ENTERTAINMENT, ARTS AND SPORTS LAW SECTION ANNUAL MEETING

Take a Bow: What Happens to the Assets After the "Greatest Show on Earth" is Over

I. Trademark Licenses Under US Bankruptcy Code Section 365(n) [11 U.S.C. §365(n)] and Related Provisions:

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

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(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)

(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment; or

(2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor; or

(3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief.

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(e)
(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title; or

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

(2) Paragraph (1) of this subsection does not apply to an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(A)(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; or

(B) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor.

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(f)
(1) Except as provided in subsections (b) and (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.

(2) The trustee may assign an executory contract or unexpired lease of the debtor only if—

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

(3) Notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law that terminates or modifies, or permits a party other than the debtor to terminate or modify, such contract or lease or a right or obligation under such contract or lease on account of an assignment of such contract or lease, such contract, lease, right, or obligation may not be terminated or modified under such provision because of the assumption or assignment of such contract or lease by the trustee.

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(g) Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease—

(1) if such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition; or

(2) if such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title—

(A) if before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or

(B) if before such rejection the case has been converted under section 1112, 1208, or 1307 of this title—

(i) immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or

(ii) at the time of such rejection, if such contract or lease was assumed after such conversion.

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(n)
(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by
virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee
with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to
such contract, to such intellectual property (including any embodiment of such

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intellectual
property to the extent protected by applicable nonbankruptcy law), as such rights existed
immediately before the case commenced, for—

(i) the duration of such contract; and

(ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

(2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A) the trustee shall allow the licensee to exercise such rights;

(B) the licensee shall make all royalty payments due under such contract for the duration
of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) held by
the trustee; and

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity.

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(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

> (A) to the extent provided in such contract or any agreement supplementary to such contract—
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> (i) perform such contract; or
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> (ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and
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> (B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity.

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11 USC § 101(35): The term "intellectual property" means—

(A) trade secret;
(B) invention, process, design, or plant protected under title 35; [Patents]
(C) patent application;
(D) plant variety;
(E) work of authorship protected under title 17; or [Copyrights]
(F) mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law.

<u>NOTE</u>: Trademark rights are NOT expressly covered by this definition. The legislative history of Section 365, however, shows that Congress specifically did not include trademarks because "such contracts raise issues beyond the scope of [the] legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area *and to allow the development of equitable treatment of this situation by bankruptcy courts.*" S. Rep. No. 100-505, at 5 (1988). [Emphasis added]

II. **Bankruptcy and Trademark Licenses - Key Cases**

Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir.1985)

Pre 365(n) case that compelled Congress to enact that Section. Court permitted a debtor-licensor to reject an intellectual property license it had granted to a licensee, holding that under Section 365, the rejection of an intellectual property license deprived a licensee of rights previously granted under the license, but also constituted a breach. As such, the licensee was entitled to monetary damages under Section 365(g), but could not retain its contractual license rights.

Raima UK Ltd. v. Centura Software Corp., 281 B.R. 660 (Bankr. N.D. Cal. 2002)

In a case of first impression, court rules that Section 365(n) does not protect trademark licensees because it's not an "intellectual property" license as defined in Section 101(35A) of the Code, which only covers works of authorship under Title 17, trade secrets, patent licenses, mask works and other inventions, designs and processes etc. that are protected under Title 35. Thus, the trustee could properly terminate a license.

In re Old Carco L.L.C., 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009)

Court refused to protect trademark licensees due to exclusion of "trademarks" in definition of "Intellectual Property" for Section 365(n).

In re Exide Technologies, *607 F.3d 957 (3d Cir. 2010)*

Court found a license not to be executory and thus not subject to rejection. A concurring opinion noted that Congress likely intended "equitable treatment" of trademark licenses where a court can use its general equitable powers to deny rejection of trademark licenses. This contrasts with the judicial view that no protection exists under 365(n) for non-debtor trademark licensees, including under a court's general equitable powers.

Sunbeam Products v. Chicago American Manufacturing, 686 F.3d 372 (7th Cir. 2012)

Significant 7th Circuit decision on trademark licenses that are rejected in bankruptcy under Sections 365(a) and (g). A debtor's rejection of a trademark (or other IP license in the absence of a 365(n) clause) only absolves the debtor of any obligation to perform and gives rise to a damage claim for breach of contract under 365(g), but does not rescind the underlying contract (license). When the debtor here rejected the agreement, the licensee, CAM, continued to sell branded products, and the debtor filed an adversary proceeding against it to halt such sales.

The Bankruptcy Court judge held that she would allow CAM, which had invested substantial resources in making Lakewood-branded box fans (Lakewood had been acquired by Sunbeam), to continue using the Lakewood marks "on equitable grounds" to sell branded products it had made that were by contract to have been purchased by the debtor, which had rejected the contract. The Circuit did not share this broad "equitable" view, but nevertheless upheld the decision in favor of CAM on the alternative basis that a straight reading of 365(g) speaks only of a "breach" by a debtor upon rejection, not a "rescission," and the two are mutually exclusive contract remedies. Thus, while the debtor was relieved of the purchase obligation, the license survived and was not terminated.

In re Interstate Bakeries Corporation [Lewis Brothers Bakeries Inc. v. Interstate Brands Corp.] 690 F.3d 1069 (8th Cir. 2012); Reversed En Banc, 751 F.3d 955 (8th Cir. 2014)

En banc panel reversed first panel's affirmance that an underlying license was executory under 365(n), holding that because the perpetual license was an integrated part of an overall asset purchase agreement, which itself was fully performed, the license was not executory because the parties' obligations had been substantially performed under both the asset purchase agreement and license, and the debtor's "failure to perform any of its remaining obligations would not be a material breach of the integrated agreement."

In Re: Crumbs Bake Shop, Inc., 522 B.R. 766 (Bankr. N.J. 2014)

"Debtors entered into licensing agreements with third parties, which allowed such parties to utilize the Crumbs trademark and trade secrets, and sell products under the Crumbs brand." The debtors entered into an asset purchase agreement, to sell substantially all its assets to a third party, LFAC. The debtors themselves, however, did *not* move to reject the licenses. Rather, LFAC moved to determine the parties' respective rights, arguing that "in the event of a rejection, the trademark Licensees would not be protected by § 365(n) based on the sale being free and clear of all encumbrances." LFAC further argued that the *Exide Technologies* equitable principles should not apply where a third party purchased a debtor's trademark assets. The court rejected this (at p. 772):

> While some courts have suggested that § 365(n) rights of third parties should succumb to the interests of maximizing the bankruptcy estate in liquidation contexts, this Court finds no basis for such a distinction. Bankruptcy estates, whether reorganizing or liquidating, benefit already from the ability to assume or reject executory agreements. There is no reason to augment such benefits at the expense of third parties and a licensing system which Congress sought to protect by means of preserving certain rights under § 365(n). Indeed, in sale cases, which currently dominate the retail Chapter 11 landscape, monetary recoveries primarily benefit the pre-petition and post-petition lenders and administrative claimants. Minimal distributions to general unsecured creditors are the norm. *It is questionable that Congress intended to sacrifice the rights of licensees for the benefit of the lending community. Rather, as noted by Judge Ambro, Congress envisaged the Bankruptcy Courts as exercising discretion and equity on a case by case basis*….

> LFAC submits that, in the event Licensees were to make an election under § 363(n) to continue using the trademarks, LFAC would be placed in a licensor-licensee arrangement that it never intended to assume. Yet, LFAC or any other purchaser, has come into this transaction with eyes wide-open, after engaging in due diligence, and can adjust their purchase price to account for such existing License Agreements. *The Court does not conclude that Licensees' trademark rights should be vitiated completely to aid in LFAC's recovery under its credit bid*.
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> For the reasons stated above, LFAC's motion is denied. *Trademark Licensees can be protected by § 365(n), notwithstanding the omission of "trademarks" from the Bankruptcy Code definition of "intellectual property." Furthermore, the sale under § 363(f) did not extinguish the rights afforded to Licensees by § 365(n) because Licensees did not consent to the sale*. *To the extent that Licensees' rights under § 365(n) were not vaporized by the sale, Licensees are entitled to elect to continue using the intellectual property granted under their respective License Agreements, for the duration of their terms. Royalties generated as a result of this use are payable to Debtors, because the agreements themselves have not been assumed, assigned or rejected, and thus continue to be Debtors' property*. [Emphasis added]

In re Trump Entertainment Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015)

Bankruptcy Court held that trademark licenses are not assignable by a debtor licensee without the consent of the licensor. The court stated that exclusive and non-exclusive trademark licenses are precluded from being assigned by a licensee without the licensor's consent, even if the original license agreement did not expressly prohibit assignments. When the licensee breached, the licensor sued for breach and termination of the license, but the licensee filed for Ch. 11 staying the case.

While 365(f)(1) provides that a debtor may assume an executory contract, even if the non-debtor objects, the Court nevertheless found exceptions to this rule and held that under federal trademark law, a trademark license agreement is non-assignable without the licensor's consent, stating that: "Because intellectual property and technology licenses are generally executory contracts, a debtor may assume or assign of them under Section 365 of the United States Bankruptcy Code." The Delaware Bankruptcy Court adopted the "hypothetical test," which is a strict interpretation of Section 365(c). The court concluded that because the license agreement was unassignable under non-bankruptcy law, the debtor could not assume it. Under the "hypothetical test," the court found that under federal trademark law, a debtor may not assume an executory contract over the objection of the non-debtor even if the debtor does not have any intentions of assigning the contract.

Note: If this case was filed in a jurisdiction that did not follow the hypothetical test, then Section 365(c) would not have prevented the assumption of the trademark license, and there would have been no relief from the automatic stay. *See In re Trump*, 526 B.R. at 120–21.

In re Tempnology LLC, 559 B.R. 809 (B.A.P. 1st Cir. 2016)

Adopts application of 365(n) by Seventh Circuit in *Sunbeam Products, supra*. While 365(n) excludes trademarks and related distribution and contractual rights, rejection of a trademark license under 365(g) constitutes a breach by the debtor-licensor. A rejection still maintains a licensee's rights and remedies for breach of the license agreement, without necessarily terminating all the licensee's rights under the terms of the agreement and non-bankruptcy law.

III. Trademark Abandonment From Non-Use

A. "Use in commerce": Requires "*bona fide* use of the mark in the ordinary course of trade, and not made merely to reserve a right in a mark." 15 U.S.C. § 1127. The Lanham Act defines "commerce" as all activity that can be regulated by Congress. "Token use" will not suffice. *But see Christian Faith Fellowship v. Adidas AG*, 841 F.3d 986 (Fed. Cir. 2016) (Federal Circuit reversed TTAB's cancellation of ADD A ZERO slogan marks owned by a church, where the church had made a couple out-of-state sales of hats depicting the slogans, thus finding that "de minimis" use in commerce can meet the commerce requirement under the Commerce Clause). See *United Drug v. Theodore Rectanus*, 248 U.S. 90, 97-98 (1918):

> There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trade-marks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business. *Hanover Milling Co. v. Metcalf*, 240 U.S. 403, 412-414.
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> The owner of a trade-mark may not, like the proprietor of a patented invention, make a negative and merely prohibitive use of it as a monopoly.

B. Lanham Act § 45(1) (15 U.S.C. § 1127(1)): Non-use of a mark for three consecutive years creates a rebuttable presumption of abandonment. *See also Rivard v. Linville*, 133 F.3d 1446 (Fed. Cir. 1998). The focus is on "intent not to resume use":

> Abandonment of mark. A mark shall be deemed to be "abandoned" if either of the following occurs:
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> (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark….

C. Test for Abandonment Under Lanham Act: More restrictive than at common law, which generally required "intent to abandon" versus "intent not to resume use." *See Exxon v. Humble Exploration*, 695 F.2d 96 (5th Cir. 1983), where the court emphasized this point and noted that where actual use had ceased, the mark's owner must demonstrate "plans to resume commercial use" of the mark. Otherwise, it would be almost impossible to prove abandonment. Federals courts have adopted this standard.

> There is a difference between intent not to abandon or relinquish and intent to resume use in that an owner may not wish to abandon its mark but may have no intent to resume its use. In factual contexts where there is no issue of a hoarding of a mark, the language "an intent to abandon or relinquish" may be used to express the Lanham Act requirement of an "intent not to resume use."
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> An "intent to resume" requires the trademark owner to have plans to resume commercial use of the mark. Stopping at an "intent not to abandon" tolerates an owner's protecting a mark with neither commercial use nor plans to resume commercial use. Such a license is not permitted by the Lanham Act.
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> 695 F.2d at 102-03.

See also Silverman v. CBS Inc., 870 F.2d 40, 47 - (2d Cir. 1989):

> A proprietor who temporarily suspends use of mark can rebut the presumption of abandonment by showing reasonable grounds for the suspension and plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate….But a proprietor may not protect a mark if he discontinues

using it for more than 20 years and has no plans to use or permit its use in the reasonably foreseeable future. A bare assertion of possible future use is not enough. [*Citations omitted*]

D. Global: Most countries and applicable territories (such as the EU) provide that if a registered mark is not used for three (*e.g.*, Australia, Japan, South Korea, Canada, China, Russia and various Latin American countries) or five (various EU countries), consecutive years it can be canceled for non-use if a third party challenges it. Note that under the EUTM, use in any one EU member state is sufficient.

E. Intervening Factors/Residual Good Will: May interrupt use but not constitute abandonment. This could include intervening negative market conditions, bankruptcy for reorganization purposes, licensing and permitting changes in regulated industries that take time to comply with, temporary unavailability of raw materials, etc. *See, e.g.:*

(i) *Crash Dummy Movie v. Mattel Inc.*, 601 F.3d 1387 (Fed. Cir. 2010), finding no abandonment where Mattel, while not yet selling products under the "Crash Dummies" marks from 1997 - 2003, had intended to resume use of the marks but needed adequate time to re-tool production, and research and develop a market, for the toys after acquiring the marks from the original owner.

(ii) *Wells Fargo & Co. v. ABD Ins. & Financial Services, Inc.*, 758 F.3d 1069 (9th Cir. 2014), finding no abandonment of financial insurance company's service mark despite purchaser's intent to re-brand the company, where purchaser continued to use the mark in marketing and customer solicitation presentations so as to benefit from the residual goodwill and mark recognition that had been associated with the company."

(iii) *Macy's Inc. v. Strategic Marks LLC*, Nos. 11-6198, 15-0612, U.S. Dist. LEXIS 11676 (N.D. Cal. Feb. 1, 2016). Macy's sued Strategic Marks, which exploits "zombie" brands, for seeking to register and use various regional store brands that had previously been converted to the Macy's brand, including Abraham & Straus, Filene's, The Broadway, Jordan Marsh, The Bon Marche, Robinson's, Bullock's, May Company, and others. Macy's held prior registrations for eight of these disputed marks and had continued to sell shirts depicting the marks on a dedicated "Heritage" brands website. The Court granted Macy's partial summary judgment, finding that "the disputed marks are well-known marks that were specifically chosen by Strategic Marks precisely because they are well-known and there remains favorable consumer recollection and feelings towards the brands….Additionally, on the [Macy's] shirts, the marks are followed by 'TM,' clearly indicating to the consumer that the mark is being used as a trademark."

> []Strategic Marks's primary argument is that because Macy's no longer operates the regional brands, the marks have been

> abandoned and can now be used by any other individual. Thus, Strategic Marks seems to contend that principles of abandonment should be used to inform consumer perception, *i.e.*, whether a consumer would view the disputed marks purely as ornamental rather than also source-identifying. However, Strategic Marks admits that it knows of no specific case in which a court has found that as a matter of law, consumers would no longer associate a mark with the source after a store is closed, and the Court could not find any….
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> This is not surprising. Simply because a store has ceased operations does not mean that its proprietor or owner does not maintain a valid interest in the registered trademark of the business. A trademark can still exist and be owned even after a store closes. If an accused infringer uses the mark, a consumer may still be confused as to whether the owner of the trademark authorized or licensed the infringer [*citations omitted*].

(iv) *Hornby v. TJX Companies Inc.,* 87 U.S.P.Q.2D 1411 (TTAB 2008): TTAB rejected trademark cancellation challenge by former famous model/actress "Twiggy" against registrant of TWIGGY marks because "petitioner cannot rely on her use of the mark TWIGGY for clothing between 1967 and 1970 to establish her priority over respondent, and her later use was subsequent to respondent's filing date, and was also abroad and insufficient to establish trademark rights in the United States. Because petitioner cannot prove priority of use of the mark TWIGGY, her likelihood of confusion claim must fail."

F. Licensee Use: Trademark rights licensed to others inure to the benefit of the licensor and qualify as use "by" a licensor, provided the license is not a "naked" license where the licensor has relinquished or failed to provide any quality control oversight. In that case, the entire trademark can be invalidated. *See Eva's Bridal Limited v. Halanick Enterprises*, 639 F.3d 788 (7th Cir. 2011) (in dispute over license to bridal shop, court found the plaintiffs had, and exercised, no authority over the appearance and operations of defendants' business, including what inventory to market and sell, resulting in a "naked license" and abandonment of the mark).

G. Case study: Usquaebach Scotch whisky. *Cobalt Brands, LLC v. Gowling LaFleur Henderson LLP*, 2010 FC 260 (Canadian Fed. Ct. 2010) (the author represented Cobalt Brands with Canadian counsel). Court rejected abandonment claim despite non-use of USQUAEBACH registered mark in Canada for six-years (Canada has a three year non-use initial presumption of abandonment, subject to "special circumstances") where there were intervening bankruptcies and deaths affecting prior owners of the mark, and Cobalt (as purchaser) had undertaken material steps to re-introduce the regulated whisky brand to Canadian and other world markets, including soliciting orders from the Quebec Liquor Authority.

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