot. to Dismiss Ex. B.

2. Ionsep's intellectual property and license agreement

Spiro alleges in his complaint that Ionsep owned the IP. In letters to WTC⁴ and at least one published brochure, Ionsep claimed its business consisted of researching, developing, and inventing various electrochemical processes, technologies, and products.⁵ In these documents, Ionsep also asserted that it owned the related technology and intellectual property.

Unfortunately, the references to intellectual property in the complaint, various other submissions of both Spiro and Vions, and the key underlying documents are loose and imprecise. As a result, the arguments of the parties are often vague, confusing, and unhelpful. This problem is not unique to this case as demonstrated by a recent decision by the United States Court of Appeals for the Federal Circuit, *Energy Recovery, Inc. v. Hauge*, in which the appellate court was called upon to resolve the question of "what *is* intellectual property" within the meaning of the agreement at issue in that case.⁶ In the hope of clarifying this Court's analysis of the current dispute, I begin by making a couple of points regarding the Court's understanding of the Intellectual Property at issue here.

⁴ Compl. Ex. A.

⁵ Compl. Ex. B.

Energy Recovery, Inc. v. Hauge, 2014 WL 1063442 (Fed. Cir. Mar. 20, 2014). Under the approach adopted by the Federal Circuit in the *Hauge* case, "intellectual property" is not treated as the technology itself, but the rights over that technology. See id. at *4. Although the decision in the *Hauge* case is by no means controlling in the context of this action, the approach taken there is useful here, as well, and comports with what appears to be the intent of the parties involved in this dispute.

First, the IP implicates several different types of information or technology. Specifically, there is patented technology described and claimed in various patents, all of which apparently were issued in the name of Vaughan as one of the inventors. One question, but not the most significant question, relating to those patents is who "owns" them. Although Spiro's complaint suggests that Ionsep may own the patents, the documentary evidence indicates that Vaughan owned them at least initially, and then purported to transfer that ownership to Vions. The validity of that transfer is challenged by Spiro in his complaint, and the transfer raises several issues of fact and, perhaps, law. One fact question, for example, is who transferred the patents, Vaughan, individually, or Vaughan, in his capacity as an officer of Ionsep. The pertinent documents seem to support at least a colorable claim that it was Vaughan individually. As explained below, however, the answer is not material to the question currently before this Court in that, even if Vaughan owned the patents and transferred them to Vions, Vaughan previously had licensed those patents and other intellectual property to Ionsep. Consequently, Ionsep holds important rights in the Intellectual Property, such as the right to use and sublicense it, and any transfer to Vions by Vaughan would have been subject to those license rights.

Second, the Intellectual Property at issue encompasses more than the technology described and claimed in the patents. It also includes what is defined in the license agreement discussed *infra* as "Technical Information," which sometimes is colloquially referred to as "know how," and improvements. By virtue of at least the license agreement, Ionsep possesses important rights under the patents that Vaughan owned, the Technical Information developed by Vaughan and Ionsep, and the various improvements

made to the subject chemical processes during the course of the license agreements.

These rights constitute potentially valuable assets of Ionsep.

According to a license agreement between Ionsep and Vaughan dated July 21, 1990 (the "License Agreement"), it appears that Vaughan granted Ionsep a license to certain rights under all of his patents, but retained to himself the actual ownership of those patents.⁷ The License Agreement defined the term "Patent Rights" to mean "all enforceable claims of all Patents of [Vaughan] . . . only to the extent that said claims are directed to the process for converting and separating salts of multivalent metal cations by electrodialysis including equipment as defined in the claims of [Vaughan's] patents," and to include, among other things, "patents pending and improvements specifically related to the process and equipment for converting and separating salts of multivalent metal cations by electrodialysis as defined in the claims of LICENSOR'S [i.e., Vaughan's] Patents." Section 2.1 of the License Agreement states: "Subject to the terms and conditions of this Agreement, LICENSOR grants to LICENSEE an exclusive license with

Mot. to Dismiss Ex. 3, License Agreement. In Article 9 of the License Agreement, Vaughan represents that he is the owner of the Patent Rights.

Id. § 1.1. There may be claims in one or more of the patents Vaughan obtained that are directed to processes for performing functions different from the functions specified in the definition of Patent Rights. In that case, Vaughan would have retained the rights to those processes and would not have licensed Ionsep to use or sublicense the patented technology in that regard. Any such retained rights would not be relevant to this dispute in the sense that they would not diminish Ionsep's rights to use and sublicense the technology pertaining to the processes covered by the Patent Rights.

the right to sublicense the "Patents Rights" of the LICENSOR." Vaughan also undertook to make available to Ionsep initially and from time to time thereafter, if appropriate, Technical Information, which was defined to mean "improvements, developments and information relating to and operating techniques necessary for the operation of IONSEP Electrodialytic Process at any time during the life of the Agreement."

The license was assignable by either party, subject to receiving the prior written approval of the other party. Specifically, Article 16 provides: "Neither this Agreement nor any rights or obligations hereunder shall be assigned by either party without proper written approval of the other party, and any assignment or transfer without such consent shall be null and void." Unless earlier terminated in accordance with its terms, the term of the License Agreement was for "the life of the patents and improvements licensed Itlhereunder."

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Id. § 2.1. Because the license is exclusive, it may mean that Vaughan, and later Vions, had no right to use or sublicense any of the patented technology licensed to Ionsep. For purposes of the pending motion to dismiss, however, I need not address this issue.

¹⁰ *Id.* § 1.3.

¹¹ *Id.* § 16.

Mot. to Dismiss Ex. 3, License Agreement § 13. Because patents have a finite term by statute in the United States, for example (35 U.S.C. § 154(a)(2)), the "life of the patents . . . licensed" under the License Agreement can be determined fairly readily. The term "improvement" is not limited to patented improvements and would include, for example, trade secrets and confidential proprietary technical information. The "life" of such information or improvements is not specified.

3. Vaughan's transfer of rights in his patents, future patents, and "unpatented inventions"

On October 28, 2005, Vaughan purported to assign all of his rights to his present and future patents to Defendant Vions (the "Vaughan Transfer") via a one sentence, handwritten letter executed by Vaughan.¹³ The letter was addressed "To whom it may concern" and written on Ionsep's letterhead.¹⁴ The letter stated: "I Daniel J Vaughan hereby agree to assign all rights to my patents and future patents and unpatented inventions to the Vions Technology Corporation." ¹⁵

According to the letter, in consideration for the transfer, Vions agreed to pay Ionsep a fee of \$1 per patent transferred. Three days later, on October 31, 2005, Vaughan executed a document indicating that he received from Vions "or a corporation formed to

¹³ Spiro describes the Vaughan Transfer in the Complaint as "Vaughan unilaterally caused Ionsep's IP to be transferred to Defendant [Vions]." Compl. ¶ 22. This description is overbroad and inaccurate. Much of Ionsep's IP consists of its rights under the License Agreement. Vaughan did not purport to transfer those rights to Vions. Indeed, the transfer of Vaughan's rights in his "patents and future patents and unpatented technologies" to the extent they fall within the Patent rights defined in the License Agreement would all be subject to Ionsep's rights under the License Agreement. See Prima Tek II, L.L.C. v. A-Roo Co., 222 F.3d 1372, 1382 (Fed. Cir. 2000) ("[A]n owner or licensee of a patent cannot convey that which it does not possess."); Cont'l Am. Corp. v. Barton, 932 F.2d 981 (Fed. Cir. 1991) (unpublished table decision) ("Equally well established is the self-evident concept that a joint owner of a patent cannot grant to a third party greater rights than the joint owner himself possesses."); Dunham v. Indianapolis & St. L.R. Co., 8 F. Cas. 44, 45 (C.C.N.D. III. 1876) ("[I]t is clear that one of the patentees cannot grant what does not belong to him, and if he gives a license or makes a contract for the use of the thing patented, he can only grant that which he has himself").

¹⁴ Compl. Ex. C.

¹⁵ *Id.*

manage my patents and unpatented inventions" \$100.00 cash to himself in consideration for the Vaughan Transfer. Spiro did not know about the Vaughan Transfer until he met with Vions's intellectual property counsel on February 12, 2010, and was given a list of the intellectual property purportedly belonging to Vions. Some of the intellectual property Vions claimed to own was identical to the IP that Spiro asserts Ionsep claimed full ownership of in numerous representations to Spiro and others.

4. The Ionsep bankruptcy

On January 20, 2010, Spiro and other creditors commenced an involuntary bankruptcy proceeding against Ionsep in the United States Bankruptcy Court for the District of Delaware. After a trustee (the "Trustee") was appointed to manage Ionsep's bankruptcy estate, the Trustee contacted Spiro and other parties to ascertain information concerning Ionsep's assets, liabilities, and executory contracts. Spiro informed the Trustee of the Vaughan Transfer. On June 30, 2010, the Trustee filed its first Motion for an Order Extending Time to Assume or Reject Certain Executory Contract [sic] Pursuant to 11 U.S.C. §365 (the "First Trustee Motion") in Bankruptcy Court. The motion stated:

The Debtor manufactured chemicals . . . using intellectual property, including patents, formulas, processes, trademarks and tradenames, created by Dr. Daniel James Vaughan, the Debtor's former founder, CEO and President, and possibly,

¹⁸ In re Ionsep Corp., No. 10-10186 (Bankr. D. Del. filed Jan. 20, 2010).

Compl. Ex. D. Spiro also asserts in the Complaint that Vaughan accepted the \$100 on behalf of Ionsep. Compl. ¶ 23. Nothing in the document Spiro cited, however, indicates that the money was received by Vaughan on behalf of Ionsep.

¹⁷ Compl. Ex. E.

by others (the "Intellectual Property"). . . . Upon information and belief, the ability to use of the Intellectual Property is the only valuable asset of the Debtor. . . . Presently, it is not clear whether the Intellectual Property is owned by the Debtor and/or by related entities or was fraudulently transferred from the Debtor to an entity named Vions Technology Inc. and/or to other related entities or individuals. The Debtor may have numerous contracts, unexpired leases or license agreements with regard to the Intellectual Property and other patents developed by the Debtor, Dr. Vaughan, Dr. Vaughan's family, or other related entities or individuals. ¹⁹

Over the next eighteen months, the Trustee filed six similar motions, each of which contained the language quoted above (collectively, the "Motions to Extend").

On February 14, 2012, the Trustee filed a notice of abandonment (the "Notice" or "Notice of Abandonment") with the Bankruptcy Court. Specifically, the Trustee abandoned the following property: "the estate's interest in all assets not previously abandoned including, but not limited to, all executory contracts." The Notice stated that the Trustee was abandoning all of the cited property to Spiro, and that he was doing so because:

[T]here are liens against said property of greater value than the property itself, the property is burdensome to the estate, the property is of inconsequential value, and benefit to the estate and/or attempts at liquidation of same by the Trustee would require a greater expenditure of time and funds than could be realized by the estate.²¹

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Pl.'s Resp. in Opp'n to Def.'s Mot. to Dismiss and/or Stay ("Pl.'s Opp'n to Mot. to Dismiss") Ex. B ¶¶ 10–12 (emphasis added).

Pl.'s Opp'n to Mot. to Dismiss Ex. D.

²¹ *Id*.

In describing the property, the Notice valued the property at \$0, and identified the lienholder as Spiro, who held a lien of approximately \$300,000 against the property. Spiro contends this abandoned property includes any rights Ionsep has in the IP.²²

On November 22, 2013, the Trustee filed the Trustee's Final Report (the "Final Report") in Ionsep's bankruptcy case. The Final Report states that "[a]ll scheduled and known assets of the estate have been reduced to cash, released to the debtor as exempt property pursuant to 11 U.S.C. § 522, or have been or will be abandoned pursuant to 11 U.S.C. § 554." Exhibit A of the Final Report indicates that the asset "Possible Intellectual Property Claim" was fully administered and that "Possible Executory Contracts or Other Assets" were formally abandoned and fully administered.

C. Procedural History

Spiro filed his verified complaint (the "Complaint") on February 7, 2013. On March 22, 2013, Vions filed a *pro se* answer to the Complaint. Spiro then filed a Motion for Rule to Show Cause requesting that the *pro se* answer be stricken and default judgment be entered against Vions on the grounds that entities may not appear *pro se* under Delaware law. On June 5, 2013, the Court granted the Motion for Rule to Show Cause and ordered Vions to appear with counsel on or before August 5, 2013, or the

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According to Spiro, the abandoned property includes either full ownership of the IP, license rights to the IP, or some combination of ownership and license rights.

Def.'s Letter to this Court regarding Trustee's Final Report, Ex. A ¶ 3 (emphasis added).

The Final Report does not state that this asset was formally abandoned.

Court would strike Vions's *pro se* answer and grant Spiro the relief he is seeking in this case.

After Spiro had granted it several extensions, Vions retained counsel and, on September 19, 2013, filed the pending motion to dismiss or stay this action pursuant to Court of Chancery Rule 12(b)(1) or 11 U.S.C. § 362.²⁵ After full briefing on that motion, I heard argument on December 16, 2013. This Memorandum Opinion constitutes my ruling on Vions's motion to dismiss or stay.

D. Parties' Contentions

Spiro alleges that Vions participated in a fraudulent transfer (Count I) and was unjustly enriched by the Vaughan Transfer (Count III). Spiro also alleges that Vions converted any intellectual property and technology developed by Ionsep (Count II)²⁶ and misappropriated Ionsep's trade secrets (Count IV).²⁷ In terms of relief, Spiro seeks an order voiding the alleged fraudulent transfer, requiring the return of certain intellectual property that may have been transferred from Ionsep to Vions, and enjoining Vions from

Vions's counsel did not adopt and certify pursuant to Rule 11(b) the *pro se* answer Vions previously filed. I therefore strike that answer without prejudice to Vions's ability to refile it, or part of it, properly through counsel in the future.

This conversion count extends beyond the IP and the subjects of the Vaughan Transfer to include: "Ionsep's valuable, proprietary information including but not limited to the IP and its planned methods of business for bringing the IP and other technology to market for its own use and benefit." Compl. ¶ 51.

This misappropriation claim is similarly broad and not limited to the IP. The Complaint alleges Vions misappropriated "confidential, trade secret information for its own use and benefit, including but not limited to the IP." Compl. ¶ 58.

disposing of certain intellectual property. In addition to seeking the return of certain intellectual property, Spiro seeks to recover all profits made, or funds raised, by Vions in connection with that intellectual property.

In response, Vions contends that this action should be dismissed or stayed because this Court lacks subject matter jurisdiction under Rule 12(b)(1) or 11 U.S.C. § 362.²⁸ Vions asserts that because the IP was not listed in the original schedule of assets filed with the Bankruptcy Court in December 2010, the IP remained in the bankruptcy estate.²⁹ Vions argues that the IP also remained in Ionsep's bankruptcy estate for the independent reason that it was not abandoned properly under 11 U.S.C. § 554. Because the IP was not abandoned, Vions further maintains that the IP remains in the bankruptcy estate, and Spiro, as a creditor, does not have standing to assert his claims here. According to Vions, only the Trustee can bring claims that relate to property in the bankruptcy estate, absent a showing he is unable or unwilling to do so.

Finally, Vions avers that 11 U.S.C. § 362 requires that any further proceedings in this Court be stayed. According to Vions, the parties dispute whether Ionsep ever owned the IP, and that threshold issue first must be resolved in the Bankruptcy Court before

Section 362 provides that a bankruptcy "petition operates as a stay, applicable to all entities, of . . . the commencement or continuation . . . of a judicial, administrative, or other action or proceeding against the debtor or [any proceeding] to recover a claim against the debtor that arose before the commencement [of the bankruptcy petition]." 11 U.S.C.A. § 362 (2010).

Vions noted in its motion that it "strongly disputes" any Ionsep ownership of the IP, and "states that the IP belonged to Daniel J. Vaughan, who merely licensed it to Ionsep." Mot. to Dismiss n.1.

Spiro can proceed here. That is, the Bankruptcy Court has exclusive jurisdiction to determine what property is property of the bankruptcy estate.

II. ANALYSIS

A. The Challenge to Subject Matter Jurisdiction under Rule 12(b)(1)

1. Legal standard

The Court of Chancery will dismiss an action under Rule 12(b)(1) "if it appears from the record that the Court does not have subject matter jurisdiction over the claim." The plaintiff "bears the burden of establishing this Court's jurisdiction, and where the plaintiff's jurisdictional allegations are challenged through the introduction of material extrinsic to the pleadings, he must support those allegations with competent proof." Therefore, "on a motion to dismiss under Rule 12(b)(1), the court may consider material outside the allegations of the Complaint."

This Court is one of limited jurisdiction. The Court of Chancery can acquire subject matter jurisdiction over a case in three ways: (1) the invocation of an equitable

AFSCME Locals 1102 & 320 v. City of Wilm., 858 A.2d 962, 965 (Del. Ch. 2004) (internal citation omitted). The issue of subject matter jurisdiction is so crucial that it may be raised at any time before final judgment. See Appoquinimink Educ. Ass'n v. Appoquinimink Sch. Dist., 2003 WL 1794963, at *3 n.24 (Del. Ch. Mar. 31, 2003).

Yancey v. Nat'l Trust Co., 1993 WL 155492, at *6 (Del. Ch. May 7, 1993) (internal citation omitted).

Israel Disc. Bank of New York v. First State Depository Co., 2012 WL 4459802, at *4 (Del. Ch. Sept. 27, 2012), appeal refused, 55 A.3d 838 (Del. 2012).

right;³³ (2) a request for an equitable remedy when there is no adequate remedy at law;³⁴ or (3) a statutory delegation of subject matter jurisdiction.³⁵ This Court "will not exercise subject matter jurisdiction 'where a complete remedy otherwise exists but where plaintiff has prayed for some type of traditional equitable relief as a kind of formulaic 'open sesame' to the Court of Chancery."³⁶

"The term 'standing' refers to the right of a party to invoke the jurisdiction of a court to enforce a claim or redress a grievance." Standing "is concerned only with the question of *who* is entitled to mount a legal challenge and not with the merits of the

See 10 Del. C. § 341 ("The Court of Chancery shall have jurisdiction to hear and determine all matters and causes in equity."); Christiana Town Ctr. LLC v. New Castle Cty., 2003 WL 21314499, at *3 (Del. Ch. June 6, 2003) ("Equitable rights are rights that have traditionally not been recognized at common law. The most common example of equitable rights in this court are fiduciary rights and duties that arise in the context of trusts, corporations, other forms of business organizations, guardianships, and the administration of estates."); Azurix Corp. v. Synagro Techs., Inc., 2000 WL 193117, at *2 (Del. Ch. Feb. 3, 2000).

¹⁰ *Del. C.* § 342 ("The Court of Chancery shall not have jurisdiction to determine any matter wherein sufficient remedy may be had by common law, or statute, before any other court or jurisdiction of this State."); *Christiana Town Ctr.*, 2003 WL 21314499, at *3 ("Equitable remedies . . . may be applied even where the right sued on is essentially legal in nature, but with respect to which the available remedy at law is not fully sufficient to protect or redress the resulting injury under the circumstances.") (internal quotation marks omitted).

³⁵ See Candlewood Timber Gp., LLC v. Pan Am. Energy, LLC, 859 A.2d 989, 997 (Del. 2004).

³⁶ Christiana Town Ctr., 2003 WL 21314499, at *3 (quoting *IBM Corp. v. Condisco, Inc.*, 602 A.2d 74, 78 (Del. Ch. 1991)).

³⁷ Stuart Kingston, Inc. v. Robinson, 596 A.2d 1378, 1382 (Del. 1991).

subject matter of the controversy."³⁸ Standing requires that "the plaintiff's interest in the controversy... be distinguishable from the interest shared by other members of a class or the public in general."³⁹ Delaware applies "the concept of standing as a matter of self-restraint to avoid the rendering of advisory opinions."⁴⁰ When "the issue of standing is related to the merits, a motion to dismiss is properly considered under Rule 12(b)(6) rather than 12(b)(1)."⁴¹ When, as here, however, a party is arguing that the court lacks the authority to grant the relief requested by the plaintiff, standing is a jurisdictional question.⁴²

2. This Court has subject matter jurisdiction over Spiro's claims

a. The Trustee abandoned Ionsep's rights to the IP to Spiro, giving him standing to pursue his Complaint

As part of deciding whether this Court has subject matter jurisdiction, I must determine first whether the Trustee properly abandoned Ionsep's intellectual property rights to Spiro, thus giving him standing to bring this action. First, Vions argues that the IP was not abandoned within the meaning of 11 U.S.C. § 554(c)⁴³ because the IP was not

³⁸ *Id*.

³⁹ *Id*.

⁴⁰ *Id*.

⁴¹ Appriva S'holder Litig. Co. v. ev3, Inc., 937 A.2d 1275, 1280 (Del. 2007).

⁴² *See id.* at 1285.

⁴³ 11 U.S.C.A. § 554(c) (2010).

listed on Ionsep's bankruptcy schedules. Spiro counters that the relevant statutory provision for determining whether the IP was abandoned to him is Section 554(a), which does not require the abandoned property to be scheduled. Rather, to abandon property under Section 554(a), a trustee only must give notice of the abandonment and provide a hearing for any party that objects.⁴⁴ In support of his argument, Spiro also relies on case law holding that a trustee can abandon unscheduled property under Section 554(a).⁴⁵

Second, Vions also contends that Ionsep's IP was not abandoned properly under Section 554(a) because the notice of abandonment was not specific enough, and, thus, did not inform adequately creditors and other interested parties that the IP was being abandoned. Vions argues further that the ongoing dispute over whether Ionsep was the owner or just a licensee of the IP made valid abandonment by the Trustee impossible. Thus, according to Vions, the property was not abandoned and Spiro, therefore, has no possessory interest sufficient to grant him standing to pursue his claims. Spiro responds that the Notice was sufficiently clear and specific for two reasons. First, the Notice listed explicitly "executory contracts" as property to be abandoned. Second, during the course of Ionsep's bankruptcy, the Trustee filed seven Motions to Extend, each of which listed "the ability to use [] the [IP]" and potentially related executory contracts as Ionsep's only valuable assets. Spiro asserts that these actions manifested the Trustee's intent to

⁴⁴ 11 U.S.C.A. § 554(a) (2010).

See In re DeLash, 260 B.R. 4, 9 (Bankr. E.D. Cal. 2000) (holding that Section 554(a) abandonment is not limited to scheduled property, but rather applies to any property of the bankruptcy estate, including unscheduled property).

abandon all of Ionsep's valuable assets to him. Spiro also avers that whether Ionsep was the owner or a licensee of the IP is irrelevant because the Notice detailed abandonment of all of Ionsep's remaining property, which would include any rights Ionsep held as either an owner or a licensee. Therefore, according to Spiro, the Trustee intended to, and did, abandon all of Ionsep's IP to him, regardless of whether that consisted of full ownership of the IP, an exclusive license to it, or some combination of ownership and license rights.

Section 554(a) allows a trustee to abandon any property in the bankruptcy estate if it "is burdensome to the estate or . . . is of inconsequential value and benefit to the estate." Abandonment "divest[s] the trustee with any interest in property," but the trustee must provide sufficient notice to creditors for an abandonment to be valid under Section 554(a). This requires "such notice as is appropriate in the particular circumstances, and such opportunity for a hearing as is appropriate in the particular circumstances." These requirements exist to protect creditors from the harm that they would suffer if property were abandoned improperly, because decisions to abandon property are revocable only in limited circumstances. Thus, "[t]he purpose of the notice

⁴⁶ 11 U.S.C.A. § 554(a) (2010).

⁴⁷ In re Pilz Compact Disc, Inc., 229 B.R. 630, 637 (Bankr. E.D. Pa. 1999).

⁴⁸ 11 U.S.C.A. § 102 (2010) (if a hearing is not timely requested by a party in interest, no hearing is required). Further, Rule 6007(a) of the Federal Rules of Bankruptcy Procedure does not prescribe a form of notice required to effect abandonment. *See* Fed. R. Bankr. P. 6007.

⁴⁹ *Morlan v. Universal Guar. Life Ins. Co.*, 298 F.3d 609, 618 (7th Cir. 2002).

is to provide 'an opportunity for any potential oppo[nent] to the abandonment of such property to file objections and be heard by the Court." 50

Through the Notice at issue here, the Trustee provided sufficient notice to creditors that he was abandoning Ionsep's IP to Spiro. The Notice of Abandonment states that the Trustee is abandoning "the estate's interest in all assets not previously abandoned," and specifically identifies "all executory contracts" as property being abandoned. Additionally, from June 2010 to December 2011, the Trustee filed numerous Motions to Extend, each of which noted that Ionsep's ability to use the IP was its only valuable asset. The Motions to Extend also noted that ownership of the IP was unclear, but that Ionsep "may have numerous contracts, unexpired leases or license agreements with regard to the Intellectual Property and other patents" and that those "contracts could be executory contracts." The language in the Notice along with the Motions to Extend gave creditors sufficient notice of the nature and scope of the property that the Trustee was abandoning to Spiro.

Second, I consider unpersuasive the cases Vions cites to show the Notice was insufficient, because each of those cases is distinguishable on their facts. In *Killebrew v. Brewer*, ⁵² the trustee provided notice of only a Section 341(a) meeting at which he would

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In re Cook, 520 F. App'x 697, 702 (10th Cir. 2013) (quoting First Carolina Fin. Corp. v. Trustee of Estate of Caron (In re Caron), 50 B.R. 27, 30 (Bankr. N.D. Ga. 1984)).

Pl.'s Opp'n to Mot. to Dismiss Ex. B ¶ 12-13.

⁵² 888 F.2d 1516 (5th Cir. 1989).

announce whether he intended to abandon property.⁵³ At the meeting, however, the trustee did not manifest any intent to abandon particular property. Based on those facts, the court in that case found the notice provided by the trustee too "vague" to satisfy the requirements of Section 554(a).⁵⁴ In *In re Wagner*,⁵⁵ also cited by Vions, the trustee provided his purported notice of abandonment within the body of a Motion to Compromise and Approve Settlement Agreement.⁵⁶ The trustee neither issued a separate notice of abandonment nor gave any indication in the motion that the property being abandoned was burdensome or of inconsequential value.⁵⁷ Under these circumstances, the court in *Wagner* refused to find that creditors and other interested parties were given adequate notice of the trustee's intent to abandon property.

Finally, in *In re Cook*, ⁵⁸ the notice of abandonment stated only that the trustee "gives notice that he abandons all remaining property of the estate." The notice did not

Killebrew, 888 F.2d at 1523. See also 11 U.S.C.A. § 341(a) (2010) (requiring that the trustee convene and preside at a meeting of the creditors of the bankruptcy estate).

⁵⁴ *Killebrew*, 888 F.2d at 1523.

²⁰¹⁰ WL 4823861 (Bankr. N.D. W. Va. Nov. 22, 2010), aff'd sub nom. Van Wagner v. Atlas Tri-State SPE, LLC, 2012 WL 1636857 (N.D. W. Va. May 8, 2012).

⁵⁶ *Id.* at *6.

⁵⁷ *Id.* at *6–7.

⁵⁸ 520 F. App'x 697 (10th Cir. 2013).

⁵⁹ *Id.* at 702.

mention the right to object or to seek a hearing. In addition, the notice was provided by the clerk of court, not by the trustee. Unlike the situation in *Cook*, the Ionsep Trustee himself provided the Notice and stated clearly the grounds for his decision to abandon the disputed property to Spiro. The Notice also stated that "unless objections are filed within fourteen (14) days of the mailing of this notice, the [listed property] is abandoned Thus, the Trustee here did not commit the error the trustee in *Cook* did in that the Ionsep Trustee apprised creditors and other interested parties of their right to object to the abandonment.

Vions argues further that the ongoing dispute with respect to Ionsep's ownership of the IP precluded the Trustee from abandoning Ionsep's rights, because the Trustee did not know what those rights were. According to Vions, that unresolved dispute over ownership of the IP falls within the Bankruptcy Court's exclusive jurisdiction. Vions avers that only the Bankruptcy Court can determine whether the disputed property belongs to the bankruptcy estate. This exclusive jurisdiction allegedly precludes this Court from hearing any claims related to the IP. Spiro responds that the dispute over the scope of Ionsep's rights in the IP is immaterial because the Trustee abandoned all of Ionsep's remaining property rights, regardless of the form or scope of those rights.

[&]quot;[T]here are liens against said property of greater value than the property itself, the property is burdensome to the estate, the property is of inconsequential value." Pl.'s Opp'n to Mot. to Dismiss Ex. D.

⁶¹ *Id.*

Therefore, any rights to the IP, whether in the nature of ownership or license rights, were property of the bankruptcy estate that the Trustee could, and did, abandon to Spiro.

I agree with Spiro. As discussed previously, in several Motions to Extend, the Trustee repeatedly asserted that the ability to use the IP was Ionsep's only valuable asset. Additionally, the Trustee's Final Report states that the asset "Possible Intellectual Property Claim" was administered fully and "Possible Executory Contracts or Other Assets" were abandoned and administered fully. Ionsep's ability to use the IP stemmed from, at least, the License Agreement, which is an executory contract within the meaning of the Trustee's Notice. Thus, whatever rights to the IP Ionsep had, those rights were administered fully and abandoned to Spiro. The Bankruptcy Court, therefore, did determine that the right to use the IP was property of the estate; thus, the Trustee had the authority to abandon those rights to Spiro. The exact nature and scope of Ionsep's rights to use the IP may not be absolutely clear, but that asset was part of the estate and eligible

The first term, "Possible Intellectual Property Claim," is somewhat vague. Even if that claim was not abandoned, however, that would not support the conclusion that Spiro lacks standing in this case. Based on the broad scope of what the Trustee abandoned to Spiro, the only reasonable interpretation of this part of the Trustee's report is that a "Possible Intellectual Property Claim" refers to a potential infringement action or the dispute to whether Vions or Ionsep owns Vaughan's patents, not Ionsep's right to use the IP itself under the terms of the executory License Agreement.

Moreover, the Bankruptcy Code provisions on abandonment "are intended for the benefit of creditors," *Morlan v. Universal Guar. Life Ins. Co.*, 298 F.3d 609, 621 (7th Cir. 2002). Those provisions, therefore, support Spiro's position that the Trustee provided sufficient notice. Vions is not a creditor of Ionsep, Spiro is. Dismissing or staying this Complaint only would cause further harm to Spiro, whom the abandonment provision seeks to protect. *See id.*

for abandonment whether or not Vions owns the Vaughan patents. The License Agreement gives Ionsep an "exclusive" license not only to rights under the Vaughan patents, but also rights to use "improvements" in connection with the licensed Patent Rights. ⁶⁴

Based on these circumstances, I conclude that the Trustee intended to, and did, in fact, abandon any and all of Ionsep's right to use the IP to Spiro. Because the Trustee abandoned the property at issue to Spiro, Spiro has made a *prima facie* showing that he has an adequate possessory interest in the IP, through the License Agreement, to confer standing upon him to bring his claims in this action. Because the IP is no longer a part of Ionsep's bankruptcy estate, this Court has jurisdiction over Spiro's claims.

b. Abandonment removed the automatic stay on actions regarding the property at issue in this case

Finally, Vions argues that if the IP was not abandoned properly, it is still part of Ionsep's bankruptcy estate and any action to obtain the IP is barred by the automatic stay provisions of 11 U.S.C. § 362. Because I have determined that the right to use the IP stems from the License Agreement, and that agreement unquestionably was abandoned to Spiro, this argument is moot. 65 Section 362 places a stay on all acts "against property of

To the extent Ionsep claims to own the IP outright, the record indicates that any such claim would have to be based either on the License Agreement or on rights derived from the License Agreement by, for example, a claim for relief based on an alleged breach of the License Agreement. Because the License Agreement is

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Mot. to Dismiss Ex. 3, License Agreement § 4. The License Agreement also gives Ionsep the right to use "Technical Information." *Id.* § 8.

the estate . . . [and the stay] continues until such property is no longer property of the estate." The stay, therefore, does not apply to property that has been removed from the estate. 67

Abandoned property is no longer property of the bankruptcy estate.⁶⁸ The automatic stay only continues to protect abandoned property "to the extent it has reverted back to the debtor."⁶⁹ This is not the case with property abandoned to a secured creditor.⁷⁰ Because the abandoned property at issue here was abandoned to Spiro, a secured creditor, it is not property of the bankruptcy estate. Therefore, the automatic stay provision of Section 362 is no longer in force and does not bar Spiro from pursuing his claims in this Court.

B. Motion to Stay Proceedings

1. Legal standard

The authority to grant a stay is "incident to the inherent power of a court to exercise its discretion to control the disposition of actions on its docket in order to

an Executory Contract, the Notice makes clear that it was abandoned and administered fully.

^{66 11} U.S.C.A. § 362 (2010).

^{67 11} U.S.C.A. § 362(c)(1); *In re Furlong*, 660 F.3d 81, 89 (1st Cir. 2011).

⁶⁸ In re Dewsnup, 908 F.2d 588, 590 (10th Cir. 1990), aff'd sub nom. Dewsnup v. Timm, 502 U.S. 410 (1992).

⁶⁹ In re Gasprom, Inc., 500 B.R. 598, 605 (B.A.P. 9th Cir. 2013).

See id. (explaining that the stay only applies to property of the estate or debtor).

promote economies of time and effort for the court, litigants, and counsel."⁷¹ "[T]his discretion may be properly asserted on the ground that another action is pending in a different jurisdiction, even though not between the same parties and even though the issues are not identical in all respects, where that other action will probably settle or greatly simplify the issues presented."⁷² The Court's "discretion . . . will be used sparingly and only upon a clear showing by the moving party of hardship or inequity so great as to overbalance all possible inconvenience of delay to his opponent."⁷³

2. Vions has not shown a stay is warranted

Vions has not shown that it would suffer hardship or inequity that would outweigh the additional inconvenience and delay that Spiro would have to endure if he is forced to return to Bankruptcy Court. Having found the Bankruptcy Court determined that Ionsep's right to use the IP was property of the estate and abandoned, I am convinced the Bankruptcy Court no longer has exclusive jurisdiction over Ionsep's right to use the IP. Thus, I perceive no compelling ground to force Spiro to return to Bankruptcy Court. In

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Joseph v. Shell Oil Co., 498 A.2d 1117, 1123 (Del. Ch. 1985); see also In re TGM Enters., L.L.C., 2008 WL 4261035, at *1 (Del. Ch. Sept. 12, 2008) (citing Gen. Foods Corp. v. Cryo-Maid, Inc., 198 A.2d 681, 683 (Del. 1964)).

Lanova Corp. v. Atlas Imperial Diesel Engine Co., 44 Del. 593, 596 (Super. Ct. 1949); see also Christiana Town Ctr., LLC v. New Castle Cty., 2005 WL 2622706 (Del. Ch. Oct. 5, 2005) ("Stays, however, may also be granted in deference to another proceeding even though the other proceeding is not between the same parties and the issues are not identical. Although done on an infrequent basis, a stay in the latter context is appropriate if it will either resolve or greatly simplify the issues in the action to be stayed." (internal citation omitted)).

⁷³ *Lanova*, 44 Del. at 597.

addition, the Trustee fully administered the estate and issued his Final Report, and it does not appear that the Bankruptcy Court intends to take any further action regarding Ionsep's case. Thus, requiring the parties to return to Bankruptcy Court is unlikely either to settle or greatly simplify the issues presented in this case. On the other hand, a stay would be unduly burdensome to Spiro, who has been trying to establish his and Ionsep's rights in the IP for several years. Accordingly, I also deny Vions's motion to stay.

III. CONCLUSION

For the foregoing reasons, Vions's motion to dismiss or stay Spiro's action is denied.

IT IS SO ORDERED.