Kenyon & Kenyon LLP v SightSound Tech., LLC
2021 NY Slip Op 31583(U)
May 10, 2021
Supreme Court, New York County
Docket Number: 650795/2014
Judge: Andrea Masley
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SUPREME COURT OF THE STATE OF NEW YORK
NEW YORK COUNTY

PRESENT: HON. ANDREA MASLEY PART 48

Justice

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KENYON & KENYON LLP, **INDEX NO.** 650795/2014

Plaintiff,

- v - **TRIAL DECISION**

SIGHTSOUND TECHNOLOGIES, LLC, A DELAWARE LIMITED LIABILITY COMPANY; SIGHTSOUND TECHNOLOGIES HOLDINGS, LLC, A DELAWARE CORPORATION, AS SUCCESSOR BY MERGER TO SIGHTSOUND TECHNOLOGIES, INC., A DELAWARE CORPORATION; DMT LICENSING, LLC, A DELAWARE LIMITED LIABILITY COMPANY; and GENERAL ELECTRIC COMPANY,

Defendants.

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This action arises from the invention of downloadable music and film. Though ubiquitous and commonplace today, it is nearly a quarter century since the first music download in 1995 or the first film download in 1999. (NYSCEF Doc. No. [NYSCEF] 308, Agreed Statement of Facts [SOF] ¶ 1; NYSCEF 314, LePoreTrial Aff ¶ 6, 7.) By 2004, both iTunes and Napster had launched online music stores. (NYSCEF 314, LePore Trial Aff ¶ 15.)

After a non-jury trial on whether plaintiff Kenyon & Kenyon (Kenyon) consented to (1) the transfer of defendant SightSound Technologies, Inc.'s (SST Inc.) patents to General Electric Company (GE), which agreed to continue to fund SST's Napster litigation for patent infringement, and (2) GE's standard venture capital condition, that GE would be repaid its litigation expenses before any revenue is applied to Kenyon's security interest in the patents, the court finds in favor of defendants.

SST Inc., together with its successor, defendant SightSound Technologies Holdings, LLC (Holdings)(collectively SightSound), invented a system for delivering digital video and audio recordings for electronic sale via telecommunication lines over the internet and held the correlated patents. (NYSCEF 308, SOF ¶ 1.) SightSound engaged Kenyon, a law firm specializing in intellectual property litigation, as its counsel to protect its intellectual property rights. (*Id.* ¶¶ 2, 3.) Beginning in 1999, Kenyon represented SightSound in a patent infringement action known as the N2K litigation. (NYSCEF 314, LePore[1] Trial Aff ¶¶ 8-9.)

By July 31, 2001, SightSound owed Kenyon $1,776,407. (NYSCEF 353, Security Agreement ¶ 2 and Schedule 1.) To ensure payment, despite SightSound's troubled finances, Kenyon's managing partner, Robert Tobin, negotiated with SightSound. (NYSCEF 379, Tobin Trial Aff ¶ 5.) In October 2001, Kenyon entered into a Security Agreement with SightSound (Security Agreement), pursuant to which Kenyon took a security interest in property "now owned or at any time hereafter acquired by" SightSound, including the patents, patent licenses, and "to the extent not otherwise included, all Proceeds and products of any and all of the foregoing (including, without limitation, license royalties and proceeds of infringement suits)." (NYSCEF 353, Security Agreement ¶ 3.) The Security Agreement required Kenyon's consent to any transfer of the patents. (*Id.* ¶ 5.5.)

In October 2004, Kenyon commenced, on behalf of SightSound, a patent infringement lawsuit against Roxio, Inc. and Napster LLC in the United States District

[1] Alex LePore joined SightSound in 1999 and was SightSound's CFO. (NYSCEF 387, LePore Trial Aff ¶¶ 1, 3.)

Court for the Western District of Pennsylvania (Case No. 2:04-cv-01549-DWA) (Napster Litigation). (NYSCEF 308, SOF ¶ 9; NYSCEF 314, LePore Trial Aff ¶19.) The Napster Litigation was stayed while a number of its patents underwent a reexamination by the United States Patent and Trademark Office. (NYSCEF 308, SOF ¶ 10.) The reexamination of the patents became final in December 2010. (*Id.* ¶ 11.)

However, SightSound could no longer afford the Napster litigation. (NYSCEF 314, LePore Trial Aff ¶ 20.) "In 2005, a number of global technology companies expressed interest in acquiring SightSound's Patents, including Microsoft and Sony for approximately $35 million -- amounts that would have been more than sufficient to pay the legal fees owed to Kenyon." (*Id.*) GE proposed a venture capital revenue sharing arrangement whereby GE would (1) invest in the patents, and (2) fund SightSound's infringement lawsuits through a new entity that GE wholly owned, DMT Licensing LLC (DMT). (*Id.* ¶¶ 22, 26; NYSCEF 308, SOF ¶ 5.) To memorialize the sale, SightSound and DMT executed the November 4, 2005 Asset Purchase Agreement (APA). (NYSCEF 355, APA at 1; NYSCEF 308, SOF ¶ 7.)

The APA provides that GE's investment in SightSound's assets consists of DMT's payment of one dollar and for GE to continue to fund, through loans to DMT, expenses relative to the patents (defined in the APA as "Patent Exploitation Expenses"). (NYSCEF 355, APA §2.2, §1.1 at 4 [definition of Patent Exploitation Expenses].) "These expenses included all costs relative to the prosecution of any patent infringement litigation, including the Napster Litigation and re-examination, post-closing (i.e., not fees owed to Kenyon)." (NYSCEF 314, LePore Trial Aff ¶ 27; NYSCEF 355, APA §1.1 at 4 [definition of Patent Exploitation Expenses].) Section 7.2(c) sets forth the allocation of revenues, either from royalties from licensing the patents or settlements relating to patent litigation, received as follows,

> "(i) first, to DMT until the aggregate amount of the Patent Exploitation Expenses incurred during the preceding calendar quarter and any prior periods has been paid to DMT; and thereafter
> (ii) second, to an escrow account ... to fund future anticipated working capital ... and thereafter
> (iii) third, fifty percent (50%) to SightSound ... and fifty percent (50%) to DMT."
>
> (NYSCEF 355, APA at 14; NYSCEF 314, LePore Trial Aff ¶ 30.)

"The APA explicitly referenced Kenyon's security interest pursuant to the Security Agreement." (NYSCEF LePore Trial Aff ¶ 29.) It defined the fees owed to Kenyon as "Lien Release Expenses," a term defined as "all payments . . .in order to obtain the release of . . . any Encumbrances obtained by the law firms of Kenyon & Kenyon . . . " (NYSCEF 355, APA §1.1 at 3 [definition of "Lien Release Expenses"].)

On November 10, 2005, Kenyon, DMT, and SightSound entered into a nine-page agreement entitled "CONSENT AGREEMENT TO TRANSFER" (Consent Agreement). (NYSCEF 308, SOF ¶ 8; NYSCEF 354, Consent Agreement § 5, "Consent to the Sale".) Regarding the APA, the Consent Agreement, provides, in relevant part,

> "WHEREAS, in connection with the consummation of the transactions contemplated pursuant to [the APA] (the "Sale"), [Kenyon], DMT and SightSound desire that the parties enter into this Agreement to, among other things evidence [Kenyon's] consent to the Sale; and WHEREAS, DMT will rely upon this Agreement in connection with consummating the Sale and performing its obligations under the [APA] ... (5) Consent to the Sale. [Kenyon] hereby consents, <u>pursuant to the terms hereof</u>, to the Sale and acknowledges and agrees that DMT, as a result of the Sale or otherwise, shall not assume any of the Excluded Liabilities (including, without limitation, any liabilities or obligations of SightSound to, or otherwise relating to, [Kenyon])."

(NYSCEF 354, Consent Agreement at 1-2, 3-4 [emphasis added].)

"In exchange for providing its consent ..., Kenyon demanded the right to elect to receive a 10% interest in all of SightSound's revenues in perpetuity in satisfaction of the debt." (NYSCEF 314, LePore Trial Aff ¶ 35; NYSCEF 354, Consent Agreement at 5.) Specifically, the Section 8(a) of the Consent Agreement provides,

> "(8) Satisfaction of Indebtedness: Release of the [Kenyon] Encumbrances (a) [Kenyon] hereby agrees that, in the event DMT elects to retain some or all of the Assets within ninety (90) days after the Final Reexamination Date, [Kenyon] shall, on the date that is three hundred sixty-five (365) Days after the Final Reexamination Date, inform SightSound and DMT in writing (in accordance with the notice provisions in Section 16.1 of the Asset Purchase Agreement) of [Kenyon]'s election to SightSound to have all indebtedness and obligations of SightSound to ... [Kenyon] satisfied fully by (i) payment of such indebtedness by SightSound or any other Person on SightSound's behalf, or (ii) electing to receive from SightSound, in perpetuity, 10% of any Revenues otherwise allocable to SightSound ... ."

(*Id.* § 8 [a].) Kenyon also agreed to forbear enforcement of its security interest against SightSound in connection with the reexamination of the patents until August 30, 2012. (*Id.* § 6; NYSCEF 357, Amended Consent Agreement.)

After the patent reexamination became final on December 20, 2010, DMT elected to hold the patents and assigned the patents to a newly formed SST LLC[2] comprised of DMT and SightSound. (NYSCEF 314, LePore Trial Aff ¶ 41; NYSCEF 355, APA § 6.)

On January 18, 2011, less than 30 days after the patent reexamination became final, which triggered Kenyon's notice obligation under the Consent Agreement, Kenyon's Brian Mudge addressed a committee of Kenyon partners using a PowerPoint

[2] For the purposes of this decision, the court references SST LLC as SightSound.

presentation entitled "SightSound Agreements." (NYSCEF 308, SOF ¶ 12; NYSCEF 356, PowerPoint.)

In October 2011, SightSound commenced a patent infringement litigation against Apple, Inc. in the United States District Court for the Western District of Pennsylvania (Case No. 2:11-cv-01292-DWA). (NYSCEF 308, SOF ¶ 13.)

On December 13, 2011, Kenyon and DMT executed an amendment to the Consent Agreement extending the forbearance period. (NYSCEF 357, Amended Consent Agreement.)

On February 29, 2012, SightSound and Best Buy Inc., which had acquired Napster, agreed to settle the Napster litigation for $3.1 million. (NYSCEF 308, SOF ¶ 15; NYSCEF 314, LePore Trial Aff ¶¶ 56-57.) SightSound's counsel at the time, Arnold & Porter LLP (AP), transferred the funds to GE. (NYSCEF 314, LaPore Trial Aff ¶ 61; NYSCEF 383, Browning[3] Trial Aff ¶ 3.) GE held the $3.1 million because GE handled the banking transactions for SST LLC. (NYSCEF 383, Browning Trial Aff ¶ 3.)

On April 6, 2012, LePore met with Kenyon's Edward Colbert and Mudge and informed them of the potential Napster settlement of $3.1 million. (NYSCEF 314, LePore Trial Aff ¶ 58.) On May 4, 2012, Kenyon was notified that DMT would receive 100% of the settlement proceeds. (NYSCEF 314, LePore Trial Aff ¶ 62.) Specifically, LePore emailed Colbert and Mudge stating, "[a]s you know, under the terms of the Asset Purchase Agreement, revenue realized in connection with licensing or litigation settlement is first distributed to DMT until the Preferred Distribution is satisfied.

[3] Mark Browning was a GE Corporate Controller. (NYSCEF 383, Browning Trial Aff. ¶ 1.)

Accordingly, 100% of the settlement proceeds from the Napster litigation will be distributed to DMT." (NYSCEF 359, Email.)

At the time of the settlement, DMT's patent exploitation expenses were $6.5 million. (NYSCEF 314, LePore Trial Aff ¶ 63.)

In a letter dated June 29, 2012, Kenyon informed SightSound that it elected not to exercise the 10% option and instead sought to recoup its unpaid legal fees of $5,483,547. (NYSCEF 360, 6/29/2012 Letter.)

In a September 9, 2013 letter to GE, Kenyon's counsel, Schiff Hardin LLP (Schiff), asserted that the Security Agreement gave Kenyon first priority liens in SightSound's assets including the Napster settlement proceeds. (NYSCEF 361, 9/9/2013 Letter.) Schiff demanded the repayment of Kenyon's fees in the amount of $9,330,255. (*Id.*)

I. Procedural History

In 2014, Kenyon commenced this action alleging six claims. (NYSCEF 2, Complaint at ¶¶ 54-90.) The following claims remain after motion practice: (1) a claim for specific performance against SST LLC and SightSound; (2) breach of contract against SST LLC and SightSound for damages in the amount of $9,355,255; (3) constructive fraudulent conveyance of the Napster settlement against all defendants; and (4) unjust enrichment against DMT based on the Napster settlement transfer.

The court denied summary judgment finding the following issues of fact.

First, an issue of fact exists as to what the parties agreed to in the Consent Agreement. (NYSCEF 291, Decision and Order [Seq. 007] at 16.) The parties disagree as to whether Kenyon was informed that the Napster settlement funds totaled $3.1

million, or that Kenyon was shown a term sheet related to the proposed settlement. (*Id.* at 17.)

Second, an issue of fact exists as to the term "hereof" in Section 5 of the Consent Agreement because "hereof" could either refer to the Consent Agreement or both the Consent Agreement and APA. (*Id.*)

Third, an issue of fact exists as to whether the transfer to GE was fraudulent which depends on whether Kenyon was entitled to the funds because of its superior priority. (*Id.* at 18.)

Fourth, an issue of fact exists as to whether the Napster settlement funds were disbursed to SST LLC. (*Id.*) Kenyon challenges "the 'Banking Delegation of Authority' that allegedly permitted the transfer of the Napster Settlement Funds to a GE bank account and whether the funds were transferred out of GE." (*Id.*)

All the trial evidence is now before this court. Evidence not addressed in this decision is deemed irrelevant to the issue presented and such evidence is not afforded any weight.

II. Contentions

Kenyon contends that it did not subordinate its security interest to DMT's right to repayment under the APA. To the contrary, Kenyon contends that the Consent Agreement and Amended Consent Agreement acknowledge that Kenyon's security interest remains operative. Kenyon consented to the transfer of the patents to DMT subject to Kenyon's security interest, nothing more. (NYSCEF 381 Colbert Trial Aff ¶ 7.) Kenyon rejects defendants' theory that the purchase of SightSound by GE and DMT was conditioned on being paid first. (NYSCEF 380, Mudge Trial Aff ¶16.) Moreover, Kenyon contends that it did not sign the APA which was only attached to the Consent Agreement "for reference." (NYSCEF 397, Kenyon's Post-Trial Brief at 15.) Even if the APA applied, Kenyon contends that Section 7 only governs the payment mechanics for cash received pursuant to License Agreements, not the Napster settlement. (*Id.* at 16.) Because Kenyon did not subordinate its security interest, Kenyon contends that it is entitled to recover under its claims for breach of contract in damages and specific performance, fraudulent conveyance, and unjust enrichment. (*Id.* at 11.)

Defendants contend that the language of the Consent Agreement indicates that Kenyon consented to all of the transactions in the APA. (NYSCEF 395, Defendants' Post-Trial Brief at 6.) The APA, defendants contend, has an attachment which explicitly states, "[a]ll Cash to GE until IRR on investment and return of expenses is achieved." (*Id.* at 7.) Furthermore, defendants contend that Section 7 of the APA memorialized this structure according to which DMT was repaid the fees it expended. (*Id.*) Defendants contend that "[w]ithout DMT's funding of millions of expenses to continue the patent infringement cases, [Kenyon] knew it had little to no chance of recovering its fees" (*id.* at 11), and "GE never would have entered into the APA without Kenyon's consent that it be repaid first, and Kenyon executed the Consent Agreement with full knowledge of that position." (*Id.* at 9.) For this reason, defendants maintain, that Kenyon never claimed entitlement to the Napster settlement proceeds until 16 months after it occurred. (NYSCEF 393, Tr 21:7-12.) Because Kenyon consented to the APA, defendants contend that all the remaining claims fail.

III. The Trial

The Consent Agreement states, in pertinent part,

> "WHEREAS, DMT and SightSound are entering into an Asset Purchase Agreement (the "Asset Purchase Agreement"), a true and correct copy of which is attached hereto for reference as Exhibit A, pursuant to which SightSound agrees to sell, and DMT agrees to purchase, the Assets, including the Patents, on the terms set forth in the Asset Purchase Agreement …
>
> WHEREAS, in connection with the consummation of the transactions contemplated pursuant to [the APA] (the "Sale"), [Kenyon], DMT and SightSound desire that the parties enter into this Agreement to, among other things evidence [Kenyon's] consent to the Sale: and
>
> WHEREAS, DMT will rely upon this Agreement in connection with consummating the Sale and performing its obligations under the [APA] …
>
> (5) Consent to the Sale. [Kenyon] hereby consents, pursuant to the terms hereof, to the Sale and acknowledges and agrees that DMT, as a result of the Sale or otherwise, shall not assume any of the Excluded Liabilities (including, without limitation, any liabilities or obligations of SightSound to, or otherwise relating to, [Kenyon]).

(NYSCEF 354, Consent Agreement at 1-4 [emphasis added].)

Mudge, a former partner at Kenyon since 1999, joined SightSound's litigation team soon after the inception of the engagement. (NYSCEF 380, Mudge Trial Aff ¶¶ 1, 6; NYSCEF 393, Tr at 54-55.) He was not involved in the negotiation of the Security Agreement. (NYSCEF 393, Tr at 56:12-14; NYSCEF 380, Mudge Trial Aff ¶¶ 8-9.) By 2011, "[a]s the Kenyon partner with the most knowledge of the patents," Mudge prepared "a presentation for [Kenyon's] management regarding the large SightSound Debt." (NYSCEF 380, Mudge Trial Aff ¶ 22.) Mudge testified, "[m]y goal was to educate my partners … and based on my review of the agreements, explain both the firm's options and the timeline for exercising its options to be paid on the SightSound

Debt." (*Id.*) On January 18, 2011, he "made [the] presentation to the Kenyon committee responsible for managing the issue." (*Id.* ¶ 23; *see also* ¶¶ 24, 25, 26.)

Mudge states in PowerPoint Slide 21,

> "1st, Repayment to GE of all patent exploitation expenses paid by GE;
> - Includes expenses for review and prosecution (reexamination) of Patents and due diligence
> - Subject to 25% "expense rate" compounded monthly
>
> 2nd, Escrow account as working capital to fund patent exploitation (amount up to $5M as determined by GE); and then
> -3rd, Remaining revenues split 50/50 between GE and SightSound
> -Lien release expenses may be deemed patent exploitation expense (subject to 25% rate) or simply deducted from revenue split payable to SightSound."

(NYSCEF 356, PowerPoint Slide 21.)

However, on cross-examination about this PowerPoint, Mudge testified,

> "[Defendants' Counsel]: You see the 7.2 revenue split, the first. I'm looking at your slide ... It says the way the money is going to be split is first a repayment to GE of all patent exploitation expenses paid by GE. Do you see that?
>
> [Mudge]: I do see that.
>
> [Defendants' Counsel]: Isn't that consistent with the attachment of the APA we looked at a few minutes ago where it says all the cash goes to GE first?
>
> [Opposing Counsel]: Objection to form, your Honor. Ambiguous. Consistent with?
>
> [The Court]: Can you answer the question? Do you understand it?
>
> [Opposing Counsel]: I think I understand the question. I'm being asked to compare this slide with the other page in the attachment to the APA that I really haven't reviewed before. I don't know if they're the same. I took this understanding of 7.2 based upon my reading of Section 7.2 of the APA. I did not base it upon reading any other attachments to the APA which, again, I don't believe I'd ever seen."

(NYSCEF 393, Tr at 74:9 -75:4.)

Colbert, another Kenyon partner, was responsible for reviewing the Consent Agreement prior to its execution. (NYSCEF 381, Colbert Trial Aff ¶ 1.) In October 2001, he "reviewed … the Consent Agreement" before and after it was executed because he was asked by another partner "to do so or … because [he] was a member of Kenyon's management committee." (*Id.* ¶ 3.) On cross-examination, Colbert testified,

> "[Defendants' Counsel]: When you saw the Consent Agreement initially, the drafts, did it have all the attachments?
>
> [Colbert]: No.
>
> [Defendants' Counsel]: When you saw the final signed version, did it have all the attachments?
>
> [Colbert]: No
>
> [Defendants' Counsel]: Have you ever seen a copy of the Consent Agreement which had all the attachments? …
>
> [Colbert]: I don't know …
>
> [Defendants' Counsel]: Before Kenyon signed the Consent Agreement, did you see a copy of the Consent Agreement which had the APA attached to it?
>
> [Colbert]: No. As I think I just said, I don't think I saw one attached to it, I saw them separately."

(NYSCEF 393, Tr at 113:15 – 114:8.)

Robert Tobin, as Kenyon's managing partner, executed the Consent Agreement. (NYSCEF 393, Tr at 50:7-9,17-24.) He testified on cross-examination,

> "[Defendants' Counsel]: When you signed [the Consent Agreement], it had attached to it the APA, did it not?

> [Tobin]: It probably did. I have no recollection of whether it did or not ..."

(*Id.* at 36:14-17.) Tobin further testified,

> "[Defendants' Counsel]: Do you see that's the Asset Purchase Agreement?
>
> [Tobin]: Yes, sir.
>
> [Defendants' Counsel]: That was attached to the Consent Agreement and you believe you read it before you signed the Consent Agreement; isn't that correct?
>
> [Tobin]: Yes, sir.
>
> [Defendants' Counsel]: It says "All cash to GE until IRR on investment and return expenses is achieved." Do you see that?
>
> [Tobin]: I see that.
>
> [Defendants' counsel]: Do you remember reading that before you signed the Consent Agreement?
>
> [Tobin]: No, I don't remember, as I sit here today, reading that, no.
>
> [Defendants' counsel]: Do you remember asking anybody any questions about that and what that meant?
>
> [Tobin]: No ... ."

(*Id.* at 37:10-38:9.)

Kenneth Glick, senior patent counsel and Associate General Counsel for GE Licensing, testified about GE's practice of investing in patent portfolios on condition that any resulting revenue be used to pay GE's expenses first. Glick stated,

> "[i]n acquiring a patent portfolio with the objective of generating revenue from that portfolio, GE will commonly agree to fund expenses relative to post-closing exploitation of the patent portfolio, such as by filing additional patent applications, continuing the prosecution of existing patent applications, paying patent maintenance and annuity fees, asserting patents against third parties, granting patent licenses, and

> commencing patent infringement litigation.
>
> In negotiating such patent portfolio acquisition deals where there is a "revenue sharing" component with the seller, it is a GE requirement, as a matter of course, that any revenue obtained from the portfolio exploitation first be used to repay GE's expenses plus an agreed upon rate of return, prior to any revenue sharing with the seller. Refusal to agree to this requirement is a deal breaker. In my sixteen years at GE, I cannot recall a single instance where we acquired a patent portfolio and did not include this requirement.
>
> In accordance with out standard operating procedure we insisted that Kenyon & Kenyon LLP ... expressly acknowledge in the Consent Agreement to Transfer that (1) Kenyon was consenting to the Asset Purchase Agreement transaction that explicitly sets forth DMT's priority right to revenues, and (2) that DMT was relying on this acknowledge in order to consummate this sale.
>
> I believe this Consent Agreement provided great value to Kenyon because without financial backing from another party, Kenyon would have little or no opportunity to recover its outstanding fees. Kenyon was unwilling to pursue future patent litigation without being paid, so without DMT's involvement, litigation of the SightSound patents would likely have ended. Perhaps even more noteworthy, Kenyon received a right, in perpetuity, to ten percent (10%) of the revenues allocable to SightSound Technologies Inc. (later SightSound Technologies Holdings, LLC) ("Holdings) that would be earned as a result of DMT's funding of future patent exploitation."

(NYSCEF 384, Glick Trial Aff ¶¶ 6-9.) Glick's testimony was corroborated by former GE employee Pete Moller[4] who testified to GE's requirement to be repaid its expenses first; as an "absolute deal-killer" as GE "always got their money out first . . ." (NYSCEF 393, Tr at 279:11-13 [Deposition Testimony].)

[4] Moeller led GE's licensing group in 2005 and was an officer of DMT. (NYSCEF 393,Tr at 258:16-259:10 [Deposition Testimony].)

Glick's general outline of the way GE does business gave context to how the Consent Agreement arose. As the Chief Financial Officer of SST LLC, LePore actually interfaced with Kenyon in 2005 regarding the Consent Agreement. (NYSCEF 387, LePore Trial Aff ¶ 36.) LePore testified that,

> "[t]his Consent Agreement was finalized at a meeting I attended at Allen & Company's New York City offices. William Wells and Robert Tobin attended on behalf of Kenyon. During the meeting, Mr. Tobin tried to take a firm position that Kenyon be repaid its fees earlier than set forth in the APA. GE was adamant that Kenyon would only get repaid out of SightSound's share of any revenues per the APA as (1) the Kenyon expense was SightSound's debt, not DMT or GE and (2) GE was taking on substantial risk to fund the future patent exploitation expenses. This was the same model GE offered in similar deals. In essence this was a venture capital type deal where new money receives priority and is repaid first."

(*Id.*) Tobin corroborated that he attended such a meeting and that he engaged in discussions with GE's venture capital group. (NYSCEF 379, Tobin Trial Aff ¶¶ 6-7; NYSCEF 393, Tr at 28:5-29:2.)

Regarding the Napster litigation settled in 2012, LePore stated that "on or about April 6, 2012, I attended a meeting with Ed Colbert and Brian Mudge at Kenyon's offices ... I advised Mr. Colbert and Mr. Mudge that we were prepared to settle the Napster Litigation, that the settlement amount was $3.1 million, and that the parties executed a term sheet and that SST [LLC] expected to soon finalize and execute a settlement agreement." (NYSCEF 387, LePore Trial Aff ¶¶ 56, 58.) LePore testified that "[a]t no time during our meeting did Mr. Colbert take the position that Kenyon was entitled to the Napster Settlement Payment." (*Id.* ¶ 59.) LePore added that "on May 4, 2012, I emailed Edward Colbert and Brian Mudge of Kenyon, wherein I disclosed SST's receipt of the settlement proceeds and stated the following:

> "As you know, under the terms of the Asset Purchase Agreement, revenue realized in connection with licensing or litigation settlement is first distributed to DMT until the Preferred Distribution is satisfied. Accordingly, 100% of the settlement proceeds from the Napster litigation will be distributed to DMT."

(*Id.* ¶ 62.) LePore added, "[n]either Mr. Colbert nor Mr. Mudge, nor anyone else on behalf of Kenyon, responded to the May 4, email by claiming that the distribution of the Napster Settlement Payment was in any way improper under the APA ... or that Kenyon was otherwise entitled to the Napster Settlement Payment." (*Id.* ¶ 66.) LePore further stated that "in the ensuing sixteen months, Kenyon never once claimed that it was entitled to any portion of the Napster Settlement Payment despite numerous meetings with, and multiple communications between, me and other principals of the SightSound entities and Kenyon during this time." (*Id.* ¶ 67.) Rather, "the first time [LePore] learned of Kenyon's claimed entitlement to the Napster Settlement Payment was in a letter from Kenyon's outside counsel, Schiff Hardin dated September 9, 2013." (*Id.* ¶ 69.)

As to the Napster settlement, Mudge testified,

> "[Defendants' Counsel]: And you were listing at least all the meetings and telephone calls that you were a part of with Mr. [LePore], Alex [LePore], right?
>
> [Mudge]: That's what appears to be listed here, that's correct.
>
> [Defendants' Counsel]: And there is a reference to an April 6th, 2012. Do you see that?
>
> [Mudge]: I do see that, yes.
>
> [Defendants' Counsel]: And that's you indicating it was

either a meeting or a phone call with Alex on that day, right?

[Mudge]: I believe that's what that means, on April 6th of 2012 there was a meeting or a phone call with Alex ...

[Defendants' Counsel]: Now, in the April 6th meeting, do you remember Mr. [LePore] complaining to you what the Napster settlement agreement was about and what the terms were?

[Mudge]: I don't remember anything about the meeting or call that appears to have taken place on April 6th of 2012.

[Defendants' Counsel]: In the Exhibit – Plaintiff's Exhibit 10, the May 4th email, Mr. [LePore] tells you exactly what happened to the money; isn't is that correct? [sic] It was going to be distributed to DMT?

[Mudge]: I'm sorry. Would you mind repeating the question again? You keep fading out at the end of the question. I'm sorry ...

[Defendants' Counsel]: He is telling you where the money is going to go. See, he says, As you know, under the terms of the asset purchase agreement revenue realized in connection with licensing or litigation is first distributed to DMT until the preferred distribution is satisfied. Accordingly, 100 percent of the proceeds from the Napster litigation will be delivered to DMT, okay. Do you remember reading that you got the May 4th email?

[Mudge]: I don't remember reading this email. Again, it says what it says. And, again, I don't have any reason to believe that I didn't receive the email. I just don't remember ...

[Defendants' Counsel]: Okay. When you read Exhibit 10, was it your understanding that Exhibit 10 was consistent with how you understood any proceeds of settlement were going to be handled by SightSound?

[Mudge]: I don't remember reading this. I don't know how I can answer your question ...

[Defendants Counsel]: To the best of your knowledge, isn't it true that Mr. [LePore] has never lied to you?

[Mudge]: I don't recall any instance I can say he lied to me.

[Defendants' Counsel]: Did you respond to the May 4th email? Did you respond to the May 4th email?

[Mudge]: Did I – I don't know if I responded to the May 14th [sic] email or not ...

[Defendants Counsel]: This letter is dated June 29, 2012. By then you know about the Napster payment being made to DMT; isn't that correct?

[Mudge]: I don't recall when I learned about the Napster payment.

[Defendants' Counsel]: Well, assuming you learned about it on either April 6th, 2012 in that meeting with Alex, or you learned it on May 4th 2012, if you had learned on either one of those two days you would have known about it for at least a month or two, right?

[Mudge]: I don't know how I can answer the question. I don't recall when I learned about the settlement payment."

(NYSCEF 393, Tr at 83:11-21, 85:21-86:7, 86:22-87:7, 87:19-24, 88:1-7, 88:17-89:2.)

Colbert testified that he first learned of the Napster settlement in a newspaper perhaps in May 2012. (*Id.* at 137:1-7; 138:21-22.) He then testified as follows,

"[Defendants' Counsel]: When you read that article, right, what do you remember the article saying?

[Colbert]: I remember the article saying that SightSound had settled the case against Napster and that $3.1 million had been paid as part of the settlement. That kind of stunned me.

[Defendants' Counsel]: Okay. When you say it stunned you, I take it you were mad?

[Colbert]: No. I don't know I would say mad or angry. I was stunned, kind of disappointed ...

[Defendants' Counsel]: Now, did you ever respond to Mr.

LePore's May 4, 2012, email in another email?

[Colbert]: No, not in another email.

[Defendant's Counsel]: Did you ever respond in a letter?

[Colbert]: In a letter, I don't recall responding in a letter, I don't know that this called for a response, but we did prepare our response shortly thereafter.

[Defendants' Counsel]: Now, when you got this – you read this article right, did you immediately dash off a letter to Mr. LePore saying, What happened here, how did you get this money?

[Colbert]: No, I didn't.

[Defendants' Counsel]: Did you send one to DMT to that effect?

[Colbert]: I did not, not at that point in time.

[Defendants' Counsel]: You were stunned, right, and you felt that – did you feel at that time that the money, the Napster money was Kenyon's money?

[Colbert]: Yes

[Defendants' Counsel]: Did you ever express that in writing to anybody at SightSound, SST, or DMT?

[Colbert]: I'm trying to remember if we did. I had numerous –

[Defendants' Counsel]: You're trying to remember if you did?

[Colbert]: I'm trying to remember. I had numerous oral conversation in which I expressed that opinion. Did I ever write it in an email or a letter? I'm not sure I did …

[Defendants' Counsel]: Up to the time Schiff Hardin sent their letter, are you aware of any writing by anybody at Kenyon that was sent to DMT, GE, SightSound, SST, saying the Napster money should have been ours?

[Colbert]: I don't recall such a writing."

(*Id.* at 139:4–13, 139:16-140:15 141:9-13.)

Browning testified that on May 1, 2012, SST LLC's counsel, AP, wired the entire $3.1 million Napster settlement to SST LLC "via a Citibank account held by GE." (NYSCEF 383, Browning Trial Aff ¶ 3.) These funds "went to the GE account pursuant to a December 3, 2011 Banking and Derivatives Transaction – Delegation of Authority whereby SST delegated the responsibility for its banking operations to GE Corporate Treasury." (*Id.*) He testified that GE conducts its business this way because "it would be impractical for GE as an industrial conglomerate with thousands of legal entities and affiliates, to open bank accounts for each of its legal entities." (*Id.* ¶ 8.) Accordingly, "[i]n lieu of individual bank accounts, GE receives the money in an account and then records the transaction to the appropriate entity." (*Id.* ¶ 9.) In short, GE takes the cash into its possession, and through journal entries, does the accounting. (NYSCEF 393, Tr at 252:1-4.) Subsidiaries do not have their own independent bank accounts into which funds are transferred. (*Id.* at 238:9-11.) Pursuant to this practice, and with respect to the Napster settlement, Browning testified that "GE first booked a receivable in the amount of $3,100,000" and then transferred the receivable "[t]hrough a non-cash transfer" to SST LLC. (NYSCEF 383, Browning Trial Aff ¶ 4.) GE then booked the $3.1 million revenue on SST's ledger. (*Id.*) Browning further testified that $1,517,579.73 was then booked as revenue to DMT "as a partial reimbursement of patent exploitation expenses incurred by DMT" and $1,582,420,23 remained on SST LLC's books for purposes of repayment of the patent exploitation expenses incurred by SST LLC. (*Id.* ¶¶ 6-7.)

III. Findings of Fact & Conclusions of Law

When contract language is ambiguous, "the parties may submit extrinsic evidence as an aid in construction, and the resolution of the ambiguity is for the trier of fact." (*State of New York v Home Indem. Co.*, 66 NY2d 669, 672 [1985] [citation omitted].) "Where ... extrinsic evidence is introduced to aid in construction, both sworn affidavits by both original parties to the contract and those parties' conduct after the contract was formed are significant evidence of the parties' intent." (PJI 4:1, VI. A. 2, Ambiguous Contracts [citations omitted].) Indeed, "[t]he best evidence of the intent of parties to a contract is their conduct after the contract is formed." (*Waverly Corp. v City of New York*, 48 AD3d 261, 265 [1st Dept 2008] [citation omitted].)

Kenyon's conduct after entering into the Security Agreement and Consent Agreement overwhelmingly indicates that Kenyon believed that DMT was entitled to be repaid first out of the $3.1 million Napster Settlement.

First, Mudge's PowerPoint slide stating "1st Repayment to GE of all patent exploitation expenses paid by GE" indicates that Mudge understood that the 1st payment would go to GE not Kenyon. (NYSCEF 356, PowerPoint Slide 21.) Indeed, Mudge described himself as the "Kenyon partner with the most knowledge of the patents", and therefore, his view of the payment priorities is probative. (NYSCEF 380, Mudge Trial Aff ¶ 22.) Mudge testified, "[m]y goal was to educate my partners ... and based on my review of the agreements, explain both the firm's options and the timeline for exercising its options to be paid on the SightSound Debt." (*Id.*) The court finds that Mudge presented as a thoughtful, sincere, and diligent attorney. He designed this presentation to brief Kenyon partners about the millions of dollars Kenyon was owed by its client SightSound. The PowerPoint, however, is damning. Kenyon cannot escape the question it raises - why none of these Kenyon partners flagged this slide as problematic if they believed that Kenyon would be repaid first. The only plausible explanation is they understood that GE would be repaid first in exchange for funding continuing litigation, and this slide explained the mechanics of repayment.

While the court notes that Mudge testified credibly, clearly concentrating on the questions asked, his interpretation of the Consent Agreement is simply his own interpretation after reading it; he was not involved in negotiating or drafting the Consent Agreement and has no special insight. That Mudge was the most knowledgeable Kenyon partner in November 2011 does not elevate his interpretation here.

Second, Kenyon's failure to claim entitlement to the Napster settlement in the sixteen months after LePore informed Kenyon that 100% of the settlement would be distributed to DMT indicates that Kenyon believed that GE was entitled to the settlement. The evidence surrounding Kenyon's conduct raises an unsettling question: if a business believes it should be paid $3.1 million, and is informed that it will not be paid, why wait 16 months to demand payment? LePore reported that "in the ensuing sixteen months, Kenyon never once claimed that it was entitled to any portion of the Napster Settlement Payment despite numerous meetings with, and multiple communications between, me and other principals of the SightSound entities and Kenyon during this time." (NYSCEF 387, LePore Trial Aff ¶ 67.) Kenyon fails to counter this testimony. Next, LePore explicitly stated in his May 4, 2012 email,

> "'[a]s you know, under the terms of the Asset Purchase Agreement, revenue realized in connection with licensing or litigation settlement is first distributed to DMT until the Preferred Distribution is satisfied. Accordingly, 100%

> of the settlement proceeds from the Napster litigation will be distributed to DMT.'"

(*Id.* ¶ 62.) Nothing about this email was unclear or confusing; 100% of the settlement was being paid to DMT. Yet Kenyon waited until September 9, 2013, 16 months later, to challenge the contents of this email. (*Id.* ¶ 69.) The court finds that Kenyon did not act for 16 months because Kenyon believed that DMT was entitled to be repaid first out of the Napster settlement.

Third, Colbert's failure to respond to LePore's May 4, 2012 email, despite being "stunned" and "disappointed," (NYSCEF 393, Tr at 139:4-13) is counterintuitive. Colbert's explanation that the email did not "call[] for a response" suggests that one does not respond to an email unless invited to do so. (*Id.* at 139:19-21.) The context here is that Kenyon provided millions of dollars in legal services to SightSound for which SightSound failed to pay, and Kenyon afforded SightSound multiple opportunities to satisfy its debt by entering the agreements at issue here. Yet, when asked "[u]p to the time Schiff Hardin sent their letter, are you aware of any writing by anybody at Kenyon that was sent to DMT, GE, SightSound, SST, saying the Napster money should have been ours," Colbert responded, "I don't recall such a writing." (*Id.* at 141:9-13.) Surely there would have been a writing of some sort once Kenyon learned that it was not going to be paid any of the $3.1 million Napster settlement. Colbert's testimony paints a rather sedate picture of Kenyon even after Kenyon received the stunning news. Moreover, Kenyon fails to counter LePore's testimony that despite having multiple meetings and communications with Kenyon after the May 4, 2012 email, no one mentioned Kenyon's objection.

The court finds Colbert's testimony unreliable. His claim that he learned of the Napster settlement in May or June 2012 by reading a newspaper or online is unsupported by a copy of the article. (*Id.* at 136:3-7; 138:17-139:9; 163:6-164:15.) It is also contradicted by his own testimony. First, he testified that he learned of the settlement in late in 2011 (*Id.* at 130:4-5.) Next, he learned at an April 6, 2012 meeting that settlement was imminent. (*Id.* at 172:9-17.) Finally, he received the May 4, 2012 email. (NYSCEF 359, Email.) The only supporting document Kenyon offers, a draft email to another lawyer, undermines his testimony. Colbert wrote "[i]s there any way to reach that money?" (NYSCEF 352, Colbert's Draft Email.)

Fourth, Mudge's testimony that he did not remember reading LePore's May 4, 2013 email supports the court's conclusion that he believed GE was entitled to the Napster settlement. Mudge's records corroborate LePore's testimony that a meeting was held on April 6, 2012. (NYSCEF 393, Tr at 83:11:-21.) Kenyon has given the court no reason to doubt LePore's testimony. (*Id.* at 88:3.) Mudge testified that he did not "remember anything about the meeting or call that appears to have taken placed on April 6, 2012" with LePore. (*Id.* at 85:24-15; *see generally id.* at 83:12-89:4.) This memory lapse is understandable if the context is that a notorious milestone in the parties' relationship did not occur. Mudge's testimony that he did not recall responding to the May 4th email corroborates the absence of a milestone. (*Id.* at 88:4-7.) All of Mudge's responses, or the lack thereof, are consistent with the sedate record Kenyon presents.

As to the conflict between LePore's recollection of the November 2005 meeting preceding Kenyon's execution of the Consent Agreement, and Tobin's failure to recollect his own statements at that meeting, the court credits LePore's version. While the court found Tobin credible and observed Tobin trying to remember some of the events 14 years earlier, the fact remains that he did not deny LePore's recollection of Kenyon's negotiation position as reflected by Tobin's statements; Tobin simply did not recall. (*Id.* at 36:21-37:7; 41:13-21.) This recollection failure is undermined by Tobin's repeated surprise by GE's venture capital group and its interest "in purchasing this patent and coming up with some financial connection of the patent;" clearly, the meeting was memorable to him. (*Id.* at 28:22-29:2.) It is also clear that negotiations ensued, but Tobin fails to offer the court an alternative interpretation of those negotiations.

Another reason to give less weight to Tobin's testimony is his failure to answer some questions, instead repeating Kenyon's position that Kenyon had a security interest in the SightSound's patents. (*Id.* at 32:15-21; 34:2-11; 43:4-10; 45:9-18; 47:3-7.) Tobin's reluctance to answer the simple question of whether Kenyon consented to the sale undermined his credibility. (*Id.* at 31:14-32:4.) He signed a document entitled "Consent Agreement to Transfer." The word "consent" appears 19 times in the nine-page document. (*See* NYSCEF 354, Consent Agreement.) Likewise, Tobin's reluctance to acknowledge that he understood that defendants relied on Kenyon's consent is undermined by the Consent Agreement he signed, which states "whereas DMT will rely upon this agreement in connection with consummating the sale and performing its obligations under this asset purchase agreement." (*Id.* at 2; *see also* NYSCEF 393, Tr 34:12-15; 34:20-35:1; 35:2-8.) Tobin's testimony that Kenyon had nothing to do with the APA is also inconsistent with the Security Agreement's requirement of Kenyon's consent before any transfer of the assets. (*Id.* at 32:6-9.) The court rejects Tobin's testimony because he clearly understood the Security Agreement, and he admittedly read the Consent Agreement.

The court also notes that it finds LePore credible, confident in his answers and willing to state when he did not know the answer to a question.

Fifth, Tobin's testimony concerning the Consent Agreement and APA that he did not remember reading or inquiring about portions of the APA that state "[a]ll cash to GE until IRR on investment and return expenses is achieved" is not supportive of Kenyon's contentions. (*Id.* at 37:22-38:9.) Tobin was obligated to have read the documents because "parties are ordinarily bound by agreements they sign since they are presumed to have read them." (*Cont. Stock Transfer & Trust Co. v Sher-Del Transfer & Relocation Servs.*, 298 AD2d 336, 336 [1st Dept 2002] [citation omitted].) Reading the Consent Agreement alone would have put Tobin on notice that the APA was attached or should have been attached because that is the deal to which Kenyon was consenting. Indeed, one of the recitals on the first page of the Consent Agreement defines "Sale" as "the consummation of the transactions contemplated pursuant to the Asset Purchase Agreement (the 'Sale')". (NYSCEF 354, Consent Agreement at 1.) It then states that Kenyon, DMT and SightSound "desire that the parties enter into this [Consent Agreement] to ... evidence [Kenyon's] consent to the Sale." (*Id.*) Of course, "[a] recital paragraph in a document is not determinative of the rights and obligations of the parties to the agreement." (PJI 4:1, VI. A. 5, Interpreting Words and Phrases [citations omitted].) But this recital was relevant because it defines "Sale" which is then used in a covenant, specifically Section 5 where "Kenyon hereby consents, pursuant to the terms hereof, to the Sale ..." (NYSCEF 354, Consent Agreement at 3.) The court is confounded by Kenyon's insistence that, "if" Kenyon consented to anything, it was limited to the transfer of the patents to DMT.

Sixth, Colbert's testimony concerning the Consent Agreement and APA is not supportive of Kenyon's litigation position. Colbert testified that he "reviewed … the Consent Agreement … before and after [it was] executed", but the Consent Agreement did not have all the attachments like the APA. (NYSCEF 381, Colbert Trial Aff ¶ 3; NYSCEF 393, Tr at 113:15 – 114: 8.) This testimony is undermined by the explicit language of the first page of the Consent Agreement which states, "WHEREAS, DMT and SightSound are entering into an Asset Purchase Agreement … a true and correct copy of which is attached hereto for reference as Exhibit A." (NYSCEF 354, Consent Agreement at 1 [emphasis added].) The purpose of Colbert's review was to determine what Kenyon was consenting to and how would it affect SightSound's debt to Kenyon. The court rejects the idea that Colbert, the attorney charged with reviewing this contract for his firm, agreed to have the firm execute the document without seeing the attachment. Regardless of whether Kenyon read the APA or not, Kenyon cannot escape its consent by asserting that the APA was not attached, or it failed to read the APA. (*See Continental Stock Transfer & Trust Co.*, 298 AD2d 336.)

The court rejects Kenyon's argument that the allocation set forth in Section 7.2 of the APA applies only to revenues generated from licensing agreements, not litigation settlements. The definition of "Revenues" in the APA states, "'Revenues' means, subject to Section 3.1,[5] all receipts of cash (net of withholding taxes) or other property

[5] Section 3.1. states "License to Patents. SightSound acknowledges that, immediately following the Closing, DMT, as the sole owner of the Patents, shall have the right to exploit the Patents at its sole discretion, and such right shall include the right to grant

following the Closing Date pursuant to License Agreements." (NYSCEF 355, APA at 5.) Colbert's answer, or the lack thereof, to the court's question --"at the time you were considering an option for 10 percent, what would it have been 10 percent of . . ." – is most telling. (NYSCEF 393, Tr at 211:13-212:14.) Of course, if the Apple litigation resulted in hundreds of millions in damages, Kenyon surely would have sought its 10% share of SightSound's portion under Section 7.2 of APA. (*Id.* at 400:1-3; 406:22-407:8 [Gick testifying].) Therefore, "Revenues" would include funds recovered in prosecuting litigation to enforce the patents, such as the Napster Settlement and similar efforts in the Apple litigation. Indeed, Kenyon's expert[6] referred to a verdict in the Apple litigation as "licensing revenues" which supports the court's conclusion. (*Id.* at 419:7-420:4.)

Taking all of the above together, the court is compelled to find that the term "hereof" in the Consent Agreement refers to both the Consent Agreement and the APA. This finding provides the best explanation for all of the evidence considered here. Specifically, Kenyon consented to the APA because it was not likely to recover its fees without an investment of new money from GE. It is not credible that Kenyon expected GE to invest in SightSound's infringement litigation without getting something in return, i.e. repaid first out of any generated revenues before revenue was shared with Kenyon.

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any license, including, at DMT's sole discretion, the right to grant any sublicenses thereunder, under all or any of the Patents to any current or future Affiliate or Subsidiary of DMT (each a 'DMT Affiliate License Agreement'). SightSound further acknowledges and agrees that no fees related to any DMT Affiliate License Agreements (including any fees related to a sublicense to any current or future Affiliate or Subsidiary of DMT) shall be included as Revenues." (NYSCEF 355, APA § 3.1.)

[6] The court notes that it found plaintiff's expert, Carmen Eggleston, credible, confident, and reliable.

Because the ambiguity is resolved in defendants' favor, Kenyon's second cause of action for breach of contract is dismissed. "The elements of a cause of action for breach of contract are (1) formation of a contract between plaintiff and defendant, (2) performance by plaintiff, (3) defendant's failure to perform, (4) resulting damage." (PJI 4:1 – I. Elements of Breach of Contract [citations omitted].) Kenyon has failed to demonstrate the third element which is that defendants failed to perform. Accordingly, the claim fails.

For the same reasons, the first cause of action is also dismissed. Kenyon seeks turnover of the patents and allowing Kenyon to foreclose on its security interest. "The remedy at law for a breach of contract is the collection of damages. Only where that remedy is inadequate may the equitable remedy of specific performance by invoked." (*Wirth & Hamid Fair Booking Inc. v Wirth*, 265 NY 214, 222 [1934].) Here, there is no viable breach of contract claim, and therefore, any relief of specific performance is also not viable. Further, the court rejects Kenyon's request for specific performance because there is nothing to turnover. While Kenyon fails to state authority for its requested remedy, Kenyon has always had the right to demand possession and foreclose on the patents pursuant to UCC §§9-609 and 9-610(a). Instead, it consented to GE investing in the litigation. The claim is dismissed.

The fifth cause of action for unjust enrichment is also dismissed. "[U]njust enrichment requires a showing by plaintiff that (1) the other party was enriched, (2) at plaintiff's expense, and (3) that it is against equity and good conscience to permit the other party to retain what is sought to be recovered." (PJI 4:2 [citations omitted]; *Georgia Malone & Co., Inc. v Rieder*, 19 NY3d 511, 516 [2012].) "The essential inquiry in unjust enrichment cases is whether it is against equity and good conscience to permit the defendant to retain what is sought to be recovered." (PJI 4:2 [citations omitted]; *Mandarin Trading Ltd. v Wildenstein,* 16 NY3d 173, 182 [2011] .) Because Kenyon consented to the APA, it cannot show the third element of this claim that it is against equity and good conscience to permit DMT or GE to retain the Napster settlement proceeds. Accordingly, the claim fails.

Lastly, the third cause of action for constructive fraudulent conveyance is dismissed. Under NY Debtor and Creditor Law § 273, "[a] conveyance that renders the conveyor insolvent is fraudulent as to creditors without regard to actual intent, if the conveyance was made without fair consideration." (*Matter of CIT Group/Commercial Servs., Inc. v 160-09 Jamaica Ave. Ltd. Partnership*, 25 AD3d 301, 302 [1st Dept 2006] [citation omitted].) To establish this claim, a plaintiff must show "that the debtors made a conveyance, that they were insolvent prior to the conveyance or rendered insolvent thereby, and that the conveyance was made without fair consideration." (*Wall St. Assoc. v Brodsky*, 257 AD2d 526, 528 [1st Dept 1999] [citations omitted].) "An antecedent debt can constitute fair consideration." (*Matter of CIT Group/Commercial Servs., Inc.*, 25 AD3d at 302 [citation omitted].) "As long as the challenged payment was repayment of an actual antecedent debt, it may not be overturned even if the debtor was insolvent at the time, or even if its effect was to prefer one creditor over another." (*Id.* at 306 [citation omitted].) But even the satisfaction of an antecedent debt must be made in good faith. (*Id.* at 303.) Indeed, "[g]ood faith is required of both the transferor and the transferee, and it is lacking where there is a failure to deal honestly, fairly, and openly." (*Id.* at 303 [internal quotation marks and citations omitted].)

> "While it has been held that preferential transfers to directors, officers and shareholders of insolvent corporations in derogation of the rights of general creditors do not fulfill the good-faith requirement of the Debtor and Creditor Law, this exception to the rule regarding antecedent debts cannot be applied to a creditor who consented, in advance, to the preferential treatment to the insider in order to attempt to maximize the likelihood of the creditor's own debt being repaid in full."

(*Kenyon & Kenyon LLP v SightSound Technologies LLC*, 2016 WL 4094711, *6 [internal quotation marks and citations omitted].) Because Kenyon consented to the APA, it has failed to demonstrate that the conveyance was made without fair consideration. The Napster settlement fund was paid to DMT in accordance with the APA to which Kenyon consented. This challenged transfer was repayment of the antecedent debt memorialized in the APA, specifically under Section 7.2. (NYSCEF 355, APA § 7.2.) Because DMT and SST INC entered into the Consent Agreement with Kenyon, and in light of LePore's updates to Kenyon during April and May 2012, good faith was not lacking on the defendants' behalf because they dealt honestly, fairly, and openly with Kenyon. Thus, the claim fails.

Accordingly, it is

ORDERED that the complaint is dismissed in its entirety, and judgment is entered in favor of defendants with costs and disbursements as taxed by the Clerk of the Court.

May 10, 2021

ENTER

Andrea Masley, JSC