APPENDIX A

FILED
October 29, 2018

Lyle W. Cayce
Clerk

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 17-11113

In the Matter of: PROVIDER MEDS, L.L.C.,

Debtor.

RPD HOLDINGS, L.L.C.,

Appellant,

v.

TECH PHARMACY SERVICES, doing business as Advanced Pharmacy Services,

Appellee.

Appeal from the United States District Court
for the Northern District of Texas

Before HIGGINBOTHAM, SMITH, and GRAVES, Circuit Judges.

PATRICK E. HIGGINBOTHAM, Circuit Judge:

RPD Holdings, L.L.C. claims that it purchased a patent license from multiple debtors in bankruptcy sales of their estates. Tech Pharmacy Services argues that RPD does not have rights under the license to Tech Pharm's patented invention. Concluding that the patent license was a rejected executory contract and could not have been transferred by the bankruptcy sales in question, we agree with Tech Pharm and affirm the decision of the district court.

I

This appeal emerges from a series of bankruptcy cases involving "OnSite." The entities involved in operating OnSite, the "OnSite parties," placed dispensing machines with long-term care facilities, then used proprietary OnSite software to remotely dispense pharmaceuticals from the machines to nurses in the facilities. They had a joint corporate parent, OnSiteRx, but functioned as independent business entities[1]—and, when the time came to file for bankruptcy, filed separate bankruptcy cases.

A

The story begins before the OnSite parties filed for bankruptcy. Tech Pharm holds a patent on a system, software, and related methods of remote

[1] *See CERx Pharm. Partners, LP v. RPD Holdings, LLC*, No. 13-30678-BJH, 2014 WL 4162870, at *3 (Bankr. N.D. Tex. Aug. 20, 2014).

pharmaceutical dispensing.[2] In 2010, it sued multiple defendants in the Eastern District of Texas—including several OnSite parties—for infringing this patent by using their own remote pharmaceutical dispensing machines.[3] The OnSite parties counterclaimed challenging Tech Pharm's patent. The parties agreed to settle the litigation, entering into a "Compromise, Settlement, Release, and License Agreement" (the "License Agreement"), granting a "non-exclusive perpetual license" to all but one of the OnSite parties for "so long as the Patent or Patents are valid and enforceable." The OnSite parties agreed to pay a one-time licensing fee of $4,000 for each OnSite machine placed into operation after the execution of the agreement, and to provide quarterly reports reflecting all new machines placed in service. All parties also agreed to release any and all claims they "may have or claim to have . . . which relate to or could have been claimed in the Litigation, or that relate to the [Patents] or any alleged infringement [or invalidity] of same, except for the obligations specifically called for under this Agreement." Following the settlement agreement, the district judge in the Eastern District of Texas dismissed all claims with prejudice.

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[2] U.S. Patent No. 7,698,019 (filed Sept. 20, 2004).

[3] Tech Pharm included other, non-OnSite defendants in the same suit, but their involvement is not relevant to this case.

B

Beginning in 2012 and continuing into 2013, the six OnSite parties relevant to this appeal filed separate Chapter 11 bankruptcy cases in the Northern District of Texas.[4] Each case was later converted to Chapter 7. Five of the six OnSite debtors were also parties to the Tech Pharm License Agreement. Despite the bankruptcy requirement that they schedule all assets and creditors, however, none of the debtors listed the License Agreement or Tech Pharm on their schedules.

RPD had a security interest in the OnSite debtors' collateral. It agreed to purchase its collateral from three of the bankruptcy estates—ProvideRx of Grapevine, LLC ("Grapevine"), ProvideRx of Waco, LLC ("Waco"), and W. Pa. OnSiteRx, LLC ("Western Pennsylvania")—instead of litigating its liens. RPD and each estate laid out the terms of each sale in a separate asset purchase agreement, the APA, and each sale was approved by the bankruptcy court in a separate sale order. No APA explicitly referenced the License; instead, each APA covered certain categories of subject property. In turn, the sale orders approved the sale of the subject property in each APA—providing that to the extent that any of the subject property was an executory contract, it was "hereby ASSUMED by the Estate and immediately ASSIGNED to RPD under the applicable provisions of section 365 of the

[4] There were ten related OnSite debtors in total.

Bankruptcy Code." The parties have stipulated that RPD was not aware of the License until after all three sale motions and APAs were filed with the bankruptcy court, but that it became aware of the License before the bankruptcy court entered the last of the sale orders, the Waco sale order.

Shortly after the bankruptcy court approved the last of these sales, the trustees from the other estates—Provider Meds, LP ("Provider Meds"), OnSiteRx, Inc. ("OnSite"), and ProvideRx of San Antonio, LLC ("San Antonio")—entered into a settlement agreement, the "global agreement," with RPD and CERx, a competing secured party. The global agreement provided for RPD and CERx to severally own the OnSite source code, and divided other assets between them. RPD avers that because it was aware of the License at this point, it believed that it had purchased the License under the terms of the Grapevine, Western Pennsylvania, and Waco APAs and sale orders. As a result, the global agreement provided that the Provider Meds and San Antonio trustees would transfer their Tech Pharm licenses to CERx, but that "RPD is entitled to all remaining available Tech Pharm licenses (such as those otherwise acquired from ProvideRx of Grapevine, LLC; W Pa OnsiteRx, LLC; and ProvideRx of Waco, LLC)."

C

Almost a year after the bankruptcy court approved the global agreement, Tech Pharm filed a petition in Texas state court against several

defendants, including the Waco and San Antonio debtors, alleging that the defendants had failed to comply with their obligations under the License Agreement to provide quarterly reports and pay licensing fees for new machines. RPD intervened and removed the proceeding to the bankruptcy court, arguing that one or more of the debtor estates had assigned or otherwise transferred the License to RPD.

The bankruptcy court held that RPD did not have rights under the License Agreement for either of two reasons: RPD had not purchased the License under any of the OnSite sales and, regardless of the terms of the sales, the License Agreement was an executory contract that was rejected by operation of law prior to any alleged transfer.[5] It also determined that RPD had not gained rights under the License Agreement by purchasing OnSite machines from the debtors.[6] RPD appealed to the district court, which concluded that the License was a rejected executory contract and affirmed.[7]

RPD now appeals the decision of the district court affirming the bankruptcy court. It claims that

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[5] *See Tech Pharm. Servs., Inc. v. RPD Holdings, LLC (In re Provider Meds, LLC)*, No. 13-30678, 2017 WL 213814, at *10–11, 12–18 (Bankr. N.D. Tex. Jan. 18, 2017).

[6] *See id.* at *11–12 ¶¶5–11.

[7] *Tech Pharm. Servs., Inc. v. RPD Holdings, LLC (In re Provider Meds, LLC)*, No. 3:17-CV-0441-D, 2017 WL 3764630 (N.D. Tex. Aug. 31, 2017).

its rights under the License Agreement were established by final and non-appealed bankruptcy court orders, so any determination to the contrary would constitute an impermissible collateral attack. It also argues that the bankruptcy and district courts erred on the merits in determining RPD has no rights under the License Agreement.

D

In reviewing a decision of the district court affirming the bankruptcy court, we apply "the same standard of review to the bankruptcy court that the district court applied," reviewing findings of law *de novo* and findings of fact for clear error.[8] We conclude that the License Agreement was an executory contract that was deemed rejected by operation of law prior to the bankruptcy sales where RPD allegedly purchased the License. Because the License was not part of the bankruptcy estates at the time of the relevant sales, the bankruptcy court's final orders did not effect a transfer of the License from the OnSite debtors to RPD.

II

Section 365 of Title 11 of the United States Code addresses the ability of bankruptcy trustees to assume or reject executory contracts and unexpired leases. This provides a way for "a trustee to relieve the bankruptcy estate of burdensome agreements

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[8] *Galaz v. Katona (In re Galaz)*, 841 F.3d 316, 321 (5th Cir. 2016).

which have not been completely performed."[9] Once a trustee assumes an executory contract, a trustee may generally also assign the contract, even where legal or contractual provisions would otherwise prohibit assignment.[10] An executory contract must be assumed or rejected in its entirety,[11] and rejection may be treated as a breach of contract.[12]

Under most bankruptcy chapters, the trustee may assume or reject an executory contract at any point before the plan is confirmed,[13] but the rule is different for Chapter 7 cases. Section 365(d)(1) provides that in Chapter 7 cases,

> if the trustee does not assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor within 60 days after the order for relief, or within such additional time as the court, for cause, within such 60-day

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[9] *Phoenix Exploration, Inc. v. Yaquinto (In re Murexco Petroleum, Inc.)*, 15 F.3d 60, 62 (5th Cir. 1994) (per curiam).

[10] *See* 11 U.S.C. § 365(f)(1).

[11] *See Stewart Title Guar. Co. v. Old Republic Nat'l Title Ins. Co.*, 83 F.3d 735, 741 (5th Cir. 1996) (per curiam).

[12] 11 U.S.C. § 365(g).

[13] *See id.* § 365(d)(2); *Stumpf v. McGee (In re O'Connor)*, 258 F.3d 392, 400 (5th Cir. 2001).

> period, fixes, then such contract or lease is deemed rejected.[14]

Here, if the License Agreement was an executory contract, the sixty-day time period started when the cases were converted to Chapter 7 and would have expired before the first of the bankruptcy sales.[15] The trustees did not assume the License Agreement within the required period. RPD contends that the bankruptcy and district courts erred in concluding that the License Agreement was an executory contract. It further argues that even if the License Agreement is an executory contract, section 365(d)(1)'s time limit should not apply where the debtors failed to schedule the License and the trustees therefore were unaware of its existence. We disagree.

A

Our first inquiry is whether the License Agreement was an executory contract. The Bankruptcy Code does not define the term "executory contract,"[16] but we have concluded that a contract is executory if "performance remains due to some extent on both sides" and if "at the time of the

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[14] 11 U.S.C. § 365(d)(1).

[15] As the bankruptcy court explained, the latest any of the trustees had to assume the License Agreement was November 3, 2013, but the earliest sale motion was filed on November 22, 2013. *See In re Provider Meds*, 2017 WL 213814, at *6 ¶ 49.

[16] *See In re Murexco Petroleum*, 15 F.3d at 62.

bankruptcy filing, the failure of either party to complete performance would constitute a material breach of the contract, thereby excusing the performance of the other party."[17] We must therefore determine whether both sides—Tech Pharm and each of the OnSite parties—owed additional performance under the License Agreement, and whether any party's failure to perform would constitute a material breach excusing the other side's performance.

The bankruptcy court held, and the district court affirmed, that Tech Pharm had an ongoing obligation under the License Agreement to refrain from suing its counterparties for patent infringement for machines placed into service after execution of the Agreement.[18] It further concluded

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[17] *Id.* at 62–63; *accord Ocean Marine Servs. P'ship No. 1 v. Digicon, Inc. (In re Digicon, Inc.)*, No. 03-20121, 2003 WL 21418127, at *5 (5th Cir. 2003) (per curiam) (approving of district court language adopting this definition). This follows the "Countryman" definition of an executory contract, which is widely—though not universally—adopted by our fellow circuits.

[18] *See In re Provider Meds*, 2017 WL 3764630, at *2 (district court opinion); *In re Provider Meds*, 2017 WL 213814, at *14–15 ¶¶ 22–26 (bankruptcy court opinion).

As we discuss, Tech Pharm dismissed its claims against the OnSite debtors with prejudice in the 2010 lawsuit, so it was already precluded from suing for patent infringement concerning machines in existence at the time of that lawsuit. The License Agreement separately provided that Tech Pharm would release the OnSite parties from claims "that relate to the [Patents] or any alleged infringement of same, except for the obligations specifically called for under this Agreement." We

that the OnSite licensees had ongoing material obligations because they were required to provide quarterly reports as to new machines, pay a one-time licensing fee of $4,000 to Tech Pharm for each new machine, and refrain from making public statements about the settled lawsuit.[19]

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RPD does not dispute that these reciprocal requirements would typically be enough to render the License Agreement executory, but argues instead that unique features of the License Agreement make it non-executory. RPD's principal contention is that because the License Agreement came hand in hand with a settlement agreement to dismiss Tech Pharm's patent infringement suit against the OnSite debtors with prejudice, Tech Pharm's sole executory obligation under the License Agreement—to refrain from suing the OnSite debtors for patent infringement involving future machines—was illusory.

Claim preclusion "bars the litigation of claims that either have been litigated or should have been

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agree with the bankruptcy and district courts that this contemplated an ongoing obligation not to sue the OnSite debtors for future patent infringement, even when such claims could not have been brought in the initial litigation. In other words, if Tech Pharm sued the OnSite parties for patent infringement even though they complied with the terms of the License Agreement, it would breach the contract.

[19] *In re Provider Meds*, 2017 WL 213814, at *16 ¶ 27.

raised in an earlier suit."[20] Our analysis is most closely governed by principles of claim preclusion as they apply to patent infringement suits.[21] The Federal Circuit has held that claim preclusion does not bar patent infringement allegations "with respect to accused products that were not in existence at the time of the [previous actions,] for the simple reason that [claim preclusion] requires that in order for a particular claim to be barred, it is necessary that the claim either was asserted, or could have been asserted, in the prior action."[22] As a result, claim preclusion solely encompasses "the particular infringing acts or products that are

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[20] *Duffie v. United States*, 600 F.3d 362, 372 (5th Cir. 2010). "The test for claim preclusion has four elements: (1) the parties in the subsequent action are identical to, or in privity with, the parties in the prior action; (2) the judgment in the prior case was rendered by a court of competent jurisdiction; (3) there has been a final judgment on the merits; and (4) the same claim or cause of action is involved in both suits." *Id.*

[21] Because Federal Circuit law would govern any potential future patent infringement suit Tech Pharm could bring against the OnSite parties, we look to the Federal Circuit to see if principles of claim preclusion would bar a particular cause of action in a patent case. The Federal Circuit applies its own law on issues of claim preclusion specific to patent law. *See Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1298 (Fed. Cir. 2017); *see also SimpleAir, Inc. v. Google LLC*, 884 F.3d 1160, 1165–66 (Fed. Cir. 2018) (applying general Fifth Circuit principles of claim preclusion, but Federal Circuit law on whether "a particular cause of action in a patent case is the same as or different from another cause of action").

[22] *Aspex Eyewear, Inc. v. Marchon Eyewear, Inc.*, 672 F.3d 1335, 1342 (Fed. Cir. 2012).

accused in the first action or could have been made subject to that action."[23] This is consistent with the Supreme Court's decision in Lawlor v. National Screen Service Corp., an antitrust case holding that even where two suits involved "essentially the same course of wrongful conduct," the later suit was not barred by claim preclusion because the prior judgment "[could] not be given the effect of extinguishing claims which did not even then exist and which could not possibly have been sued upon in the previous case."[24]

RPD argues that these general principles apply differently to method patent claims than to other claims for patent infringement. It contends that under a method patent, the determinative question is whether a particular process infringed on the method[25]—so once a claim for method patent infringement is dismissed with prejudice, any future challenge to the use of the same process is barred by claim preclusion. Under RPD's view, once Tech Pharm dismissed with prejudice its claim that the OnSite parties' process infringed its method patent, it could never again sue the OnSite parties for using that same process, even if the OnSite parties used the process after the termination of the lawsuit to place new machines into operation.

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[23] *Id.* at 1343.

[24] 349 U.S. 322, 327–28 (1955); *see also Aspex Eyewear*, 672 F.3d at 1342–43 (citing *Lawlor*).

[25] *See Joy Techs., Inc. v. Flakt Inc.*, 6 F.3d 770, 773 (Fed. Cir. 1993).

We disagree, finding recent Federal Circuit case law conclusive on this point. *Mentor Graphics Corp. v. EVE-USA, Inc.* is particularly instructive.[26] There, the relevant parties had previously litigated two method and logic system patents,[27] but—as in this case—the patentholder dismissed its infringement claims with prejudice and granted a license to the asserted patents.[28] When another company acquired the licensee, the license automatically terminated.[29] The acquiring company then sued the patentholder for a declaratory judgment of non-infringement, and the patentholder counterclaimed for infringement.[30] The Federal Circuit flatly held that because the infringement claims were based on acts that occurred after the initial lawsuit, they were not precluded by the initial suit's dismissal with prejudice.[31] Following Lawlor, it emphasized that where infringement allegations could not have previously been brought in an initial suit because the alleged infringing act had not yet occurred, claim preclusion would not apply even where the alleged infringement was "essentially the

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[26] *Mentor Graphics*, 851 F.3d 1275.

[27] *See* U.S. Patent No. 6,009,531 (filed May 27, 1997); U.S. Patent No. 5,649,176 (filed Aug. 10, 1995).

[28] *Mentor Graphics*, 851 F.3d at 1297–98.

[29] *Id.* at 1298.

[30] *Id.*

[31] *Id.* at 1299.

same" as that litigated in the prior action.[32] Especially relevant here, the court observed that if such claims were instead barred by claim preclusion, "any licensee holding a license obtained through litigation could breach that license, yet prevent the patentee from asserting infringement against new products not covered by the license."[33] By holding that future infringement claims were not barred by claim preclusion, the *Mentor Graphics* decision avoided that counterintuitive result.

The Federal Circuit has reached similar results concerning other method patent claims.

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[32] *Id.* at 1299–1301 ("The present lawsuit is based on post-license conduct, so the alleged infringement did not exist during the previous action . . . Because the allegations could not have been brought in the first action, we need not determine whether the newly accused products are 'essentially the same' as the products litigated in the first action.") (discussing *Lawlor v. Nat'l Screen Serv. Corp.*, 349 U.S. 322, 328 (1955); *Aspex Eyewear*, 672 F.3d at 1342; and *Brain Life, LLC v. Elekta Inc.*, 746 F.3d 1045, 1052 (Fed. Cir. 2014)).

In *Mentor Graphics*, the Federal Circuit also observed that under the Supreme Court's decision in *Kessler v. Eldred*, 206 U.S. 285 (1907), an adjudicated *non*-infringer may be shielded from future lawsuits involving the same allegedly infringing activity, even where such lawsuits would not be barred by claim or issue preclusion. *See Mentor Graphics*, 851 F.3d at 1301. While the *Kessler* doctrine may cushion the effect of these claim preclusion principles where a court conclusively establishes non-infringement, the *Mentor Graphics* panel explained that it does not apply where a party received a license to the patent and the patentholder dismissed its claims with prejudice, as is the case here. *See id.* at 1297–98, 1301.

[33] *Id.* at 1300.

Mentor Graphics relied in part on the court's previous decision in *Brain Life, LLC v. Elekta Inc.*, which straightforwardly held that claim preclusion would not bar claims for method patent infringement "relating to acts of infringement that postdate [the prior] judgment" because the patentee could not have asserted claims in the first lawsuit for acts of infringement that occurred after the judgment in that suit.[34] Similarly, in *Asetek Danmark A/S v. CMI USA Inc.*, the Federal Circuit addressed an injunction predicated on a jury finding of liability for infringement of two system and method patents.[35] The patentholder dismissed with prejudice its claims against one of the defendants prior to trial,[36] but after the jury found liability, the district court enjoined both original defendants—including the dismissed party.[37] The court concluded that the injunction against the dismissed party addressing its future conduct was not barred by claim preclusion, because "[i]t is well established . . . that the

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[34] *Brain Life*, 746 F.3d at 1053–54.

[35] 852 F.3d 1352, 1355 (Fed. Cir. 2017). *Asetek Danmark* was initially decided prior to *Mentor Graphics*, and *Mentor Graphics* cited the initial opinion as one of several cases supporting its conclusion. *See Mentor Graphics*, 851 F.3d at 1299. The Federal Circuit subsequently vacated its original *Asetek Danmark* opinion and issued a new opinion, but its discussion of claim preclusion remained unchanged. *Compare Asetek Danmark A/S v. CMI USA Inc.*, 842 F.3d 1350, 1362–63 (Fed. Cir. 2016), with *Asetek Danmark*, 852 F.3d at 1365.

[36] *Asetek Danmark*, 852 F.3d at 1355.

[37] *Id.* at 1358.

difference in timing means that the two situations do not involve the same 'claim' for claim-preclusion purposes, even if all the conduct is alleged to be unlawful for the same reason."[38] Although the court ultimately remanded for a more thorough determination of whether the injunction was permissible against the dismissed party,[39] it made clear that principles of claim preclusion standing alone would not have barred the injunction—even though the system and method infringement claims had previously been dismissed with prejudice.[40]

RPD's reliance on the Federal Circuit's earlier decision in *Hallco Manufacturing Co. v. Foster* is unpersuasive.[41] *Hallco* held that because a party had dismissed its patent invalidation claim with prejudice in earlier litigation, it was potentially barred from suing the patentholder to invalidate the same patent or from seeking a declaratory judgment that a redesigned device did not infringe the patent.[42] While *Hallco's* language may be read more broadly, we take the Federal Circuit to have since clarified that the case does not govern preclusion of infringement claims brought *by the patentholder*,

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[38] *Id* at 1365 (citing, e.g., *Aspex Eyewear*, 672 F.3d at 1343).

[39] *See id.* at 1368–69.

[40] *See id.* at 1370.

[41] 256 F.3d 1290 (Fed. Cir. 2001).

[42] *Id.* at 1293. The court remanded for a determination of whether the devices at issue were sufficiently different that principles of claim preclusion would not apply. *See id.* at 1298.

which were not at issue in *Hallco*.[43] The other cases we have discussed are more representative of whether claim preclusion would prevent Tech Pharm from suing the OnSite debtors over new machines—and they indicate that it would not.

In sum, but for the License Agreement, Tech Pharm would not be barred from suing the OnSite debtors for patent infringement stemming from their introduction of new OnSite machines—even if those machines used the same process at issue in the settled 2010 litigation. Tech Pharm had an ongoing material obligation under the License Agreement to refrain from suing the debtors.

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The OnSite debtors also had corresponding material obligations under the License Agreement. The License Agreement straightforwardly obligated the debtors to take certain ongoing actions, such as filing quarterly reports and not discussing the settled lawsuit.[44] RPD claims, however, that because

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[43] *See Mentor Graphics*, 851 F.3d at 1299–1300 ("Neither [of the *Foster v. Hallco Manufacturing*] cases addressed whether a patentee could bring new infringement allegations based on conduct occurring after a previous litigation ended. This is the precise issue addressed in *Aspex Eyewear* and *Brain Life* and the precise issue now before us."). While the patentholder brought a counterclaim in the *Hallco* case, it was for breach of the settlement agreement, not for infringement. *See Hallco Mfg.*, 256 F.3d at 1293.

[44] We have suggested in an unpublished opinion that "[a] contract is not executory if the only performance required by

the License Agreement granted a "perpetual" license for so long as the Tech Pharm patent was valid and enforceable, Tech Pharm would be prohibited from suing the debtors for patent infringement even if they breached their side of the agreement—and so any debtor obligations would not be material, as required by our definition of an executory contract.[45] It points to cases holding that where a license is both "irrevocable" and "perpetual," the licensor may not revoke the license even when the licensee breaches.[46]

But the cases RPD cites do not stand for the proposition that a merely "perpetual" license is itself irrevocable in the face of material breach. Rather, they hold that when a license uses the terms "irrevocable" and "perpetual," "irrevocable" must mean something beyond "not revocable at will," since otherwise the use of both "irrevocable" and "perpetual" would be superfluous.[47] Both cases

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one side is the payment of money." *In re Digicon, Inc.*, 2003 WL 21418127, at *5 (adopting language from district court opinion). Because the OnSite debtors were required to undertake other performance under the License Agreement, we do not need to resolve this issue here.

[45] *See In re Murexco Peroleum*, 15 F.3d at 62–63.

[46] *See Nano-Proprietary, Inc. v. Canon, Inc.*, 537 F.3d 394 (5th Cir. 2008); *Timeline, Inc. v. Proclarity Corp.*, No. C05-1013-JLR, 2007 WL 1574069 (W.D. Wash. May 29, 2007).

[47] *See Nano-Proprietary*, 537 F.3d at 400 ("Based upon the unambiguous meaning of 'irrevocable,' we find that the PLA could not be terminated, notwithstanding a material breach of the agreement. Otherwise, the terms 'irrevocable' and 'perpetual' would be rendered superfluous, in contravention of

explain that the use of "perpetual" indicates that the license may not be revoked at will; the use of "irrevocable" goes one step further and indicates that the license may not be revoked for any reason, even a breach by the other side.

RPD is arguably correct that because the License granted under the License Agreement was "perpetual," under Texas law, it was therefore not revocable at will.[48] This does not mean, though, that Tech Pharm would not be excused from its obligations if the OnSite debtors were to materially breach the License Agreement. RPD has offered no authority holding that a license that is *only*

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established rules of contract interpretation."); *Timeline*, 2007 WL 1574069, at *4 ("Despite the ordinary meaning of the term, Timeline suggests that 'irrevocable' is used in the contract to convey that the licenses are not terminable at will and should not be interpreted to restrict Timeline's ability to terminate the licenses due to a material breach. As Microsoft notes, however, the licenses would not have been terminable at will even if the agreement had excluded the term 'irrevocable.' . . . As Microsoft suggests, the use of the word 'perpetual' would also be sufficient to express an intent that the licenses were not terminable at will.").

[48] Texas law "disfavors" perpetual contracts, but will typically treat a contract as perpetual—and therefore not revocable at will—if it offers a definite endpoint for the party's obligation. *See, e.g., Kirby Lake Dev., Ltd. v. Clear Lake City Water Auth.*, 320 S.W.3d 829, 842 (Tex. 2010). Here, indexing the License Agreement to the duration of the patent generated a definite endpoint. As we explain, however, we do not need to determine whether the License Agreement was in fact perpetual—even if it was perpetual, that still does not mean that it was irrevocable in the face of a material breach.

"perpetual," and not "perpetual and irrevocable," is irrevocable in the face of material breach—and, indeed, the cases it presents suggest the opposite.

We therefore conclude that both sides had ongoing material obligations under the terms of the License Agreement, making it an executory contract. Having established that the License Agreement was executory, we must address whether it was rejected by operation of law.

B

As we have explained, 11 U.S.C. section 365(d)(1) imposes a sixty-day deadline for a bankruptcy trustee to assume an executory contract, starting here with the cases' conversion from Chapter 11 to Chapter 7. After that deadline passes, the contract will be deemed rejected by operation of law. Because we have concluded that the License Agreement was executory, it appears that it was deemed rejected when each of the bankruptcy estates failed to assume it prior to the expiration of the sixty-day period. But RPD urges us to read an implicit exception into section 365(d)(1) for when a bankruptcy debtor fails to schedule the executory contract and the trustee was unaware of the contract within the sixty-day period.

Like most circuits, we have not spoken directly to this issue. Both parties point to the sparse array of applicable case law from other courts, though there appears to be no clear consensus. Some courts have held that a contract will not be deemed

rejected by operation of law where a debtor intentionally conceals the existence of the contract from a trustee.[49] That is not at issue here, where the License Agreement was a matter of public record, listed on the docket of the 2010 patent litigation between Tech Pharm and the OnSite debtors. When there is no intentional concealment, several courts have held that failure to schedule an executory contract will not prevent it from being deemed rejected,[50] though at least one court appears to have broadly concluded that failure to schedule the contract should always toll the deadline.[51]

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[49] *See Strohbeck v. Zuniga (In re Zuniga)*, 287 B.R. 201, 206 (Bankr. E.D. Mo. 2001) (finding an executory contract was not deemed rejected under § 365(d)(1) where the debtor had engaged in an overt pattern of misrepresentation about her bankruptcy in order to obtain a loan, and failed to disclose the loan contract to the trustee); *see also Texas W. Fin. Corp. v. McCraw Candies, Inc.*, 347 F. Supp. 445, 449 (N.D. Tex. 1972) (finding no rejection under an applicable provision of the Bankruptcy Act where "the transaction had been deleted from [the debtor's] business records and was not listed as an asset on the schedule . . . . [so there was no evidence] that the trustee had knowledge of the claim or could have obtained it").

[50] *See Permacel Kansas City, Inc. v. Kohler Co.*, No. 08-00804-CV-W-FJG, 2010 WL 2516924, at *3-4 (W.D. Mo. June 14, 2010); *Carrico v. Tompkins (In re Tompkins)*, 95 B.R. 722, 724 (B.A.P. 9th Cir. 1989); *Hoffman v. Vecchitto (In re Vecchitto)*, 235 B.R. 231, 236 (Bankr. D. Conn. 1999), *aff'd*, No. 00-5010, 2000 WL 1508872 (2d Cir. Oct. 11, 2000).

[51] *See Medley v. Dish Network, LLC*, No. 8:16-CV-2534-T-36TBM, 2018 WL 4092120, at *5 (M.D. Fla. Aug. 27, 2018).

While most of these decisions do not extensively discuss the issue, we find persuasive analysis in a Ninth Circuit decision addressing a similar provision under the earlier Bankruptcy Act.[52] That court held that under the Bankruptcy Act, "a trustee has an affirmative duty to investigate for unscheduled executory contracts or unexpired leases," and that "[t]he statutory presumption of rejection by the trustee's nonaction within the sixty day period following his qualification is a conclusive presumption."[53] The Ninth Circuit's decision took place in a different statutory landscape, but its reasoning still applies.[54] The Bankruptcy Code places an affirmative duty on the trustee to "investigate the financial affairs of the debtor."[55]

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[52] *See Cheadle v. Appleatchee Riders Ass'n (In re Lovitt)*, 757 F.2d 1035 (9th Cir. 1985) (discussing 11 U.S.C. § 110(b) (1970)).

[53] *Id.* at 1040–42.

[54] Cases decided under the modern Bankruptcy Code have looked to In re Lovitt approvingly. *See In re Tompkins*, 95 B.R. at 724; *Corp. Prop. Investors v. Chandel Enters. (In re Chandel Enters.)*, 64 B.R. 607, 610 (Bankr. C.D. Cal. 1986). RPD argues that it is no longer applicable because it was decided under the Bankruptcy Act's rule that "executory contracts and leases—unlike all other assets—do not vest in the trustee as of the date of the filing of the bankruptcy petition . . . . [, but] only upon the trustee's timely and affirmative act of assumption." *In re Lovitt*, 757 F.2d at 1041. But we agree with Tech Pharm that the *Lovitt* conclusion regarding unscheduled contracts did not hinge on this presumption.

[55] 11 U.S.C. § 704(a)(4); *see also id.* § 704(a)(1) (requiring the trustee to "collect and reduce to money the property of the estate").

And, more to the point, section 365(d)(1) does not impose an actual or constructive notice requirement for when the sixty-day deadline applies. We will not read such a requirement into the statute when doing so is not supported by the statutory text.

Nor do we agree with RPD's other arguments for a narrower application of section 365(d)(1)'s deadline. There is no conflict with 11 U.S.C. sections 554(c) and (d), which provide that scheduled but non-administered property is abandoned to the debtor but property of the estate that is neither abandoned nor administered remains within the estate. The rejection of an executory contract places that contract outside of the bankruptcy estate[56]—so section 554 does not apply. Similarly, we disagree

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[56] *See, e.g., Eastover Bank for Savings v. Sowashee Venture (In re Austin Dev. Co.)*, 19 F.3d 1077, 1081 (5th Cir. 1994) (observing that deemed rejection of a lease under § 365(d)(4) "did not terminate the lease but merely placed the trustee's obligation to perform under the leasehold outside of the bankruptcy administration without destroying the leasehold estate" (citing *Comm. Trading Co. v. Lansburgh (In re Garfinkle)*, 577 F.2d 901, 904 (5th Cir. 1978)); *In re Scharp*, 463 B.R. 123, 129 (Bankr. C.D. Ill. 2011) ("The primary effect of rejection is to abandon the lease from the estate so that it reverts back to the debtor's control outside of bankruptcy. Assumption and rejection are bankruptcy concepts that determine whether the estate will administer the lease; rejection merely removes it from the property of the estate." (citations omitted)); *cf. Kane v. Nat'l Union Fire Ins. Co.*, 535 F.3d 380, 384–86 (5th Cir. 2008) (explaining that a trustee may abandon property of the estate, but may not administer property that was abandoned to the debtor pursuant to a different provision).

with RPD's suggestion that even where a contract has been rejected under section 365, a trustee can sell the contract pursuant to section 363. Because a rejected contract ceases to be property of the bankruptcy estate, it cannot be sold under a provision that authorizes a trustee to sell "property of the estate."[57] In any event, we cannot approve of the use of a "sale" under section 363 to avoid the requirement that an executory contract be assumed and assigned under section 365.[58]

We therefore hold that the License Agreement was deemed rejected by operation of law when each trustee failed to assume it within the sixty-day period. At a minimum, the statutory presumption of rejection after sixty days is conclusive where there is no suggestion that the debtor intentionally concealed a contract from the estate's trustee.[59]

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[57] *See* 11 U.S.C. § 363(b)–(c).

[58] *See Cinicola v. Scharffenberger*, 248 F.3d 110, 124 (3d Cir. 2001) ("[T]he sale of an executory contract triggers the protections afforded sales of bankruptcy estate property but also requires satisfaction of the requirements for assuming and/or assigning the same executory contract."); *In re Access Beyond Techs., Inc.*, 237 B.R. 32, 47 (D. Del. Bankr. 1999) ("A debtor cannot avoid the requirements of section 365 by saying it is 'selling' a lease or executory contract, rather than assuming and assigning it.").

[59] We do not decide here whether this rule might shift if a debtor is shown to have hidden assets from a trustee.

III

With this groundwork laid, that the bankruptcy court did not engage in an impermissible collateral attack on its previous orders becomes clear. RPD argues that two sets of final bankruptcy court orders established that it purchased the License Agreement from the Grapevine, Waco, and Western Pennsylvania estates.

The first were the sale orders from the Grapevine, Waco, and Western Pennsylvania estates. As we have explained, each of those sale orders ordered the transfer of the subject property defined in the relevant asset purchase agreement, and included a provision stating that to the extent that any of the transferred subject property was an executory contract, "the same [was] hereby ASSUMED by the Estate and immediately ASSIGNED to RPD under the applicable provisions of section 365 of the Bankruptcy Code." RPD argues that even if these provisions providing for assumption and assignment were erroneous, they are nonetheless entitled to protection against collateral attack.

But by the time each of these sale orders was finalized, the sixty-day deadline had passed for each estate, and the License Agreement had already been deemed rejected. As we have explained, when an executory contract is rejected, it exits the bankruptcy estate. It was therefore outside the power of the bankruptcy trustees to include the License Agreement within the subject property, or to

attempt to assume and assign it to RPD. We do not read any of the bankruptcy court's sale orders as providing for the estates to assume and assign contracts that were outside the relevant estate at the time of sale.[60] This is not a matter of collateral attack, but merely an interpretation of the bankruptcy court's orders.[61]

RPD also points to the bankruptcy court's order effectuating the global agreement. It argues that the sale order explicitly incorporated all terms of the global agreement, including the portion of that agreement providing that "RPD is entitled to all remaining available Tech Pharm licenses (such as those otherwise acquired from ProvideRx of Grapevine, LLC; W Pa OnSiteRx, LLC; and ProvideRx of Waco, LLC)."[62] Standing alone, however, this could not conclusively establish that RPD had acquired the License through the Grapevine, Western Pennsylvania, and Waco sales. RPD did not actually purchase the License from any

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[60] Here, not only did the relevant sale orders not reference the License, but they also ordered the transfer of the subject property only to the extent that the debtor and estate had a right, title, or interest in the property. We cannot read the sale orders as ordering the License assumed and assigned even though it had already passed out of the relevant bankruptcy estates.

[61] *See United States v. 115.27 Acres of Land*, 471 F.2d 1287, 1290 (5th Cir. 1973).

[62] The bankruptcy court approved the global agreement in a sale order stating that "ALL terms of the Agreement are incorporated herein by reference."

of those debtors—as an executory contract deemed rejected, it had already passed out of their estates—and the bankruptcy court's attenuated incorporation of a statement to the contrary does not establish otherwise.[63]

Ultimately, RPD's collateral attack argument hinges on the assumption that the License was still part of the bankruptcy estates at the time of each of the Grapevine, Western Pennsylvania, and Waco sales. It was not, and the bankruptcy court's sale orders did not hold differently. Our decision today therefore does not affirm a collateral attack on those sale orders.

* * *

Because the License Agreement was an executory contract deemed rejected by operation of law, RPD could not and did not acquire the License from any of the Grapevine, Western Pennsylvania, and Waco estates—and no bankruptcy court order held otherwise. This resolves the heart of the dispute, so we do not need to resolve several other issues raised by the parties, such as whether RPD actually purchased the License under the terms of the relevant APAs and sale orders.

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[63] At a minimum, as Tech Pharm observes, only a Chapter 7 trustee may sell an estate's property, and so RPD and CERx could not by fiat establish that the Waco, Grapevine, and Western Pennsylvania trustees had transferred the license to RPD when those trustees were not parties to the global agreement. *See In re Gonzales*, No. 10-35766-SGJ-7, 2010 WL 4340936, at *2 (Bankr. N.D. Tex. Oct. 27, 2010).

IV

We pause to briefly address a final issue. The parties stipulated before the bankruptcy court that its scope of decision making would be limited to "whether [RPD] validly acquired, by way of sale and assignment, all rights and obligations under [the License Agreement]." At trial, RPD's counsel argued that even if RPD had not purchased or been assigned the License, it had a right to use the OnSite machines it had purchased from two of the debtor estates, under a provision of the License Agreement granting limited rights to third parties to operate OnSite machines.[64] When the bankruptcy judge observed that the issue had not been briefed and was not necessarily encompassed by the stipulated issues, RPD's counsel argued that the question was necessarily connected to whether RPD had acquired rights under the License Agreement.

The bankruptcy court therefore assessed whether RPD had acquired limited rights under this provision, and concluded that it had not because it failed to prove that it had purchased specific

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[64] The relevant portion of the License Agreement provided that "If an Onsite Machine is used in a long-term care facility ('LTCF') as permitted by an Onsite party pursuant to this License, the Onsite party may sell the Onsite Machine to that LTCF or to a third party purchaser of the Onsite Machine who is not the LTCF. The LTCF (or a third party purchaser of the Onsite Machine who is not the LTCF) can continue to operate that Onsite Machine currently in place at the time of purchase of said Onsite Machine . . . ."

machines encompassed by the License Agreement.[65] The court additionally concluded that under the terms of the License Agreement, RPD could only use any machines covered by the Agreement in the same long term care facility in which they were used at the time the Agreement was finalized, and that RPD had not shown that it had done so.[66] RPD now contends that this issue was not within the scope of the parties' stipulation or briefing, and that the bankruptcy court lacked jurisdiction to address it regardless; Tech Pharm responds that RPD raised the issue of its own volition, and should suffer the consequences.

Based on the facts presented to us, we conclude that the bankruptcy court did not exceed its authority in addressing RPD's rights through purchase of the OnSite machines. Nor do we find that the bankruptcy court erred in reading the License Agreement to require that third parties operate OnSite machines in the same locations where they were placed at the time of sale.

V

We affirm the district court's judgment.

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[65] *In re Provider Meds*, 2017 WL 213814, at *11 ¶ 9. Specifically, the court noted that RPD had "failed to introduce evidence of the serial numbers of the 15 ADS Machines it purchased under the Grapevine APA and the Grapevine Sale Order," *id.*, and concluded the same regarding a machine purchased from the W. Pa. estate, *id.* at *12 ¶ 10.

[66] *Id.* at *11 ¶¶ 8–9.

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE PROVIDER MEDS, LLC,	§	
	§	
Debtor.	§	
	§	
TECH PHARMACY SERVICES, INC.,	§	
	§	
Plaintiff-Appellee,	§	Civil Action No. 3:17-CV-0441-D (Bankr. Ct. No. 13-30678-BJH; Adversary No. 15-03101-BJH)
VS.	§	
	§	
RPD HOLDINGS, LLC,	§	
	§	
Defendant-Appellant.	§	

APPEAL FROM THE
UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS

FITZWATER, District Judge:

In this appeal from a final judgment in an adversary proceeding, the court must decide whether the bankruptcy court erred in concluding that a patent license was an executory contract that was deemed rejected under 11 U.S.C. § 365(d)(1), and that bankruptcy trustees could not therefore have assigned, sold, or otherwise transferred as a part of an asset purchase/settlement agreement. Concluding that the bankruptcy court did not err, its judgment is AFFIRMED.

I

Plaintiff-appellee Tech Pharmacy Services, LLC ("Tech Pharm") holds United States Patent No. 7,698,019 (the "Patent").[1] On April 26, 2012 Tech Pharm entered into a Compromise, Settlement, Release and License Agreement ("License") with Provider Meds, LP, ProvideRx of Waco, LLC ("Waco"), ProvideRx of Grapevine, LLC ("Grapevine"), ProvideRx of San Antonio, LLC, W PA OnSiteRx, LLC ("W. Pa.") (collectively, "Debtors"), and various other individuals and entities (collectively, "Licensees") that resolved patent litigation involving Tech Pharm and the Licensees and granted the Licensees a perpetual license to use Tech Pharm's Patent. In this adversary proceeding between Tech Pharm and defendant-appellant RPD Holdings, LLC ("RPD"), the sole issue to be decided is "whether RPD took assignment of, or otherwise acquired any rights in, the [License]." R. 23.

[1] The parties stipulated to most of the underlying facts in the Joint Pretrial Order.

Although the bankruptcy court made extensive findings and conclusions that dealt with other issues in this case, its judgment can be affirmed on a narrower basis, without addressing all of the issues the bankruptcy court reached. The bankruptcy court concluded, in pertinent part, that the License is an executory contract that cannot be sold in accordance with 11 U.S.C. § 363(b), but must instead be assumed and assigned in accordance with 11 U.S.C. § 365(a) and (f); that because no trustee assumed and assigned the License within 60 days from the order for relief or sought to extend the time period for doing so, the License was deemed rejected in each Debtor's bankruptcy case; and that because the License was deemed rejected before any of the pertinent sale motions was filed, "as it pertains to the License, there was nothing for the applicable trustee to attempt to assign, sell or otherwise transfer," and "[t]hus, RPD obtained no rights in the License pursuant to any of the [bankruptcy] [c]ourt's sale orders." *Id.* at 38. If the bankruptcy did not err in these conclusions, its final judgment must be affirmed.

II

"The court reviews the bankruptcy court's conclusions of law *de novo*[.]" In re Nary, 253 B.R. 752, 756 (N.D. Tex. 2000) (Fitzwater, J.) (quoting *In re ICH Corp.*, 230 B.R. 88, 91 n.10 (N.D. Tex. 1999) (Fitzwater, J.)). For the reasons explained, the court holds that the bankruptcy court did not err in concluding that the License was an executory contract; that, notwithstanding the Debtors' failure

to schedule the License, it was "deemed rejected" under 11 U.S.C. § 365(d)(1); and that because the License was "deemed rejected," the Debtors' bankruptcy trustees could not have later assigned, sold, or otherwise transferred it.

A

Section 365 of the Bankruptcy Code provides for the assumption and assignment by the bankruptcy trustee of any executory contract of the debtor. *See* 11 U.S.C. § 365(a), (f). Courts have repeatedly held, and the parties in this appeal do not dispute, that "section 365 is the *exclusive means* of effectuating assumption and assignment of executory contracts in bankruptcy." *In re MPF Holding U.S. LLC*, 2013 WL 3197658, at *10 (Bankr. S.D. Tex. June 21, 2013) (emphasis added).

The Bankruptcy Code does not define the term "executory contract." Under the "Countryman" definition, which the Fifth Circuit has adopted, "an agreement is executory [for purposes of § 365] if at the time of the bankruptcy filing, the failure of either party to complete performance would constitute a material breach of the contract, thereby excusing the performance of the other party." *In re Murexco Petroleum, Inc.*, 15 F.3d 60, 62-63 (5th Cir. 1994) (per curiam). In other words, an executory contract is "a contract 'on which performance remains due to some extent on both sides.'" *In re DeVries*, 2014 WL 4294540, at *8 (Bankr. N.D. Tex. Aug. 27, 2014) (D.M. Lynn, J.) (proposed findings of fact and conclusions of law) (quoting *In re Robert L.*

Helms Constr. & Dev. Co., 139 F.3d 702, 705 (9th Cir. 1998)).

The bankruptcy court did not err in concluding that, under the License, Tech Pharm owed a material obligation to the Licensees to forbear from suing them for infringement of the Patent related to machines placed into service *after* execution of the License; that the Licensees also owed material obligations to Tech Pharm; and that the License was therefore an executory contract governed by 11 U.S.C. § 365.

B

It is undisputed that no trustee in any of the Debtors' bankruptcy cases assumed and assigned the License within 60 days of the order for relief (here, the date the bankruptcies were converted from Chapter 11 to Chapter 7), or moved to extend the deadline by which the trustee would have been obligated to assume the License. Accordingly, under 11 U.S.C. § 365(d)(1),[2] in each Debtor's bankruptcy case, the License was "deemed rejected."

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[2] 11 U.S.C. § 365(d)(1) provides:

> In a case under chapter 7 of this title, if the trustee does not assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor within 60 days after the order for relief, or within such additional time as the court, for cause, within such 60-day period, fixes, then such contract or lease is deemed rejected.

RPD argues that an *unscheduled* executory contract is not deemed rejected under § 365(d)(1) if not assumed and assigned within 60 days. The bankruptcy court rightly rejected this contention. RPD has cited no case that supports this novel argument, and the Bankruptcy Code is clear: if the trustee fails to assume an executory contract within the 60-day period (or extend the time to assume or reject), the executory contract is deemed rejected. 11 U.S.C. § 365(d)(1).

C

An executory contract that is "deemed rejected" ceases to be property of the bankruptcy estate. *See In re Garfinkle*, 577 F.2d 901, 904 (5th Cir. 1978) ("[T]he Trustee's rejection of the lease [, an executory contract], did not destroy the leasehold estate. That action merely placed the leasehold outside of the bankruptcy administration.").[3]

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[3] *See also, e.g., In re Stoltz*, 315 F.3d 80, 86 (2d Cir. 2002) ("If a Chapter 7 trustee does not assume or reject an unexpired lease within sixty days of the order for relief, then the lease is deemed rejected under section 365(d)(1). Upon rejection, the lease is no longer part of the bankruptcy estate, and the non-debtor party to the contract may generally pursue state law remedies for breach of contract, including eviction for breach of lease."); *In re Yelverton*, 2015 WL 4761193, at *2 (Bankr. D.D.C. Aug. 12, 2015) ("[W]here an executory contract is deemed rejected by a Chapter 7 trustee, the rejection is tantamount to an abandonment, with the contract vesting in the debtor"); *In re Scharp*, 463 B.R. 123, 129 (Bankr. C.D. Ill. 2011) ("The primary effect of rejection is to abandon the lease from the estate so that it reverts back to the debtor's control outside of bankruptcy. Assumption and rejection are

Accordingly, the bankruptcy court did not err in concluding that the deemed rejection of the License under § 365(d)(1) precluded the trustees from later attempting—through the sale/settlement motions or asset purchase/settlement agreements—to assign, sell, or otherwise transfer the License, and that RPD therefore obtained no rights in the License pursuant to any of the bankruptcy court's sale orders.[4]

* * *

Accordingly, the bankruptcy court's final judgment is AFFIRMED.

August 31, 2017.

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bankruptcy concepts that determine whether the estate will administer the lease; rejection merely removes it from property of the estate." (citing cases)).

[4] RPD relies on language in the Master Settlement Agreement that "RPD is entitled to all remaining available Tech Pharm licenses (such as those otherwise acquired from [Grapevine]; [W. Pa.]; and [Waco])," R. 1068, and on the bankruptcy court's statement in the Master Sale and Settlement Order that "ALL terms of the [Master Settlement Agreement] are incorporated herein by reference," R. 306 (bold font omitted), to argue that "the Bankruptcy Court, by final and non-appealable order, found that RPD 'otherwise acquired' the License from Waco, Grapevine, and W[.] Pa." Appellant Br. 24. The court rejects this argument, at least for the reason that, because none of the bankruptcy trustees *could have* assigned, sold, or otherwise transferred the License after it ceased to be property of the bankruptcy estates pursuant to § 365(d)(1), the License was never "otherwise acquired" from Grapevine, W. Pa., or Waco.

/S/
SIDNEY A. FITZWATER
UNITED STATES DISTRICT JUDGE

APPENDIX C

The following constitutes the ruling of the court and has the force and effect therein described.

Signed January 18, 2017

/S/
United States Bankruptcy Judge

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE PROVIDER MEDS, LLC,	§	CASE NO. 13-30678
	§	
	§	
Debtor.	§	
	§	CHAPTER 7
TECH PHARMACY SERVICES, INC. d/b/a ADVANCED PHARMACY AND ADVANCED PHARMACY SERVICES,	§	
	§	ADVERSARY
	§	PROCEEDING
	§	NO. 15-03101
	§	
	§	
	§	
	§	
Plaintiff,	§	
	§	
VS.	§	
	§	Removed from the
	§	162nd Judicial

RPD HOLDINGS, LLC,	§	District Court for
	§	Dallas County, Texas,
	§	Cause No. DC-15-
	§	05744
Defendant.	§	

FINDINGS OF FACT AND CONCLUSIONS OF LAW FOLLOWING TRIAL

The Court tried this adversary proceeding, which was removed from Texas state court, on January 11, 2017. While there were more parties and issues pending before the state court at the time of removal, Tech Pharmacy Services, Inc. d/b/a Advanced Pharmacy and Advanced Pharmacy Services ("**Tech Pharm**") and RPD Holdings, LLC ("**RPD**") agreed to dismiss the other parties and narrowed the issues for trial. *See* "Stipulation and Agreed Order Dismissing Various Parties Without Prejudice," entered on August 19, 2016 [ECF No. 44].[1] Stated most simply, the issue to be decided by this Court is whether a license agreement embodied in a "Compromise, Settlement, Release and License Agreement" (the "**License**"), [Ex. 2],[2] filed in the

[1] References to documents filed on the docket in this adversary proceeding will cited to as ECF followed by the docket number of the document in question. So, this stipulation appears at docket number 44 in this adversary proceeding. References to documents filed on the docket in one of the debtors' main bankruptcy cases will be cited to by referring first to the main case number followed by the applicable ECF number.

[2] Tech Pharm's and RPD's admitted trial exhibits include many of the same documents. For the Court's ease, trial exhibit references will be to Tech Pharm's admitted exhibits, unless explicitly noted.

United States District Court for the Eastern District of Texas, which resolved prior patent infringement litigation between Tech Pharm and the Onsite Parties (as defined in the License), was sold, assigned, or otherwise transferred to RPD in certain of the Onsite Parties' bankruptcy cases by a prior Order of this Court, thus granting RPD a right to use the property covered by the License.

Based on the facts stipulated to by the parties and/or found by the Court, and for the reasons explained below, the Court concludes that (i) the License was not sold, assigned or otherwise transferred to RPD in certain of the Onsite Parties' bankruptcy cases by a prior Order of this Court, and (ii) RPD has no right to use the property covered by the License pursuant to any such Orders.

STIPULATED FACTS

The Parties stipulated to the following facts in the Joint Pretrial Order they submitted to the Court, which was entered on the docket on December 29, 2016 [ECF No. 86]:[3]

1. Tech Pharm holds United States Patent No. 7,698,019 (the "**Patent**").

[3] While the Court edited the parties' factual stipulations from the Joint Pretrial Order in minor respects, none of the Court's changes were substantive. To the extent that a party believes a Court change was substantive, the Court relies instead on, and adopts herein, the factual stipulations as set forth in the Joint Pretrial Order.

2. On July 22, 2010, Tech Pharm filed a complaint (the "**Patent Infringement Case**") in the United States District Court for the Eastern District of Texas, alleging infringement of its Patent, against multiple defendants, including, for purposes of this Adversary Proceeding, ProvideRx of Grapevine, LLC ("**Grapevine**"), ProvideRx of Waco, LLC ("**Waco**"), W PA OnSiteRx, LLC ("**W. Pa.**"), Provider Meds, LP ("**Provider Meds**"), OnSiteRx, Inc. ("OnSite"), and ProvideRx of San Antonio, LLC ("**San Antonio**," collectively with Grapevine, Waco, W. Pa., Provider Meds, and OnSite, the "**Debtors**").

3. The Debtors, jointly, were generally in the business of dispensing pharmaceuticals to third parties, including long term care facilities and nursing homes, and further including the use of remote pharmaceutical dispensing machines. It was the use of these machines that was the basis of Tech Pharm's patent infringement suit.

4. The Debtors, and others, counterclaimed Tech Pharm in said suit seeking the invalidity of the Patent.

5. On or about April 26, 2012, Tech Pharm, on the one hand, and the Debtors (except Debtor Onsite), Provider Technologies, Inc., ProvideRx of PA, LLC, ProvideRx of Midland, LLC, Provider Business Solutions, Inc., Pharmacy Technologies, Inc., Pharmacy Solutions, L.P., and Reef R. Gillum ("**Gillum**"), on the other hand (collectively, the "**OnSite Parties**"), entered into a *Compromise, Settlement, Release and License*

Agreement (the "**License**") in connection with a resolution of the Patent Infringement Case.

6. The License was filed in the Patent Infringement Case and is a matter of public record.

7. The License is non-exclusive.

8. On December 28, 2012, Grapevine filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code, thereby initiating Bankruptcy Case No. 12-38039 before this Court (the "**Grapevine Case**"). On August 30, 2013, the Court entered an order converting the Grapevine Case to Chapter 7, whereafter Areya Holder (the "**Grapevine Trustee**") was appointed as the Chapter 7 trustee of the Grapevine bankruptcy estate (the "**Grapevine Estate**").

9. The Grapevine Case remains open.

10. On May 22, 2013, W. Pa. filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code, thereby initiating Bankruptcy Case No. 13-32615 before this Court (the "**W. Pa. Case**"). On August 30, 2013, the Court entered an order converting the W. Pa. Case to Chapter 7, whereafter Robert Yaquinto, Jr. (the "**W. Pa. Trustee**") was appointed as the Chapter 7 trustee of the W. Pa. bankruptcy estate (the "**W. Pa. Estate**").

11. The W. Pa. Case was closed on October 31, 2016, with the W. Pa. Trustee discharged.

12. On June 11, 2013, Waco filed a voluntary petition for relief under Chapter 11 of the

Bankruptcy Code, thereby initiating Bankruptcy Case No. 13-33017 before this Court (the "**Waco Case**"). On September 4, 2013, the Court entered an order converting the Waco Case to Chapter 7, whereafter Jeffrey H. Mims (the "**Waco Trustee**") was appointed as the Chapter 7 trustee of the Waco bankruptcy estate (the "**Waco Estate**").

13. The Waco Case was closed on May 14, 2015, with the Waco Trustee discharged.

14. On June 11, 2013, San Antonio filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code, thereby initiating Bankruptcy Case No. 13-33018[4] before this Court (the "**San Antonio Case**"). On September 3, 2013, the Court entered an order converting the San Antonio Case to Chapter 7, whereafter James W. Cunningham (the "**San Antonio Trustee**") was appointed as the Chapter 7 trustee of the San Antonio bankruptcy estate (the "**San Antonio Estate**").

15. The San Antonio Case remains open.

16. On February 6, 2013, Provider Meds filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code, thereby initiating Bankruptcy Case No. 13-30678 before this Court (the "**Provider Meds Case**"). On September 4, 2013, the Court entered an order converting the Provider Meds Case to Chapter 7, whereafter Diane G. Reed

[4] For example, in the factual stipulations contained in the Joint Pretrial Order, the wrong case number is given for the San Antonio Case. The Court corrected the case number here.

(the "**Provider Meds Trustee**") was appointed as the Chapter 7 trustee of the Provider Meds bankruptcy estate (the "**Provider Meds Estate**").

17. The Provider Meds Case remains open, although the Provider Meds Trustee's final report has been filed and may be approved by the time of trial.[5]

18. On January 21, 2013, OnSite filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code, thereby initiating Bankruptcy Case No. 13-30267 before this Court (the "**OnSite Case**"). On September 4, 2013, the Court entered an order converting the OnSite Case to Chapter 7, whereafter John Dee Spicer (the "**OnSite Trustee**") was appointed as the Chapter 7 trustee of the OnSite bankruptcy estate (the "**OnSite Estate**").

19. The OnSite Case was closed on July 14, 2016, with the OnSite Trustee discharged.

20. None of the Debtors scheduled the License anywhere on their schedules, including Schedule B and G. None of the Debtors anywhere scheduled Tech Pharm on their schedules, whether as a creditor or otherwise.

21. On November 23, 2013, the Grapevine Trustee, in the Grapevine Case, filed her *Trustee's Motion Pursuant to 11 U.S.C. § 363(b) and (f) for Approval to Sell Property Free and Clear of Liens, Claims, Encumbrances, and Interests and to Assume*

[5] The final report was not approved by the time trial concluded.

and Assign Licenses as Part of Same (the "**Grapevine Sale Motion**"), pursuant to which the Grapevine Trustee sought approval to sell various property of the Grapevine Estate to RPD pursuant to that certain Asset Purchase Agreement attached to the Grapevine Sale Motion (the "**Grapevine APA**").

22. The certificate of service to the Grapevine Sale Motion does not reflect the service thereof, or the notice of hearing thereon, on Tech Pharm.

23. The License was not expressly identified as an asset being assumed and assigned or otherwise transferred in either the Grapevine Sale Motion or the Grapevine APA.

24. On January 13, 2014, the Court, in the Grapevine Case, entered its *Order Granting Trustee's Motion Pursuant to 11 U.S.C. § 363(b) and (f) for Approval to Sell Property Free and Clear of Liens, Claims, Encumbrances, and Interests and to Assume and Assign Licenses as Part of Same* (the "**Grapevine Sale Order**"), by which the Court approved the Grapevine Sale Motion and the Grapevine APA.

25. On November 22, 2013, the W. Pa. Trustee, in the W. Pa. Case, filed his *Trustee's Motion to Sell Property of the Estate Free and Clear of Liens, Claims, Interests and Encumbrances and to Assume and Assign Licenses as Part of Same* (the "**W. Pa. Sale Motion**"), pursuant to which the W. Pa. Trustee sought approval to sell various property of the W. Pa. Estate to RPD pursuant to that certain

Asset Purchase Agreement attached to the W. Pa. Sale Motion (the "**W. Pa. APA**").

26. The certificate of service to the W. Pa. Sale Motion does not reflect the service thereof, or the notice of hearing thereon, on Tech Pharm.

27. The License was not expressly identified as an asset being assumed and assigned or otherwise transferred in either the W. Pa. Sale Motion or the W. Pa. APA.

28. On January 13, 2014, the Court, in the W. Pa. Case, entered its *Order Granting Trustee's Motion Pursuant to 11 U.S.C. § 363(b) and (f) for Approval to Sell Property Free and Clear of Liens, Claims, Encumbrances, and Interests and to Assume and Assign Licenses as Part of Same* (the "**W. Pa. Sale Order**"), by which the Court approved the W. Pa. Sale Motion and the W. Pa. APA.

29. On September 9, 2014, the Waco Trustee, in the Waco Case, filed his *Emergency Motion Pursuant to 11 U.S.C. § 363 and Federal Rule of Bankruptcy Procedure 9019 to Approve Sale of Assets and Settlement Agreement Between Trustee and RPD Holdings, LLC* (the "**Waco Sale Motion**"), pursuant to which the Waco Trustee sought approval to sell various property of the Waco Estate to RPD pursuant to that certain Settlement and Asset Purchase Agreement attached to the Waco Sale Motion (the "**Waco APA**").

30. The certificate of service to the Waco Sale Motion does not reflect the service thereof, or the notice of hearing thereon, on Tech Pharm.

31. RPD was not aware that the License existed until September 15, 2014, when it was informed of the existence of the License by CERx Pharmacy Partners ("**CERx**").

32. On September 22, 2014, the Court, in the Waco Case, entered its *Order Granting Emergency Motion Pursuant to 11 U.S.C. § 363 and Federal Rule of Bankruptcy Procedure 9019 to Approve Sale of Assets and Settlement Agreement Between Trustee and RPD Holdings, LLC* (the "**Waco Sale Order**"), which the Court signed on September 19, 2014. By the Waco Sale Order, the Court granted the Waco Sale Motion and approved the Waco APA.

33. On September 30, 2014, the San Antonio Trustee, the Provider Meds Trustee, and the OnSite Trustee, in their respective cases, filed the identical *Motion Pursuant to 11 U.S.C. § 363 and Federal Rule of Bankruptcy Procedure 9019 to Approve Sale of Assets and Settlement Agreement By and Among Trustees Reed, Spicer, and Cunningham, RPD Holdings, LLC and CERx Pharmacy Partners, LLP* (the "**Master Sale and Settlement Motion**"). Pursuant to the Master Sale and Settlement Motion, the San Antonio Trustee, the Provide Meds Trustee and the OnSite Trustee sought approval of a *Compromise, Sale and Settlement Agreement* (the "**Master Settlement Agreement**").

34. The Master Settlement Agreement was not mailed with the Master Sale and Settlement Motion, as indicated on the Certificate of Service affixed to the Master Sale and Settlement Motion.[6]

35. The Court held a hearing on the Master Sale and Settlement Motion on November 5, 2014, at which the Court granted the Master Sale and Settlement Motion. On November 5, 2014, in the bankruptcy cases of San Antonio, Provider Med and OnSite, the Court entered its identical *Order Granting Motion Pursuant to 11 U.S.C § 363 and Federal Rule of Bankruptcy Procedure 9019 to Approve Sale of Assets and Settlement Agreement By and Among Trustees Reed, Spicer, and Cunningham, RPD Holdings, LLC and CERx Pharmacy Partners, LLP* (the "**Master Sale and Settlement Order**").

36. On May 20, 2015, Tech Pharm filed a petition with the Dallas County District Court against, among others, Waco and San Antonio.

37. On June 22, 2015, Tech Pharm amended its petition to add various new defendants.

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[6] While the Master Settlement Agreement, which was Exhibit A to the Master Sale and Settlement Motion, was not served with the Master Sale and Settlement Motion, parties were told that it could be obtained from PACER or by contacting counsel for the Provider Meds Trustee. Master Sale and Settlement Motion [Ex. 14] at p. 17.

38. On August 7, 2015, RPD filed its petition in intervention into the state court proceeding.

39. On August 13, 2015, RPD removed the state court proceeding in its entirety to this Court, thereby initiating this Adversary Proceeding.

The Court adopts the above 39 factual stipulations, as well as an additional factual stipulation the parties agreed to and filed with the Court on January 9, 2017 [ECF No. 89], set forth below:[7]

40. The parties hereby agree and stipulate that none of the trustees of the chapter 7 estates of W. Pa, San Antonio, Grapevine, and Waco had actual knowledge of the License at any time prior to the entry of the orders approving the respective motions to sell the property of the respective estates to RPD.

ADDITIONAL FACTS FOUND BY THE COURT

41. Pursuant to the License, Tech Pharm granted the Onsite Parties "a non-exclusive perpetual license ... to practice the '019 Patent and/or Divisionals or Continuations thereof, whether now issued or presently pending ... so long as the

[7] While the Court edited this stipulation in minor respects, none of the Court's changes were substantive. To the extent that a party believes a Court change was substantive, the Court relies instead on, and adopts herein, the factual stipulation contained in the filed Stipulation at ECF No. 89.

Patent or Patents are valid and enforceable." License [Ex. 2] at ¶ 1.

42. Assignment of the License is limited by its terms, providing that:

> This License may be assigned by any OnSite Party to any party within the United States as part of a sale, acquisition, or change in control of its business to which this Agreement relates, if and only if the assignee undertakes, in writing, to be bound by all of the obligations of this Agreement.

Id. at ¶ 2.

43. As previously found, the Debtors filed chapter 11 cases in this Court between December 28, 2012 and June 11, 2013.

44. Gillum filed a personal chapter 7 petition on August 13, 2013. Case No. 13-34156, ECF No. 1.

45. Notice of the filing of the Debtors' bankruptcy cases was not given to Tech Pharm.

46. No one at Tech Pharm was aware of any of the Debtors' bankruptcy cases until October 2014 at the earliest. Answers to Interrogatories [Ex. 38 and Ex. YY at pp. 7-8].[8]

[8] Exhibit YY is a trial exhibit offered by RPD and admitted by the Court.

47. Each of the Debtors' chapter 11 cases was subsequently converted to a case under chapter 7. Specifically, (i) the Grapevine Case was converted on August 30, 2013 (*see* Case No. 12-38039 [ECF No. 137]); (ii) the W. Pa. Case was converted on August 30, 2013 (*see* Case No. 13-32615 [ECF No. 47]); (iii) the Waco Case was converted on September 4, 2013 (*see* Case No. 13-33017 [ECF No. 46]); (iv) the Provider Meds Case was converted on September 4, 2013 (*see* Case No. 13-30678 [ECF No. 27]); (v) the San Antonio Case was converted on September 3, 2013 (*see* Case No. 13-33018 [ECF No. 48]); and (vi) the Onsite Case was converted on September 4, 2013 (*see* Case No. 13-30267 [ECF No. 30]).

48. As reflected on the Court's docket in each of the Debtor licensee's bankruptcy case, if the License is an executory contract, no trustee of a Debtor licensee moved to extend the deadline by which he/she would have been obligated to assume the License before the 60-day deadline provided by 11 U.S.C. § 365(d)(1) expired.

49. If the License is an executory contract that could be assumed, the deadline by which to do so expired on the following dates:

Debtor[9]	Conversion Order Date	60-Day Period Expired/Deemed Rejection Date	Sale Motion or Settlement Motion Filed
Grapevine	8/30/2013	10/29/2013	11/23/2013
W. Pa.	8/30/2013	10/29/2013	11/22/2013
Waco	9/4/2013	11/3/2013	9/9/2014
Provider Meds	9/4/2013	11/3/2013	9/30/2014
San Antonio	9/3/2013	11/2/2013	9/30/2014

50. On November 23, 2013, the Grapevine Trustee filed the Grapevine Sale Motion, pursuant to which she sought to sell the "Subject Property" (as defined in the Grapevine APA) pursuant to the terms of the Grapevine APA. Grapevine APA [Ex. 4, Ex. A]. Two licenses comprised a part of the Subject Property, but the License was not one of them. Rather, the two licenses that comprised a part of the Subject Property were (i) the OnSiteRx software license, and (ii) the MDI Achieve sublicense from

[9] Onsite is not included in the chart because it was not a party to the License and thus there was nothing for the Onsite Trustee to assume.

GFMHT. *Id.* at p. 1. As it relates to those two licenses, the Grapevine Trustee stated in the Grapevine Sale Motion that she "does not believe that [those licenses] are 'executory contracts' within the meaning of section 365(a) of the Bankruptcy Code. However, in the event that [they] are executory contracts, the Trustee seeks authority to assume and assign the same to RPD only in the event that this Motion is otherwise granted." Grapevine Sale Motion [Ex. 4] at ¶ 25.

51. The Grapevine APA is governed by Texas law. Grapevine APA [Ex. 4, Ex. A] at p. 4.

52. The Grapevine APA was drafted jointly by the Grapevine Trustee and RPD. *Id.*

53. The Grapevine APA does not identify the License as an asset being sold pursuant to section 363(b) of the Bankruptcy Code or assumed and assigned pursuant to section 365(a) and (f) of the Bankruptcy Code. The License is simply not mentioned in the Grapevine Sale Motion or the Grapevine APA.

54. On January 13, 2014, the Court entered the Grapevine Sale Order, which approved the sale of the "Subject Property" to RPD. *See* Grapevine Sale Order [Ex. 6].

55. On November 22, 2013, the W. Pa. Trustee filed the W. Pa. Sale Motion, pursuant to which he sought to sell the "Subject Property" (as defined in the W. Pa. APA) pursuant to the terms of the W. Pa. APA. W. Pa. Sale Motion [Ex. 7]. Two

licenses comprised a part of the Subject Property, but the License was not one of them. Rather, the two licenses that comprised a part of the Subject Property were (i) the OnSiteRx software license, and (ii) the MDI Achieve sublicense from GFMHT. W. Pa. APA [Ex. 7, Ex. A] at p. 1. As it relates to those two licenses, the W. Pa. Trustee stated in the W. Pa. Sale Motion that he "does not believe that [those licenses] are 'executory contracts' within the meaning of section 365(a) of the Bankruptcy Code. However, in the event that [they] are executory contracts, the Trustee seeks authority to assume and assign the same to RPD only in the event that this Motion is otherwise granted." W. Pa. Sale Motion [Ex. 7] at ¶ 24.

56. The W. Pa. APA is governed by Texas law. W. Pa. APA [Ex. 7, Ex. A] at p. 15.

57. The W. Pa. APA was drafted jointly by the W. Pa. Trustee and RPD. *Id.*

58. The W. Pa. APA does not identify the License as an asset being sold pursuant to section 363(b) of the Bankruptcy Code or assumed and assigned pursuant to section 365(a) and (f) of the Bankruptcy Code. The License is simply not mentioned in the W. Pa. Sale Motion or the W. Pa. APA.

59. On January 13, 2014, the Court entered the W. Pa. Sale Order, which approved the sale of the "Subject Property" to RPD. W. Pa. Sale Order [Ex. 9].

60. On September 9, 2014, the Waco Trustee filed the Waco Sale Motion, pursuant to which he sought to sell the "Subject Property" (as defined in the Waco Sale Motion) pursuant to the terms of the Waco APA, an executed copy of which was attached to the Waco Sale Motion. Waco Sale Motion [Ex. 10]. In other words, although undated, the Waco APA was executed by the Waco Trustee and RPD on or before September 9, 2014 when the Waco Sale Motion was filed. Waco APA [Ex. 10, Ex. A]. While a software license agreement between Waco, Provider Technologies and Provider Meds comprises a part of the Subject Property, that is not a reference to the License. Moreover, while other Intellectual Property (as defined in the Waco APA) comprises a part of the Subject Property, that is not a reference to the License either for the reasons explained below. *See infra* at Conclusion of Law 3.

61. The Waco APA is governed by Texas law. Waco APA [Ex. 10, Ex. A] at p. 6.

62. The Waco APA was drafted jointly by the Waco Trustee and RPD. *Id.*

63. On September 22, 2014, the Court entered the Waco Sale Order, which approved the sale of the "Subject Property" to RPD. See Waco Sale Order [Ex. 12].

64. As previously found, RPD did not become aware of the existence of the License until September 15, 2014.

65. RPD did not become aware of the existence of the License until it was told about it by an agent of CERx. September 2014 Emails [Ex. 49] at p. 6864. The Grapevine Trustee, the W. Pa. Trustee, and the Waco Trustee learned of the existence of the License after RPD became aware of its existence. September 26, 2014 Email [Ex. 46].

66. The Grapevine Sale Order and W. Pa. Sale Order were entered before RPD, the Grapevine Trustee, and the W. Pa Trustee knew that the License existed.

67. The Waco APA was executed and the Waco Sale Motion was filed and heard before RPD and the Waco Trustee knew that the License existed.

68. On September 30, 2014, the Master Sale and Settlement Motion was filed by the San Antonio Trustee, the Provider Meds Trustee and the Onsite Trustee. Master Sale and Settlement Motion [Ex. 14].

69. Attached to the Master Sale and Settlement Motion as filed was the Master Settlement Agreement. Master Settlement Agreement [Ex. 14, Ex. A].

70. The Master Sale and Settlement Motion did not seek authority to sell or assume and assign any rights to or under the License to RPD. Rather, the Master Sale and Settlement Motion provided for (i) the San Antonio Trustee's sale of substantially all of the San Antonio Estate's assets *to CERx* "including, without limitation, ... rights to or under

the Tech Pharm License,"[10] and (ii) the Provider Meds Trustee's sale *to CERx* of Provider Meds' "rights to or under the Tech Pharm License." Master Sale and Settlement Motion [Ex. 14] at ¶ 3.

71. The Master Sale and Settlement Motion makes no reference to an assumption and/or assignment of the License. In fact, the Master Sale and Settlement Motion does not mention section 365 of the Bankruptcy Code or its requirements at all.

72. None of Grapevine, W. Pa. or Waco, or the respective trustees thereof, is a party to the Master Settlement Agreement and the Master Sale and Settlement Motion was not filed in any of their respective bankruptcy cases. Master Sale and Settlement Motion [Ex. 14, Ex. A]; see also dockets in the Grapevine Case, the W. Pa. Case, and the Waco Case where there is no docket entry evidencing the filing of the Master Sale and Settlement Motion in each such case.

73. The Master Settlement Agreement was not served on those parties receiving service of the Master Sale and Settlement Motion by first class mail, including Tech Pharm. Master Sale and Settlement Motion [Ex. 14] at p. 17.

74. Although the Certificate of Service attached to the Master Sale and Settlement Motion includes references to service upon Jim Moncrief at Tech Pharm, he testified that he never received

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[10] The Tech Pharm License, as defined in the Master Settlement Agreement, is the License as defined here.

either the Master Sale and Settlement Motion or the Notice of Hearing on the Master Sale and Settlement Motion. And, not surprisingly, the evidence regarding service of the Master Sale and Settlement Motion and the related Notice of Hearing is equivocal due to the passage of time. Counsel for the Provider Meds Trustee, David Elmquist, testified that he instructed his assistant to serve the Master Sale and Settlement Motion and the related Notice of Hearing on the master mailing matrices. His assistant, Karen Bibby, testified that she was so instructed and that she believes she served the Master Sale and Settlement Motion and the related Notice of Hearing as instructed. She also testified that she was instructed by Mr. Elmquist's paralegal to add Tech Pharm to the service list and that she did so. The upshot of this testimony is that Tech Pharm was added to the service list and the two referenced pleadings were mailed by first class mail to it by Ms. Bibby. However, on cross-examination, Mr. Elmquist testified that he had no personal knowledge of whether the two pleadings were properly served on Tech Pharm and that his involvement in the mailing process ended with his instruction to Ms. Bibby. Moreover, on cross-examination, Ms. Bibby testified that she could not recall this mailing specifically and that her prior testimony relayed what she normally did when serving documents on behalf of the firm, not what happened here specifically. She also admitted that it was possible that she made a mistake and failed to mail the documents to Tech Pharm. Ms. Bibby and Mr. Elmquist were both candid and credible witnesses. The dilemma is that the testimony is

equivocal. In short, based on their testimony, it is possible that Tech Pharm was mailed the Master Sale and Settlement Motion and the related Notice of Hearing, but it is also possible that a mistake was made and Tech Pharm was not mailed copies of those two documents. Mr. Moncrief was also a credible witness. He testified that he is familiar with legal documents and that he reviews them when received in the mail. And, after reviewing them, if necessary, he consults with an attorney. He testified that because Tech Pharm is in the pharmacy business, the legal documents that are received in the mail often relate to class actions. Finally, he testified that he did not receive the Master Sale and Settlement Motion or the related Notice of Hearing in the mail.

75. On November 5, 2014, the Court entered the Master Sale and Settlement Order in the cases of Provider Meds, OnSite, and San Antonio. [Provider Meds: Case No. 13-30678, ECF No. 225; OnSite: Case No. 13-30267, ECF No. 205, 206; San Antonio: Case No. 13-33018, ECF No. 163].

76. It is undisputed that the Master Sale and Settlement Order was never served on Tech Pharm.

77. The Court cannot find any evidence on its dockets that any of the chapter 7 trustees for the Debtors or RPD served Tech Pharm with any other filings in any of the chapter 7 cases either prior to or after the date of the filing of the Master Sale and Settlement Motion and related Notice of Hearing.

78. In May 2015, Tech Pharm brought an action in state court against certain of the OnSite Parties (as defined in the License) seeking a declaratory judgment that the License had terminated.

79. On August 13, 2015, RPD intervened in the state court action and on the same day removed that action to this Court, claiming that it had been granted rights in the License through prior Orders of this Court.

80. On December 23, 2016, the Court entered an *Order on Motion to Compel RPD Holdings, LLC to Respond to Plaintiff's Request for Production of Documents* [ECF No. 76]. That Order provides, *inter alia*, as follows:

> ORDERED that the sole issue to be tried and determined in this Adversary Proceeding is whether RPD took assignment of, or otherwise acquired any rights in, the License Agreement, that is the subject of the Adversary Proceeding; *provided, however*, notwithstanding the foregoing, RPD shall not assert in this Adversary Proceeding that it has obtained from the bankruptcy estates any rights in, or the assignment of, the License Agreement by way of a lien on the License Agreement, or a credit bid of its secured debt; and it is further

> ORDERED that as a result of the limitations on the scope of the issues to be tried and determined by this Court as set forth in the third decretal paragraph of this Order, no other potential claim between any party against any party is, shall be, or be deemed to be, prejudiced, released, waived, or satisfied, and each party shall otherwise preserve any and all rights with respect to any such other claims. To the extent necessary, any limitations period relating to the enforcement of the License Agreement against RPD shall be tolled for the period during which this Adversary Proceeding has been pending through sixty (60) days following the entry of any final judgment or order in this Adversary Proceeding; *provided, however*, that such tolling shall not be construed as any admission or that any statute of limitations has expired or will expire....

81. The Court tried this adversary proceeding on January 11, 2017, following which it took the issue in dispute between the parties under advisement.

82. The findings of fact and conclusions of law set forth herein resolve the issue that remained for trial.

83. To the extent that any finding of fact set forth above is more properly considered a conclusion of law, it shall be so considered.

CONCLUSIONS OF LAW[11]

Was the License sold or otherwise transferred to RPD in accordance with 11 U.S.C. § 363 pursuant to the Grapevine APA and the Grapevine Sale Order, the W. Pa. APA and the W. Pa. Sale Order, and/or the Waco APA and the Waco Sale Order?

1. The short answer to this question is no, for at least four reasons. First, none of the relevant parties—*i.e.*, the Grapevine Trustee, the W. Pa. Trustee, the Waco Trustee, and RPD— knew of the existence of the License when the applicable APA was signed and the applicable sale motion was filed. In fact, the Grapevine Sale Motion and the W. Pa. Sale Motion were heard and the Grapevine Sale Order and the W. Pa. Sale Order were entered

[11] While Tech Pharm has raised significant due process issues with respect to the various sale motions, the Court need not reach those knotty legal issue(s) given its other findings and conclusions. To be clear, it is undisputed that Tech Pharm did not receive notice of the Grapevine Sale Motion, the W. Pa. Sale Motion, the Waco Sale Motion, and the hearings on those sale motions. What is less clear is whether Tech Pharm received notice of the Master Sale and Settlement Motion and related hearing. But, because the Court concludes that (i) the License was not sold, transferred or otherwise assigned to RPD pursuant to the Grapevine APA, the W. Pa. APA, the Waco APA and/or the Master Settlement Agreement, and (ii) RPD acquired no rights under the License given its purchase of 16 ADS Machines from the Grapevine Estate and the W. Pa. Estate, Tech Pharm's due process rights were not violated.

months before the Grapevine Trustee, the W. Pa. Trustee, and RPD were even aware of the existence of the License. These sale orders were entered on January 13, 2014 and the parties learned of the existence of the License no earlier than September 15, 2014, some eight (8) months later. Moreover, the Waco Sale Motion and the Waco APA were executed and filed with the Court and the Waco Sale Motion was heard by the Court before RPD learned of the existence of the License. In fact, the parties stipulated that the Waco Trustee had no knowledge of the License at any time prior to the entry of the Waco Sale Order. See supra at Finding of Fact 40. Under these circumstances it is impossible to conclude that the applicable trustee intended to sell the License to RPD and that RPD intended to buy the License when the Grapevine APA, the W. Pa. APA, and the Waco APA were signed, presented to the Court for approval, and approved by the Court.

2. Second, while RPD argues that it is possible for the Grapevine Trustee, the W. Pa. Trustee, and the Waco Trustee to sell assets of which she/he was unaware, and for RPD to buy assets of which it was unaware, that could only occur if the Grapevine APA, the W. Pa. APA and/or the Waco APA contained a "catch all" provision to the effect that the applicable trustee was selling all other property of the applicable Debtor's bankruptcy estate to RPD, whatever that property might be. But, the Grapevine APA, the W. Pa. APA, and the Waco APA do not contain any such provision. In fact, these APAs have very specific definitions of the "Subject Property" which is to be sold (or, if necessary, assumed and assigned) to RPD—*i.e.*,

"[s]ubject to the occurrence of the Effective Date (defined below), the Trustee agrees to sell, convey, and transfer to RPD all of the Debtor's and the Estate's right, title and interest in and to the Subject Property (the "Sale")." *See, e.g.*, Grapevine APA [Ex. 4, Ex. A] at ¶ 1. The definition of the Subject Property in the Grapevine APA and the W. Pa. APA simply did not include the License. While two licenses were included in the definition of Subject Property, they were the OnSite Rx software license and the MDI Achieve sublicense. *Id.* at third whereas clause on p. 1.

3. Third, essentially admitting that the License was not expressly included within the definition of the "Subject Property" being sold to it in the Grapevine APA and the W. Pa. APA, RPD argues that the License was expressly included within the definition of the "Subject Property" being sold to it pursuant to the Waco APA. The Court disagrees. In making this argument RPD relies on two whereas clauses in the Waco APA. "Subject Property" is defined in the eleventh whereas clause as "the License Agreement, the Intellectual Property, and the Third Party Claims (collectively, the 'Subject Property'), excluding accounts receivables and potential preference avoidance and recovery claims...." Waco APA [Ex. 10, Ex. A] at p. 2. In turn, "Intellectual Property" is defined in the Waco APA in the fourth whereas clause as follows:

> Whereas the Estate may own additional property, rights, claims, and causes of action related to (collectively the 'Intellectual Property'): (i) an ownership

> interest in source code and software generally known as OnSiteRx; (ii) an ownership interest in unregistered copyrights in the OnSiteRx dispensing software; and (iii) *other potential licenses related to OnSiteRx*, including an MDI Achieve sublicense."

Id. at p. 1 (emphasis added). Specifically, RDP argues that the License is included within the "other potential license[s] related to OnSiteRx" language. The Court disagrees because the reference to OnSiteRx is defined earlier in that same whereas clause to refer to "source code and software generally known as OnSiteRx." The License has nothing to do with source code and software. Moreover, the Court's interpretation of this clause is bolstered by understanding the further reference in the clause to "including an MDI Achieve sublicense," which sublicense did relate to the source code and software as counsel for RPD admitted in closing arguments.

4. Fourth, the Grapevine Sale Order, the W. Pa. Sale Order, and the Waco Sale Order did not approve the sale (or, if necessary, the assumption and assignment) of any property other than the "Subject Property," as expressly defined in the applicable APA, to RPD. In fact, the Grapevine Sale Order, the W. Pa. Sale Order, and the Waco Sale Order, among other things: (i) granted the respective sale motion, and (ii) approved the sale of the "Subject Property" (as defined in the applicable APA) to RPD. See, e.g., Grapevine Sale Order [Ex. 6] at p. 2. Thus, based upon the express terms of the applicable APA and related sale order, the License was not sold to

RPD or assumed and assigned to RPD by the Grapevine Trustee, the W. Pa. Trustee, or the Waco Trustee.

Did RPD acquire any rights in the License when it purchased certain ADS Machines pursuant to the Grapevine APA and the Grapevine Sale Order and/or the W. Pa. APA and the W. Pa. Sale Order?

5. During closing arguments, counsel for RPD raised an issue that was not addressed in the parties' pretrial briefs. Specifically, counsel argued that RPD acquired rights in the License when it purchased 15 ADS Machines from the Grapevine Estate and an ADS Machine from the W. Pa. Estate.

6. There is no question that RPD purchased 15 ADS Machines and related equipment from the Grapevine Estate in the Grapevine APA and Grapevine Sale Order. Those 15 ADS Machines were expressly included in the definition of the "Subject Property" being sold. Grapevine APA [Ex. 4, Ex. A] at third whereas clause on p. 1.

7. And, as it relates to the Onsite Machines (as defined in the License), the License expressly provides:

> If an Onsite Machine is used in a long-term care facility ("LTCF") as permitted by an Onsite party pursuant to this License, the Onsite party may sell the Onsite Machine to that LTCF or to a third party purchaser of the Onsite Machine who is not the LTCF. The

> LTCF (or a third party purchaser of the Onsite Machine who is not the LTCF) can continue to operate that Onsite Machine currently in place at the time of purchase of said Onsite Machine. In this scenario, neither the LTCF nor the third party purchaser of the Onsite Machine is an assignee to this Agreement, and thus the LTCF, or third party purchaser of the Onsite Machine does not have any right under this License to expand or purchase any additional Onsite Machines without the consent of Tech [Pharm] ....

License [Ex. 2] at ¶ 3. For further context, the License itself clarifies that the infringement claims of Tech Pharm that were settled pursuant to the terms of the License were infringement claims "based on making, using, or selling of the Onsite fulfillment machines used by Onsite parties for customers' prescription fulfillment (the 'Onsite Machine(s) and/or 'Machine(s))." *Id.* at p. 2 first whereas clause.

8. Thus, Tech Pharm agreed in the License that any existing Onsite Machine that was being used in a LTCF could continue to be used in that facility even if the Onsite Machine was sold to the LTCF or a third party who would continue to use the Onsite Machine at that facility without the LTCF or the third-party purchaser being the subject of an infringement claim for that use by Tech Pharm. However, under this scenario, there was not an assignment of the License.

9. So, the question becomes, were the 15 ADS Machines sold to RPD in the Grapevine APA an "Onsite Machine" as defined in the License, the use of which is subject to the limited protection from an infringement claim by Tech Pharm stated above? On this record the Court cannot so find and/or conclude. Attached as Exhibit A to the License is a list of "Existing Gravity Fed Strip Packaging Remote Dispensing Machines." License [Ex. 2, Ex. A]. While those machines are the Onsite Machines addressed in the License that were excepted from the License Fee otherwise required when a Machine was placed in service thereafter, there is no indication as to which of those Machines, if any, was being used in a LTCF at the time the License was signed. Moreover, even if the Exhibit A Machines were all being used in a LTCF, RPD failed to prove that the 15 ADS Machines it purchased are the same 15 remote dispensing Machines listed on Exhibit A attributable to the Grapevine Estate or that it continues to use those Machines in the same LTCF. While Exhibit A contains what the Court assumes are the serial numbers of each machine listed on Exhibit A, RPD failed to introduce evidence of the serial numbers of the 15 ADS Machines it purchased under the Grapevine APA and the Grapevine Sale Order.

10. RPD also purchased a single ADS Machine and related equipment from the W. Pa. Estate pursuant to the W. Pa. APA and the W. Pa Sale Order. W. Pa. APA [Ex. 7, Ex. A] at third whereas clause on p. 1. However, the same failure of proof exists with respect to this Machine that the Court just explained with respect to the 15 ADS

Machines that RPD purchased pursuant to the Grapevine APA and the Grapevine Sale Order.

11. Accordingly, on this record, the Court cannot conclude that RPD acquired any rights in the License when it purchased certain ADS Machines pursuant to the Grapevine APA and the Grapevine Sale Order and/or the W. Pa. APA and the W. Pa. Sale Order.

Was the License sold or otherwise transferred to RPD in accordance with 11 U.S.C. § 363 pursuant to the Master Settlement Agreement and the Master Sale and Settlement Order?

12. To recap, and as relevant here, the Debtors who were parties to the Master Settlement Agreement were Provider Meds, San Antonio, and Onsite, each acting through its respective chapter 7 trustee. The short answer to this question is no, for the reasons explained below.

13. First, and simplest, Onsite was not a party to the License and thus the License was not property of the Onsite Estate in accordance with 11 U.S.C. § 541. Obviously, the Onsite Trustee cannot sell or otherwise transfer property that the Onsite Estate does not own or have an interest in. Thus, the Onsite Trustee did not sell or otherwise transfer the License to RPD in the Master Settlement Agreement.

14. Second, while the Onsite Trustee, the Provider Meds Trustee, and the San Antonio Trustee agreed to sell certain property to both CERx (or its

designee) and RPD in the Master Settlement Agreement, the License was not so sold. Rather, these trustees sold to CERX (or its designee) and RPD "all their respective estates' rights, title and interest in the Source Code and the Source Code IP.... Upon consummation of the sale, CERx and PRD will each be concurrent and several owners and each shall own all rights, title and interest in the Source Code and the Source Code IP...." Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. b. In turn, "Source Code" and "Source Code IP" are defined terms in the Master Settlement Agreement and such definitions do not include the License. *Id.* at ¶ II, 63-64.

15. Third, the parties stipulated that the San Antonio Trustee had no knowledge of the License at any time prior to the entry of the Master Sale and Settlement Order. *See supra* Finding of Fact 40. Under this circumstance it is impossible to conclude that the San Antonio Trustee intended to sell the License to RPD when the Master Sale and Settlement Motion was signed, presented to the Court for approval, and approved by the Court. Moreover, the Master Settlement Agreement contains no "catch-all" provision transferring all other property of the San Antonio Estate to RPD. While there is a catch-all type provision in the Master Settlement Agreement regarding the San Antonio Trustee's sale of assets of the San Antonio

Estate, it runs in favor of CERx, not RPD.[12] Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. c.

16. Fourth, while "rights to or under" the License are expressly identified as an asset to be sold by the Provider Meds Trustee, Provider Technologies, Inc. (a non-debtor entity),[13] and Pharmacy Technologies, Inc. (a debtor whose trustee

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[12] Ironically, this "catch-all" provision expressly identifies the Tech Pharm license as among the property being sold to CERx—*i.e.*, "Cunningham [the San Antonio Trustee] will sell and assign to CERx (or its designee) substantially all other assets of the San Antonio Estate...including, without limitation, ... rights to or under the Tech Pharm License." Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. c. The Court struggles to reconcile this provision, which expressly identifies the Tech Pharm license, with the parties' last factual stipulation that the San Antonio Trustee had no "actual knowledge of the License at any time prior to the entry of the orders approving the respective motions to sell the property of the respective estates to RPD." See supra at Finding of Fact 40. The only logical way to reconcile the Master Settlement Agreement's express terms with the parties' factual stipulation is to conclude that the parties agree that the San Antonio Trustee did not read the Master Settlement Agreement before agreeing to its terms and did not understand the extent of the assets that he owned and was agreeing to sell to CERx, which conclusion, if true, would be most troubling to the Court. However, the Court recognizes that the San Antonio Trustee did not so stipulate.

[13] Oddly, the Master Settlement Agreement provides that "PTI [defined to be Provider Technologies, Inc.] will sell and assign to CERx (or CERx's designee) *PM's* [defined to be Provider Meds] rights to or under the Tech Pharm License." Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. e (emphasis added). Of course, PTI cannot sell Provider Meds' rights under the License, only the Provider Meds Trustee can do so.

did not join in the Master Settlement Agreement or the filing of the Master Sale and Settlement Motion),[14] the party to whom those rights were sold was CERx (or its designee), not RPD. Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. d., e., and f. Moreover, the Master Settlement Agreement expressly authorizes CERx, not RPD, "to pursue a Tech Pharm License via ProvideRx of Midland, LLC either by direct negotiation with the trustee or by foreclosing on an assignment of rights from RPD." *Id.* at ¶ IV, 5. g. Thus, while CERx purchased Provider Med's rights to or under the License pursuant to the Master Settlement Agreement, RPD did not.

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[14] Pharmacy Technologies, Inc. filed its voluntary petition under chapter 11 in this Court on June 11, 2013. [Case No. 13-33020, ECF No. 1]. Its case was converted to a case under chapter 7 on August 30, 2013 and Scott Seidel ("**Seidel**") was appointed as its chapter 7 trustee. *Id.* at ECF No. 44. Seidel, as trustee, did not (i) authorize this debtor's entry into the Master Settlement Agreement, (ii) join in the filing of the Master Sale and Settlement Motion, and (iii) seek Court approval of the Master Settlement Agreement. In fact, Seidel filed a no asset report in this case on April 2, 2014 and the case was closed on June 25, 2014. Seidel did not abandon any interest Pharmacy Technologies, Inc. has in the License before the case was closed and thus, any such interest remains its property and could be disposed of by Seidel if he sought to reopen the case to administer the asset, which he has not done. *Reed v. City of Arlington*, 650 F.3d 571 (5th Cir. 2011); *Kane v. Nat'l Union Fire Ins. Co.*, 535 F.3d 380 (5th Cir. 2008). Of course, this analysis assumes that an asset remains to be administered. If the License was an executory contract that was deemed rejected due to Seidel's failure to assume the License within 60 days of the conversion of this debtor's case to chapter 7, there is no asset to administer. *See infra* at Conclusions of Law 30-32.

17. Fifth, while the Master Settlement Agreement provides that "RPD is entitled to all remaining available Tech Pharm licenses (such as those otherwise acquired from ProvideRx of Grapevine, LLC; W Pa OnSite Rx; and ProvideRx of Waco, LLC)," *id.* at ¶ IV, 5. h., that provision has no legal effect here as the Court has already concluded that RPD did not purchase or otherwise acquire the License pursuant to the Grapevine APA, the W. Pa. APA, and/or the Waco APA. *See supra* at Conclusions of Law 1-4.

18. Sixth and finally, while the Master Settlement Agreement also provides that "[w]ith respect to any Tech Pharm License belonging to any other entity, RPD and CERx will cooperate, to the extent possible, such that, taking into account any Tech Pharm License previously obtained or obtained pursuant to this Agreement, each shall have rights to the Tech Pharm Licenses as described above," Master Settlement Agreement [Ex. 14, Ex. A] at ¶ IV, 5. i., this language does not sell or otherwise transfer the License from a party to the License to CERx or RPD. It is simply a cooperation agreement between CERx and RPD. Moreover, it cannot grant RPD any legal rights in or to the License because, as a matter of law, CERx cannot legally transfer any "rights to or under the Tech Pharm License" it may have purchased[15] from the Provider Meds Trustee (or

[15] The Court notes that CERx is not a party to this adversary proceeding. However, the "sale" of the License to CERx suffers from the same flaw as the alleged "sale" to RPD. Specifically, once the License was deemed rejected by the San Antonio Trustee's and the Provider Meds Trustee's failure to assume the License within 60 days of the conversion of the San Antonio

any other party) to RPD. This is so because the holder of a non-exclusive license, such as the License, cannot further assign it without the consent of the licensor, here Tech Pharm. *In re LGX, Inc.*, 336 B.R. 601, at *3 (B.A.P. 10th Cir. 2006) ("In the absence of a statute, federal courts have fashioned a rule of federal common law to apply in cases concerning transfers of patent licenses. It is now well settled that a licensee has only a personal and not a property interest in the patent that is not transferable, unless the patent owner authorizes the assignment or the license itself permits assignment." (internal citation and footnote omitted)); *see also Unarco Indus., Inc. v. Kelley Co., Inc.*, 465 F.2d 1303, 1306 (7th Cir. 1972) ("The long standing federal rule of law with respect to the assignability of patent license agreements provides that these agreements are personal to the licensee and not assignable unless expressly made so in the agreement."). And, while the License allowed the Onsite Parties who were licensees to assign the License "to any party within the United States as part of a sale, acquisition, or change in control of the business to which this Assignment relates...,"[16]

Case and the Provider Meds Case to a case under chapter 7 of the Bankruptcy Code, there was no asset for the applicable trustee to sell to CERx. *See infra* at Conclusions of Law 30-34.

[16] Although the Court does not need to reach this issue, it reads the assignment provision of the License differently than RPD. Specifically, the Court reads the assignment provision to only allow the assignment of the License from a Debtor licensee to any party within the United States as part of a sale of the applicable Debtor licensee's business. Here, there was no sale of the applicable Debtor licensee's business. In fact, each of the Debtor licensee's respective business stopped operating upon

License [Ex. 2] at ¶ 2, this provision does not permit an assignee of the License (here, CERx) to further assign the License to another party (here, RPD).

19. For at least these reasons, the Court concludes that RPD did not purchase or otherwise receive "rights to or under" the License in the Master Settlement Agreement.

Is the License an Executory Contract that can be sold pursuant to 11 U.S.C. § 363 or must it be assumed and assigned in accordance with 11 U.S.C. § 365?

20. For the reasons explained below, the Court concludes that the License is an executory contract that cannot be sold in accordance with section 363(b) of the Bankruptcy Code but rather must be assumed by the applicable trustee in accordance with section 365(a) of the Bankruptcy Code and then assigned by that trustee to RPD in accordance with section 365(f) of the Bankruptcy Code.

21. The Fifth Circuit has adopted the "Countryman definition," (*Matter of Murexco Petroleum, Inc.*, 15 F.3d 60, 62-63, n.8 (5th Cir. 1994)), to determine if a contract is executory. "[A]n agreement is executory if at the time of the

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the conversion of the applicable case to chapter 7 at the latest. No trustee sought authority to operate any Debtor licensee's business after conversion. Thus, at best, the sale was of specific assets, not the Debtor licensee's "business to which this Agreement [the License] relates." License [Ex. 2] at ¶ 2.

bankruptcy filing, the failure of either party to complete performance would constitute a material breach of the contract, thereby excusing performance of the other party." *Id.* at 62-63. Thus, the Court must first determine whether material obligations remained owing between Tech Pharm as licensor on the one hand and those Debtors who were parties to the License as licensees on the other.

22. As the patent owner licensor, Tech Pharm was required "to refrain from suing [the Debtor licensees] for infringement, since a nonexclusive patent license is, in essence 'a mere waiver of the right to sue' the licensees for infringement." *In re CFLC, Inc.*, 89 F.3d 673, 677 (4th Cir. 1996) (citing *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 242 (1927) (quoting Robinson on Patents §§ 806, 808)). *See also Lubrizol Enter., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1045 (9th Cir. 1985), *superseded by statute in part*, Intellectual Property Bankruptcy Protection Act of 1988, Pub. L. No. 100-506, 102 Stat. 2538, ("The unperformed, continuing core obligations of notice and forbearance in licensing made the [license] contract executory as to [the licensor]."). Thus, at the time the Debtor licensees filed their respective bankruptcy petitions, Tech Pharm owed this material obligation of forbearance under the License to those Debtors who were licensees.

23. During closing argument, however, RPD's counsel argued that the License is not a true license, but rather a settlement agreement intended to resolve the Patent Infringement Litigation. RPD

argues that, as part of that settlement, Tech Pharm not only agreed to release the claims alleged or that could have been alleged in the Patent Infringement Litigation, it also released all claims related to the Patent. Thus, according to RPD, the License does not obligate Tech Pharm to forbear from suing the Debtor licensees, it *prohibits* Tech Pharm from suing the Debtor licensees. Because of this, RPD argues that Tech Pharm has no ongoing duties under the License, which means that the License is not an executory contract subject to the provisions of 11 U.S.C. § 365. The Court disagrees. For the reasons explained below, this Court finds and concludes that, as of each Debtor licensees' respective Petition Date and under the express terms of the License: (i) Tech Pharm released its right to sue the Debtor licensees for infringement of the Patent related to Machines placed into service prior to execution of the License; however, (ii) Tech Pharm had an ongoing duty to refrain from suing the Debtor licensees related to new Machines so long as the Debtor licensees performed under the terms of the License. Thus, as of each Petition Date, Tech Pharm owed a material, ongoing duty to the Debtor licensees.

24. To analyze RPD's argument, we must turn to the language of the License, which is governed by Texas law. License [Ex. 2] at ¶ 10. When interpreting a contract under Texas law, the court's primary concern is to ascertain and give effect to the written expression of the parties' intent. *Italian Cowboy Partners, Ltd. v. Prudential Ins. Co. of Am.*, 341 S.W.3d 323, 333 (Tex. 2011); *Seagull Energy E & P, Inc. v. Eland Energy, Inc.*, 207 S.W.3d 342, 345 (Tex. 2006). By this approach, courts "strive

to honor the parties' agreement and not remake their contract by reading additional provisions into it." *Gilbert Tex. Constr., L.P. v. Underwriters at Lloyd's London*, 327 S.W.3d 118, 126 (Tex. 2010). The parties' intent is governed by what is written in the contract, not by what one side contends they intended but failed to say. Id. at 127. Thus, "it is objective, not subjective, intent that controls." *Matagorda Cnty. Hosp. Dist. v. Burwell*, 189 S.W.3d 738, 740 (Tex. 2006) (per curiam) (citing *City of Pinehurst v. Spooner Addition Water Co.*, 432 S.W.2d 515, 518 (Tex. 1968)). A court must therefore give terms their plain and ordinary meaning unless the contract indicates that the parties intended a different meaning. *Dynegy Midstream Servs., Ltd. P'ship. v. Apache Corp.*, 294 S.W.3d 164, 168 (Tex. 2009). Moreover, a court does not consider only those parts of a contract that favor one party, *City of Keller v. Wilson*, 168 S.W.3d 802, 811 (Tex. 2005), but examines the writing as a whole to harmonize and give effect to all of the contract's provisions. *Coker v. Coker*, 650 S.W.2d 391, 393 (Tex. 1983). Finally, if the contract's terms are clear and unambiguous, the Court's analysis ends there. *See Tex. v. Am. Tobacco Co.*, 463 F.3d 399, 407 (5th Cir. 2006); *Nat'l Union Fire Ins. Co. of Pittsburgh, PA v. CBI Indus.*, 907 S.W.2d 517, 520 (Tex. 1995) (same).

25. Turning to the License, RPD relies upon paragraphs 5 and 6 in support of its argument. Paragraph 5, titled "Mutual Releases," states that:

> Tech [Pharm] hereby releases he Onsite parties, their agents, servants, employees, attorneys, and customers

> (the "Onsite Released Parties") from any and all claims which Tech may have or claim to have against the Onsite Released Parties which relate to or could have been claimed in the [Patent Infringement] Litigation, or that relate to the [] Patent or any alleged infringement of same, except for the obligations specifically called for under this Agreement.

License [Ex. 2] at ¶ 5 (emphasis added). In turn, paragraph 6, titled "Dismissal of Litigation" states that:

> Upon execution of this [License], the parties authorize their representative attorneys to file any such document(s) as may be needed so as to dismiss the Litigation, including all claims and counterclaims, with prejudice to the refiling of same....

Id. at ¶ 6.

26. With the previously-analyzed precedent in mind, this Court cannot interpret paragraphs 5 and 6 of the License as permanently barring Tech Pharm from suing the Debtor licensees for infringement of the Patent, regardless of when the claims arose. To the contrary, the License separately addresses infringement-related claims existing prior to execution of the License and those arising afterward. Notably, paragraph 4 of the License, titled "Payment of License Fee," requires the Debtor

licensees to provide Tech Pharm with a list of Machines previously placed in service, for which no licensing fee is due. For Machines placed into service after execution of the License, the Debtor licensees are required to provide Tech Pharm with a quarterly report identifying such new Machines and to pay a related licensing fee. Reading the License as a whole, its clear intent is to (i) fully release all infringement claims related to the Machines that were already in service prior to the License, but (ii) require a licensing fee to be paid for any additional Machines placed into service after execution of the License. This reading in bolstered by the release language in paragraph 5, which specifically removes "obligations called for under this [License]" from its scope. Thus, under the License, Tech Pharm owed a material obligation to the Debtor licensees to forebear from suing them for infringement of the Patent related to the Machines placed into service after execution of the License.

27. The Debtor licensees also owed material obligations to Tech Pharm. The Debtor licensees were obligated to (i) provide quarterly reports, "showing all Machines that have been placed in service during the previous calendar quarter,"[17] (ii) make a one-time payment of $4,000.00 to Tech Pharm for each Machine they placed in service,[18] and

[17] License [Ex. 2] at ¶ 4

[18] License [Ex. 2] at ¶ 1. While an obligation to pay, standing alone, will not support the characterization of a contract as executory, the obligation to pay is not the only remaining contractual obligation owing from the licensees to Tech Pharm here. *See In re Digicon, Inc.*, 71 F. App'x. 442, at *5 (5th Cir.

(iii) refrain from making public statements relating to the settled lawsuit.[19]

28. Given these continuing material obligations owing from both Tech Pharm and the Debtor licensees, the License was an executory contract at the time of each of the Debtor licensee's bankruptcy filings because those obligations were "so far unperformed that the failure of either to complete the performance would constitute a material breach excusing the performance of the other." *Lubrizol Enter., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d at 1045 (citing *Gloria Mfg. Corp. v. Int'l Ladies' Garment Workers' Union*, 734 F.2d 1020, 1022 (4th Cir. 1984)).

29. The question thus becomes may the applicable trustee sell his/her bankruptcy estate's interest in the License under section 363(b) of the Bankruptcy Code to avoid the time deadlines and more rigorous requirements of section 365 of the Bankruptcy Code? The answer to this question is no, as "section 365 is the exclusive means of effectuating assumption and assignment of executory contracts in bankruptcy." *In re MPF Holding U.S. LLC*, 2013 WL 3197658, at *10 (Bankr. S.D. Tex. 2013). *See also In re Taylor*, 198 B.R. 142, 167 (Bankr. S.C. 1996) ("Even though there appears no express statutory provision that excludes the use of § 363(f) by [the debtor], in order to recognize the apparent intentions

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2003) (citing *In re Placid Oil Co.*, 72 B.R. 135, 138 (Bankr. N.D. Tex. 1987)).

[19] License [Ex. 2] at ¶ 7

of drafters of the Bankruptcy Code . . . this Court agrees that § 365 is the necessary avenue which this [d]ebtor must follow before this Court could authorize a transfer of the real property which [the objecting party] has leased." (footnote omitted)); *In re Qintex Entm't, Inc.*, 950 F.2d 1492 (9th Cir. 1991) (implying § 365 is either the exclusive remedy for an executory contract, or an intermediate step prior to a sale). Thus, the trustee for each of the Debtor licensee's bankruptcy estate was required to first assume the License before he/she could assign the License to RPD or any other third party as required by section 365(a) and (f) of the Bankruptcy Code. *In re Mirant Corp.*, 440 F.3d 238, 253 (5th Cir. 2006) ("According to § 365(f)(2)(A), assumption must precede assignment." (citations omitted)); *Cinicola v. Scharffenberger*, 248 F.3d 110, 120 (3rd Cir. 2001) ("Before an executory contract may be assigned, the trustee first must assume the contract and 'adequate assurance of future performance' of the contract must be provided. 11 U.S.C. §§ 365(f)(2)(A), (B). This requirement provides needed protection to the non-debtor party because the assignment relieves the trustee and the bankruptcy estate from liability for breaches arising after the assignment." (footnote omitted)).

Did the Grapevine Trustee, the W. Pa. Trustee, the Waco Trustee, the San Antonio Trustee and/or the Provider Meds Trustee seek to assume and assign the License to RPD within the statutorily mandated period and, if not, what happened to the License?

30. In a chapter 7 case, the trustee has 60 days from the order for relief (here, the date of

conversion) within which to assume or reject an executory contract of personal property (here, the License). 11 U.S.C § 365(d)(1). As found previously, no trustee sought to extend the time-period within which he/she could assume the License. Accordingly, and as a matter of law, the License was deemed rejected in the Grapevine Case, the W. Pa. Case, the Waco Case, the San Antonio Case and the Provider Meds Case upon the expiration of that 60-day period.[20] *Id. N.L.R.B. v. Bildisco and Bildisco*, 465 U.S. 513, 529 (1984) ("[D]uring a Chapter 7 liquidation the trustee has only 60 days from the order for relief in which to decide whether to accept or reject an executory contract. 11 U.S.C. § 365(d)(1)."); *In re Miller*, 282 F.3d 874, 877 (6th Cir. 2002) ("The bankruptcy judge correctly analyzed the effect of section 365 in this case: The trustee did not move to assume or reject [the lease]. Therefore, it was deemed rejected . . . sixty days after the petition was filed.").

31. Given that the License was deemed rejected before any of the sale motions was filed, as it pertains to the License, there was nothing for the applicable trustee to attempt to assign, sell or otherwise transfer. *In re Mirant Corp.*, 440 F.3d at 253. Thus, RPD obtained no rights in the License pursuant to any of the Court's sale orders.

32. RPD argues that because the License was not scheduled by the Debtors, somehow the 60-

[20] As previously found, the Onsite Trustee was not a party to the License and thus there was nothing for the Onsite Trustee to assume and assign. See supra at Finding of Fact 5.

day deadline expressly imposed by section 365(d)(1) of the Bankruptcy Code did not apply and the License was not deemed rejected. Of significance, RPD cites the Court to no authority for its argument. In fact, RPD's counsel admitted during closing argument that he can find no case law or secondary authority to support his argument. The Court is not surprised that there is no such authority, as the express provisions of the Bankruptcy Code are quite clear. If the bankruptcy estate is a party to an executory contract of personal property or an unexpired lease of residential real property, the chapter 7 trustee of that bankruptcy estate must act with respect to that executory contract or unexpired lease within 60 days after the order for relief. 11 U.S.C. § 365(d)(1). If the trustee fails to either (i) extend the time to assume or reject, or (ii) assume the executory contract or unexpired lease within that period, the executory contract or unexpired lease is deemed rejected. *Id.* Congress did not limit the application of section 365 to only those executory contracts or unexpired leases that a debtor chooses to disclose on its schedules. Rather, section 365 applies to "any executory contract or unexpired lease of the debtor." *See, e.g.*, 11 U.S.C. § 365(a) ("... the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor."). A construction of the Bankruptcy Code consistent with RPD's argument would impermissibly reward a debtor who chooses not to schedule its executory contracts and unexpired leases (or neglects to do so) to the detriment of the contract or lease counterparty. If Congress had felt this appropriate, it could have limited the

application of section 365 to executory contracts or unexpired leases that the debtor scheduled on Schedule G. It did not, so neither will this Court. Here, the applicable trustee had 60 days following conversion to investigate whether there were any executory contracts of personal property or unexpired leases of residential real property that she/he should address—whether scheduled or not. And, having failed to act with respect to the License here, the License was deemed rejected after the 60th day following conversion as a matter of law.

33. RPD goes on to argue that even if the License was an executory contract that was deemed rejected following the expiration of the applicable 60-day period, the effect of rejection is simply a breach of the License by that licensee thereby excusing Tech Pharm from its obligation under the License. To this extent, the Court agrees with RPD's argument. There is substantial case law holding that rejection is not a termination of the executory contract; rather, it is a breach of the contract by the debtor/trustee who rejected the contract. *Stewart Title Guar. Co. v. Old Republic Nat. Title Ins. Co.*, 83 F.3d 735, 741 (5th Cir. 1996) ("The Code states that, except in certain narrowly circumscribed instances [such as the rejection of timeshare plans and contracts for the sale of real property], rejection of an executory contract or lease constitutes a material breach." (footnotes omitted)); *Matter of Austin Dev. Co.*, 19 F.3d 1077, 1082 (5th Cir. 1994) ("Throughout § 365, rejection refers to the debtor's decision not to assume a burdensome lease or executory contract. Section 365(g) states that rejection of a lease

'constitutes a breach' except as provided in subsections (h)(2) and (i)(2).").

34. Finally, RPD argues, however, that following rejection under section 365 of the Bankruptcy Code, the applicable trustee can then sell the applicable bankruptcy estate's interest in the now-breached License to it under section 363 of the Bankruptcy Code. While the Court questions why anyone would be willing to buy a breached contract, when the effect of the breach has excused the counterparty from performing further under the contract, the Court concludes that it need not reach this rather novel legal argument here because even if a trustee could sell the bankruptcy estate's residual interest in a rejected (breached) executory contract under section 363 of the Bankruptcy Code, none of the applicable Trustees did so here. As explained above, no Trustee sold the License to RPD under the terms of the applicable APA or the Master Settlement Agreement. *See supra* at Conclusions of Law 1-4 and 12-19.

35. To the extent that any conclusion of law set forth above is more properly considered a finding of fact, it shall be so considered.

End of Findings of Fact and Conclusions of Law Following Trial