Bankruptcy Issues in Trademarks

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This article addresses various bankruptcy issues related to trademarks and trademark licenses. First, it provides basic background applicable to licensor/licensee bankruptcies and then the specific issues pertinent to the concerns of trademark licensors and licensees in a bankruptcy setting are considered. Then, an overview of benefits and risks of working with a financially troubled licensor is presented and then a discussion of the necessity of perfecting security interests. Lastly, the article discusses the dischargeability of trademark infringement judgments in bankruptcy.

Bankruptcy Basics

Types of Possible Bankruptcies

This discussion refers to corporate bankruptcies unless expressly stated otherwise. Bankruptcies filed by individuals can involve different issues that are not addressed in this article. As used throughout the article, "Bankruptcy Code" refers to Title 11 of the United States Code, and a reference to "Section" refers to the Bankruptcy Code.

Chapter 11

If a company files a petition under Chapter 11 of the Bankruptcy Code, the business remains in operation, presumptively controlled by its officers as a "debtor-in-possession."[1] The debtor-in-possession is entrusted to manage the bankruptcy case and property (including the business) for the benefit of all parties in interest (including creditors), and to that end receives most of the powers of a bankruptcy trustee.[2]

The goal of Chapter 11 is to reorganize the business and continue operating. Upon a motion of a creditor, however, the Court may convert a Chapter 11 case to one under Chapter 7 on the basis that the debtor-in-possession is unable or unlikely to effectuate a reorganization plan or that the business is continuing to lose its value and such losses are prejudicial to creditors.[3] Start-up corporations do not often file under Chapter 11 to reorganize, as the company generally has used up its financing, and is not generating any positive cash flow. Such a company is generally not capable of proposing a feasible plan of reorganization because it has no way to cover its current and expected costs and pay its creditors. In a Chapter 11 reorganization, cash and cash flow are kings.

"Liquidating 11"

This classification is not a formal category, but a company may file a plan of liquidation under Chapter 11 (rather than a plan of reorganization) to remain in control of the liquidation process. Assets (including intellectual property) would be sold (to the extent possible) and licenses relating to intellectual property would likely be assumed and sold (again, to the extent possible) if they have prospective

value, or rejected, if there is no realizable value (or if the Debtor is unable to provide required services to support an assumed license).

Chapter 7

If a company files a petition under Chapter 7, all of the assets are transferred to the control of a trustee. Except in unusual circumstances, the business will shut down immediately. Occasionally, if the value of the business would decline significantly if it ceased operation, the trustee may obtain an order allowing continued operation of the business.[4] This order to continue business operations is the exception rather than the rule in Chapter 7 cases. The trustee's primary jobs are to collect all of the assets, sell them for the highest value, determine the priority and validity of creditors' claims, and distribute the proceeds accordingly. The trustee also is responsible for investigating the financial affairs of the Debtor, and may set aside preferential or fraudulent transfers or certain types of liens.[5]

Assignment for the Benefit of Creditors

An assignment for the benefit of creditors is a common law device (the statutory assignment was repealed in California in 1980) in which the assets of the company are "assigned" to an assignee fiduciary, who then liquidates them and thereafter distributes the proceeds to creditors. An assignee has some of the rights of a trustee in bankruptcy, but does not have the power to assume and assign, for example.

Liquidation under State Law

State statute may authorize a petition in voluntary dissolution (or similar procedure) if a sufficient number of shareholders or persons authorized by the Articles of Incorporation seek liquidation.[6]

Abandonment of Business

Abandonment is not uncommon for many IP licensors. The business is simply closed. There is no formal liquidation under federal or state law, but merely a "walk away." As such, abandonment creates a problematic situation for a trademark licensee.[7] A security interest in the mark could be useful, as discussed below.

The Bankruptcy Estate

Upon commencement of a bankruptcy case under either Chapter 11 or Chapter 7, a bankruptcy estate is created.[8] The bankruptcy estate is distinct from the bankrupt entity, whether a Chapter 7 debtor or a Chapter 11 debtor-in-possession (often referred to simply as the debtor).

The estate is comprised of all of the debtor's legal or equitable interests in property as of the commencement of the case (with some exceptions for individual debtors), and includes all of the Debtor's intellectual property rights and contract rights.[9] In bankruptcies of technology companies, particularly in Chapter 7, intellectual property rights often are the only valuable assets.

Automatic Stay

Section 362

The automatic stay, set forth in Section 362 of the Bankruptcy Code, is the core protection provided to a bankrupt debtor. It occurs "automatically" upon the filing of a bankruptcy petition. Section 362 prohibits anyone from, among other things:

1. Bringing an action or continuing any suit against the Debtor that could have been brought before the bankruptcy case began;
2. Taking any act to obtain possession of property of the estate or to exercise control over such property;
3. Creating, perfecting, or enforcing any lien against property of the estate; or
4. Taking any action to collect or recover a claim against the Debtor that arose before the case began.[10]

Violation of Stay

Generally, any act against the Debtor, including terminating a contract or license, taking assets, or otherwise taking an action adverse to a Debtor or the estate's property, will be a violation of the stay and should not be done without first obtaining an order for relief from the stay from the Bankruptcy Court where the case was filed. Violations of the stay (and in particular, actions taken with knowledge of the bankruptcy) can result in serious repercussions. For example, in *Computer Communications, Inc. v. Codex Corp.*,[11] the Ninth Circuit upheld a $4,750,000 damages award against a company that terminated a contract to purchase computer equipment based on a bankruptcy-triggered clause without first obtaining relief from the stay.

Relief from Stay

To obtain relief from a stay, a party must obtain an order from the Bankruptcy Court pursuant to either a motion or a stipulation entered into with the trustee or debtor-in-possession. In general, relief from the stay will be granted for good cause shown, including the "lack of adequate protection of an interest in property" and the likelihood that no reorganization is possible, or that the

asset involved is not critical to the prospects of reorganization.[12]

Ipso Facto Clauses

Provisions in licenses and executory contracts for automatic termination upon a debtor's bankruptcy or insolvency are not enforceable in a bankruptcy case against the Debtor. Section 365(e)(1) of the Bankruptcy Code provides:

> 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—
>
> 1. the insolvency or financial condition of the debtor at anytime before the closing of the case;
> 2. the commencement of a case under this title; or
> 3. the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

IP licenses almost invariably contain such clauses, but as provided in the Bankruptcy Code (and *e.g.*, found in, *Computer Commc'ns, Inc.*), they are not enforceable against debtors in bankruptcy.

Assumption or Rejection of Executory Contracts

Executory Contracts

Under Section 365(a), a debtor may elect to either "assume" or "reject" "executory contracts."[13] This right is vital to the basic purpose of a Chapter 11 reorganization.[14]

An executory contract is any agreement that contains materially unperformed obligations respecting both parties where the failure of one party to perform would constitute a material breach excusing performance by the other.[15] A contract that is not executory comprises only either an asset or a liability of the debtor, and as such is not subject to assumption or rejection.

By assuming an executory contract, the trustee or debtor-in-possession (acting for the debtor, either as licensor or licensee) undertakes all of the benefits and obligations of the debtor under the contract. On the other hand, the trustee or debtor-in-possession may reject an executory contract on the grounds that, in the debtor's business judgment, meeting its obligations under the license agreement constitutes too great a burden on the bankruptcy estate to justify continued performance.

Time to Assume or Reject

In a Chapter 11 case, the debtor-in-possession may assume or reject an executory contract at any time before the confirmation of a plan.[16] In the interim, the debtor-in-possession may simply suspend its performance while deciding what action to take. The debtor-in-possession, however, may enforce an executory contract during this interim period.[17]

On request of any party to the contract, the court may order the debtor-in-possession to determine within a specified period of time whether to assume or reject the executory contract.[18] Such a motion is substantially stronger if the license itself states that "time is of the essence" in contract performance. If the possible insolvency of a license party is an issue when the license is created, the other party should insist on language that specifies the time in which the contract would be assumed or rejected. While this may not be specifically enforced by a Bankruptcy Court, it provides support for the motion.

In a Chapter 7 bankruptcy proceeding, such a delay generally is not an issue. A Chapter 7 trustee does not usually operate the business, and thus will have no reason to assume a license (except possibly in connection with a sale of related assets). In fact, rejection is automatic 60 days after commencement of the chapter 7 case.[19]

Requirements for Assumption

In order to assume an executory contract, Section 365(b) of the Bankruptcy Code requires that, if there has been a default under the contract, the trustee or debtor-in-possession must first cure the default and compensate the counterparty for any actual financial loss resulting from the default (or provide adequate assurance that it will do so).[20] The trustee or debtor-in-possession must also provide adequate assurance of future performance under the contract.[21] Thus, if a licensor files Chapter 11 and seeks future license fees, it must assume the license contract, assure the licensee of its future performance, and continue to act as licensor.

Limitations on Assumption

Under Section 365(c) of the Bankruptcy Code, the trustee or debtor-in-possession may not "assume or assign" an executory contract if applicable law excuses the counterparty from accepting performance from or rendering performance to "an entity other than the debtor or debtor in possession," and the counterparty does not consent to the assumption or assignment.[22] As discussed more fully below, courts are split on whether this provision should be interpreted to mean that where the counterparty does not consent, an executory contract may not be assumed even where the trustee or debtor-in-possession intends only to assume and not to assign.

Consequences of Rejection

Rejection of an executory contract by the trustee or debtor-in-possession statutorily is deemed to be a pre-petition breach of the contract by the debtor. Thus, even though the breach occurs after the commencement of the bankruptcy case, to the extent the counterparty asserts a damages claim, it is considered to have arisen prior to the commencement of the bankruptcy case.[23] The practical result is that the counterparty's claim is payable only in "bankruptcy dollars" (typically worth less than 100 cents on the dollar) for purposes of receiving a distribution of estate assets.

Although rejection of an executory contract is a breach of the contract, it does not (necessarily) result in termination of the contract. This is an important distinction, especially for trademark and other IP licenses, in that it supports a non-debtor licensee's right to continue to use the licensed asset (either by statute or under still-developing case law). Specifically, as discussed more fully below, Section 365(n) permits licensees of certain types of intellectual property to elect to continue using the licensed property notwithstanding rejection of the license by a debtor-licensor, subject to certain limitations.

Sales of Assets "Free and Clear"' of Interests

Section 363 of the Bankruptcy Code permits the use, sale, or lease of property by the trustee or debtor-in-possession,[24] and has been used with increasing frequency to accomplish sales of significant assets and even entire businesses outside of a plan of reorganization. Section 363(f) permits such sales to be "free and clear of any interest in such property of an entity other than the estate" if any of five enumerated conditions is met,[25] thereby enabling the estate to quickly liquidate assets with cleared title (for the highest possible price).

The "interests" in property that may be severed under Section 363(f) are not defined in the Bankruptcy Code (except to the extent Section 363(f)(3) refers to liens), but debtors and courts have been using the term to include licenses, as well as, claims, pledges, mortgages, deeds of trust, security interests, hypothecations, charges, encumbrances, easements, encroachments, retentions of title, conditional sale arrangements, restrictive covenants, rights of first offer, rights of first refusal, options, and other limitations or rights of virtually any kind.

Abandonment of Property

Section 554 of the Bankruptcy Code permits a trustee or debtor-in-possession to abandon property of the estate that is burdensome or of inconsequential value.[26] Abandonment case law generally holds that property is abandoned to the debtor (or the debtor's corporate shell if the case is one for liquidation), or if it is collateral, can be abandoned to the secured creditor (who after all has an interest in the property being abandoned).

Where the property being abandoned is a trademark, the abandonment itself may affect the validity or value of the mark. If the mark is under license, the revenue it generates (if any) may support an argument against abandonment in favor of some other practical solution, or it may be sensible for the trustee or debtor-in-possession also to reject the license agreement.

Trademark Issues in Bankruptcy

Concerns regarding trademarks in a bankruptcy context will depend on one's perspective either as a licensee or as a licensor. As a licensee whose licensor has commenced a bankruptcy case, the principal concerns include the debtor-licensor's rejection of the license[27] and the debtor-licensor's disposal of the mark, or related assets, in a manner that affects the license.[28] As a licensor whose licensee has commenced a bankruptcy case, the principal concern is the debtor-licensee's assumption and/or assignment of the license.

Whether a Trademark License Is an Executory Contract

Most trademark licenses are executory contracts because the licensee typically has material obligations including, among other things, payment of license fees and

using the mark appropriately, while the licensor has material obligations to, among other things, support and defend the mark. As the *Interstate Bakeries*[29] case and the *Exide*[30] case illustrate, however, in practice, when trademarks may have been licensed in conjunction with the transfer of part or all of a business, the specific facts of the case (including the specific terms of the agreement) will be critical to determining whether the license is an executory contract and, as such, subject to assumption or rejection.

In the *Interstate Bakeries* case, Interstate Bakeries Corp. (Interstate) had purchased Continental Baking Company in 1995. At that time, to satisfy certain antitrust requirements, Interstate agreed to divest itself of certain assets and rights, which were accordingly sold by its subsidiary, Interstate Brands Corp. (IBC), to Lewis Brothers Bakeries (LBB). The sale involved the grant to LBB of a license to use the "Butternut Bread" and "Sunbeam Bread" brands and trademarks in a specific geographical area.

In 2004, Interstate and certain of its subsidiaries (including IBC) filed voluntary Chapter 11 bankruptcy petitions. Four years later, the debtors' amended plan of reorganization purported to treat LBB's license as an executory contract subject to assumption or rejection. LBB commenced litigation seeking a declaration that its "perpetual, royalty-free, assignable, transferable, exclusive" license was an integrated part of a completed acquisition of a business and, as such, was not an executory contract that could be rejected. The Bankruptcy Court disagreed, finding that the agreement was an executory contract and granting summary judgment to the debtors. On appeal, the District Court affirmed, as did the Eighth Circuit Court of Appeals.

The bankruptcy court found that LBB's license agreement was an executory contract under the *Countryman* test because both parties had material obligations remaining to be performed. Specifically, the agreement required IBC to (among other things) control the quality of goods, defend the trademarks, refrain from suing LBB for infringement, and indemnify LBB against certain claims; and required LBB to (among other things) maintain the character and quality of the goods sold under the marks, refrain from using the marks outside of the licensed territories, refrain from sublicensing the marks, and assist IBC in any infringement litigation. The district court affirmed, finding in particular that the parties had expressly agreed that LBB's obligation to maintain the character and quality of the goods it sold under the marks was a material obligation.

The Eighth Circuit likewise found that IBC had ongoing material obligations regarding notice and forbearance, maintaining and defending the marks, and other infringement-related obligations, and that LBB had ongoing obligations agreeing with the district court that the agreement contemplated specific quality standards that the parties themselves had agreed were material. In a dissenting opinion, however, Circuit Judge Colloton argued, among other things, that the majority erred by treating the license agreement as a stand-alone contract instead of an integrated agreement with the asset purchase agreement-as contemplated in those agreements. Favoring the approach taken by the Third Circuit in *Exide*, Judge Colloton concluded that because the parties' obligations had been substantially performed and their remaining obligations were not material in the context of the entire integrated agreement, the agreement was not an executory contract.

In the *Exide* case, relied on unsuccessfully by LBB in *Interstate Bakeries*, Exide had sold its industrial battery business to EnerSys, entering into over 23 agreements, including a license agreement integrated with the asset purchase agreement. The agreement provided a "perpetual, exclusive, royalty-free license" to use Exide's trademark in the industrial battery business (Exide retained its trademark in other businesses).[31] When Exide filed for bankruptcy more than 10 years later, it sought to reject the license agreement in order to reclaim its presence in the industrial battery market. Although the Delaware bankruptcy court held that the agreement could be rejected as an executory contract,[32] the Third Circuit reversed.

The Third Circuit (as the Eighth Circuit) applied the *Countryman* test. But viewing the purpose of the agreement as the sale and transfer of the battery business, and relying on New York state contract law's definition of "substantial performance" and "material breach," the Third Circuit concluded that Enersys substantially had performed its obligations (by paying the full purchase price, assuming Exide's liabilities, operating under the agreement for over 10 years, and using all the assets transferred under the agreement), and that any remaining obligations (to maintain quality

standards, refrain from using the mark outside of the licensed business, etc.) did not relate to the perceived purpose of the agreement and was thus minor. Key to its decision was the Court's characterization of EnerSys' obligation to refrain from using the trademark as "a condition subsequent" and therefore, not a "material obligation."[33] The Third Circuit also noted that the parties had not specified any quality standards and had acted as though none existed.

Although these circuit-level decisions came out differently, their combined lesson is clear. To protect its rights in a trademark, especially where obtained as part of acquiring a business, a licensee should make sure that the transaction clearly intends to treat the license agreement as part of an integrated transaction. In addition, licensees should pay careful attention to the licensor's obligations in trademark license. If possible, the licensee should negotiate to strike all provisions that could be interpreted as a continuing obligation of the licensor, thereby removing the license agreement from the definition of an executory contract and outside the purview of Section 365.

Bankruptcy Code Section 365(n)—Inapplicable to Trademarks.

In 1985, the Fourth Circuit Court of Appeals caused considerable consternation in the intellectual property and business communities by holding, in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*,[34] that a bankrupt licensor's rejection of a patent license divested the licensee of the right to use the licensed IP. Three years later, Congress responded by enacting the Intellectual Property Licenses in Bankruptcy Act,[35] which amended the Bankruptcy Code to provide protection for licensees of "intellectual property." The law added subsection (n) to Section 365 of the Bankruptcy Code and several new definitions to Section 101 of the Code.[36]

Section 365(n) provides certain protections to licensees of a "right to intellectual property," to ensure that a licensee of "intellectual property" receives the benefit of its bargain, even after the licensor's bankruptcy and rejection of the license. Thus, Section 365(n) provides a licensee of intellectual property with two options when a debtor-licensor rejects the license: (1) treat the rejection as a material breach and terminate the license agreement,[37] or (2) elect to retain its license (with certain modifications).[38] Under the second option, the licensee retains its license rights "as such rights existed immediately before the case commenced" and must continue making royalty payments due under the license, but the licensor is relieved of its affirmative obligations (*i.e.*, duties such as maintenance, training, support, providing enhancements or new releases, warranty obligations, and indemnification).[39]

However, Section 365(n) protections do not extend to trademarks, because the "intellectual property" to which the statute applies is defined in the Bankruptcy Code only as including "(A) trade secret, (B) invention, process, design, or plan protected under title 35 [*i.e.*, patents], (C) patent application, (D) plant variety, (E) work of authorship protected under title 17 [*i.e.*, copyrights], or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law."[40] Trademarks are conspicuously excluded, and the legislative history of the amendment indicates that this exclusion was not an oversight.[41] As a result, the protection of the rights of trademark licensees has remained a matter left to case law.[42]

One path to protection is illustrated by the *Exide* case,[43] discussed above, in which the Third Circuit Court of Appeals reversed the Delaware bankruptcy court and held that the trademark license agreement in that case was no longer executory, and thus could not be rejected,[44] resulting in no deprivation of the licensee's right to use the mark. In a concurring opinion, Judge Ambro also argued that the licensor's rejection of a trademark license did not necessarily deprive the licensee of its rights to use the mark.[45]

Another path to protection is the one Judge Ambro [preferred] in his Exide concurrence: direct confrontation of the Fourth Circuit's conclusions in *Lubrizol*. In 2012, in *Sunbeam Products, Inc. v. Chicago Manufacturing, LLC*,[46] the Seventh Circuit Court of Appeals obliged. Noting first that the addition of Section 365(n) to the Bankruptcy Code "does not affect trademarks one way or the other," Judge Easterbrook, writing for the court, explicitly rejected the reasoning and conclusions of *Lubrizol*. Ultimately, Judge Easterbrook held that a trademark licensee could continue to use a licensed trademark despite the bankruptcy trustee's rejection of the license.[47]

In *Sunbeam*, debtor Lakewood Engineering & Manufacturing Co. (Lakewood) outsourced the manufacture of box fans to Chicago American Manufacturing (CAM), and

licensed CAM to use Lakewood's trademarks on the completed fans. To induce CAM to enter into the contract, Lakewood also authorized CAM to sell the fans for its own account if Lakewood failed to buy them. After Lakewood's creditors forced it into an involuntary bankruptcy, Lakewood rejected its agreement(s) with CAM and then sold a substantial portion of its assets (including its trademarks) to Sunbeam Products (Sunbeam). Sunbeam did not purchase CAM's inventory, and sued to enjoin CAM's use of the Lakewood trademarks in liquidating its inventory, arguing that the rejection had terminated CAM's trademark license rights. Judge Easterbrook disagreed, finding that rejection results only in breach rather than termination of the contract, thereby enabling the licensee to continue utilizing the licensed rights.[48]

The arguments made and conclusions reached by Judge Easterbrook in *Sunbeam* (and Judge Ambro in Exide) remain to be tested in the other Circuits, but they suggest that the rights codified in Section 365(n) with respect to patent and copyright licenses may nonetheless be available (albeit uncodified) for trademark licenses as well, at least outside of the Fourth Circuit. It should be noted, however, that even where the trademark licensee may continue to use a mark post-rejection under cases such as *Sunbeam*, the rejecting debtor-licensor cannot be bound to affirmative obligations under the agreement.[49] Thus, while a defense against infringement may continue to exist, the validity and value of the mark itself may be in jeopardy if the rejecting debtor (or the transferee of its relevant assets, perhaps a creditor secured by all assets, including intangibles) ceases to maintain and defend the mark.

Risks Associated with Bankruptcy Sales

As noted briefly above, Section 363(f) of the Bankruptcy Code permits a trustee or debtor-in-possession to sell property ''free and clear" of a non-debtor's "interest" in such property if any of the conditions enumerated in that statute's five subsections is met (and upon notice to creditors). There has been a general trend in the courts to broadly interpret the scope of "interests" severed by a "free and clear" sale under Section 363(f) of the Code,[50] and ever more aggressive debtors have tried to extend "interests" to include, for example, the defenses of patent licensees.

As a result, it is imperative for IP licensees and their counsel to actively monitor bankruptcy cases and be vigilant in the event of a proposed sale under Section 363 of a debtor-licensor's trademarks (or the goodwill underlying such marks), because such sale may affect their licenses and related rights.

In as much as applicable non-bankruptcy law generally does not permit the sale of patents, copyrights, or trademarks free and clear of licenses and similar rights, the first of the five enumerated conditions (i.e., that non-bankruptcy law permits such title-clearing) is not likely to pose a problem. However, licensees should beware that their "consent" to such sales under subsection (f)(2) may be deemed implicitly granted by the mere failure to object to a sale that purports to sever their interests.[51]

In addition, although Section 365(n) does not apply to trademarks, it is worth noting that the title-clearing power of Section 363(f) is such that even the protections offered under 365(n) would not help. In *Precision Industries, Inc. v. Qualitech Steel SBQ, LLC*,[52] the Seventh Circuit Court of Appeals held that an order issued pursuant to Section 363(f) had the effect of extinguishing the possessory rights of a real property lessee, notwithstanding the failure of the debtor to reject the lease formally under Section 365. Notably, the Seventh Circuit found no conflict between Section 363(f) and Section 365(h), which permits real property lessees to retain their possessory rights in leased property notwithstanding the debtor's rejection of the lease (in much the same way that Section 365(n) permits an IP licensee to retain its license rights).[53] Pursuant to the *Qualitech* decision, a real property lessee who wishes to retain its possessory rights cannot rely solely on its election under Section 365(h) following rejection of its lease, but rather must affirmatively object to a Section 363(f) sale of the underlying assets or, alternatively, must file a request for "adequate protection" of its interest pursuant to Section 363(e) of the Bankruptcy Code.

As the Seventh Circuit acknowledged, an important component in defending against losing rights in a 363 sale is provided in Section 363(e) of the Bankruptcy Code, which requires the court, on request of an interested party, to prohibit or condition the proposed sale as necessary to provide "adequate protection" to such party.[54] Adequate protection is a broad concept in bankruptcy law, but among its definitions is "such other relief … as will result in the realization by such entity of the *indubitable*

equivalent of such entity's interest in such property."[55]

Thus, to protect a trademark license in the event the debtor-licensor proposes a sale under Section 363(f) of the Bankruptcy Code, licensees should timely object lest they be deemed to have consented to the loss of their rights, but also should demand adequate protection of their interests (especially where one of the other conditions enumerated under Section 363(f) might be satisfied).

Assumption and Assignment by a Debtor-Licensee

A debtor-licensee of intellectual property (including trademarks) who wants to use Section 365 of the Bankruptcy Code to reject an executory contract need only meet a "business judgment" standard to do so, and there is no equivalent of Section 365(n) that provides special rights to the rejected non-debtor licensor under those circumstances. Issues arise, however, when a debtor-licensee wants to assume a license agreement and the licensor does not consent.

Although most executory contracts are assumable under Section 365(a), certain contracts are expressly made non-assumable by the Bankruptcy Code. Section 365(c)(1) provides that the trustee may not assume or assign any executory contract if applicable law excuses the non-debtor counterparty to such contract from accepting performance from an entity other than the debtor or debtor-in-possession.[56] Thus, if non-bankruptcy law prohibits the assignment of a contract without the other party's permission (e.g., a personal services contract), and the other party is not found to have expressly or impliedly granted such permission, the debtor may not be able to assign (and potentially even to assume) it. For example, under applicable non-bankruptcy law, copyright licenses are not assignable without the written permission of the copyright holder.[57] Similarly, a non-exclusive patent license has been held to be personal and therefore subject to the Section 365(c)(1) restriction.[58]

Trademark licenses are likewise not freely assignable under applicable non-bankruptcy law without the consent of the licensor. As the federal district court found in *Blanks v. N.C.P. Marketing Group, Inc.* (In re N.C.P. Marketing Group, Inc.),[59] a trademark license is "personal and non-assignable" under applicable federal trademark law, and cannot be assumed or assigned by the Chapter 11 debtor licensee without the consent of the licensor. The court stated that the owner of a trademark has an interest in the identity of the party to whom the trademark is licensed (and by extension, the party to whom the license is assigned) in order to maintain the goodwill, quality, and value of its products and the trademark.[60]

This issue recently was addressed by the Seventh Circuit Court of Appeals in *In re XMH Corp.*[61] Describing the trademark license as an executory contract, the court held that a trademark license is personal to the licensee and cannot be assumed and assigned without the licensor's approval.[62] In that case, the debtor corporation (XMH) sought to sell the assets of a subsidiary, and to assume and assign the subsidiary's license of a trademark owned by Western Glove Works (Western). The bankruptcy court permitted the assignment over Western's objection, but on appeal, the Seventh Circuit held the assignment void, reasoning that absent a contractual provision to the contrary, the "default" rule prohibiting assignments extends into the bankruptcy context.[63] In reaching its decision, the Court reiterated the licensor's need to protect the value of the trademark by controlling the identity of the licensee.[64] The ongoing obligation of the licensor to monitor the mark and oversee its use, even in the case of an exclusive license, causes courts to treat all trademark licenses as non-exclusive in the context of potential assumption and assignment under Section 365.

While it is thus clear that the non-bankruptcy limitation on assignment extends into the bankruptcy context to preclude assignment of a license to a third party over the objections of the licensor, it is not uniformly accepted whether a trustee or debtor-in-possession also is prohibited from *assuming* a contract that he has no intention of *assigning*. There is currently a split among the Circuit Courts of Appeal on how broadly Section 365(c)(1) should be interpreted. The Third, Fourth, Ninth, and Eleventh Circuits apply the "hypothetical" test, which prohibits both assumption and assignment if applicable non-bankruptcy law proscribes assignment without the counterparty's consent.[65] The First Circuit, however, rejects this approach in favor of the "actual" test, which prohibits assumption only where the debtor actually intends to assign it and thus force the non-debtor party to accept the assignee's substitute performance.[66] The Second, Fifth, Sixth, Seventh, Eighth, and Tenth Circuits have not

yet definitively taken a side.[67]

Switching perspectives to the licensee's concerns in this scenario, the risk of not having the non-debtor licensor's consent in the event of licensee's bankruptcy should be manageable by a contract provision.[68] For instance:

> Assumption. Notwithstanding any provision to the contrary, in the event Licensee declares bankruptcy and elects to assume this License Agreement in the bankruptcy proceeding, Licensor hereby consents to such assumption by Licensee provided Licensee agrees to comply with all of the terms and conditions of the License Agreement.

This example starts with the proverbial "notwithstanding any provision to the contrary" because most license agreements provide for termination in the event of bankruptcy even though such provisions are *ipso facto* invalid and unenforceable pursuant to Section 365(e) of the Bankruptcy Code.[69] The licensor's consent to an assumption only occurs if the licensee makes the decision to assume the license. The provision does not obligate the licensee to assume the license.

Supporting a Troubled Licensor

Reasons to Advance Payment to a Troubled Licensor

Occasionally, a licensee of intellectual property will be willing to provide a loan to the licensor (for instance, by accelerating its payments of royalties or license fees) in order to try to avoid the problems created by a licensor bankruptcy. This strategy is an opportunity to adjust the terms of the license to avoid some of the concerns described, and may make sense where the IP in question is a patent or (software) copyright, but the supporting rationales (avoiding the higher cost of finding an alternative source to complete work, preserving the intellectual power of the relationship) may not be especially relevant in the trademark context.

Adjusting Contract Terms

One important adjustment the parties could agree to may be a sum for liquidated damages to cover the cost to the licensee if the licensor breaches (or, specifically, rejects); these damages should then be covered by a security interest. The timing of the transfer of rights in licensed marks also should be changed to address the problems discussed above.

All of these changes must be analyzed for the risks of preference and fraudulent conveyance claims in bankruptcy, and the risk of an unenforceable penalty clause. One way to address such threats is to set out in recitals to the new agreement that the loan (or acceleration of payment) is made primarily to benefit the licensor, that the licensor cannot find adequate funding elsewhere, and that without the loan the licensor is likely to fail. This will support an argument that the debtor-licensor (borrower) is making a reasonable bargain. Recitals of fact generally are persuasive evidence.[70] Of course, if the licensor is in bankruptcy within 90 days of the licensee-lender perfecting its security interest, the agreement may be set aside.[71]

Taking a Security Interest to Protect against Additional Risk

Traditionally, security interests are given to secure the payment of money, but a licensee also can take a security interest to secure performance of obligations,[72] such as the maintenance of the mark. If the licensee has leverage such that it can get a security interest in the intellectual property to secure the debtor-licensor's performance under the license, such a security interest gives rise to secured claims, which should be a disincentive to rejection in a bankruptcy.

Perfecting a Security Interest in IP

Perfecting a Security Interest Is Essential

It is essential to perfect a security interest to prevent a trustee in bankruptcy from avoiding the security interest as a "hypothetical lien creditor" under Section 544 of the Bankruptcy Code.

The Uniform Commercial Code (UCC) classifies intellectual property, including trademarks, as "general intangibles."[73] To perfect a security interest in a (registered) trademark, record a UCC-1 financing statement in the state of operation and state of incorporation. Although the prevailing view is that the Lanham Act does not pre-empt UCC filing requirements,[74] a dual filing with the US Patent and Trademark Office (USPTO) is advisable as protection against subsequent *bona fide* purchasers or lien creditors of underlying collateral.[75]

Enforcing the Security Interests

Although the mere grant of a security interest in a trademark "in gross" (*i.e.*, without a corresponding security interest in goodwill) is valid and does not constitute an "assignment in gross" prohibited by the Lanham Act,[76] a subsequent transfer due to foreclosure would be void under the Lanham Act. This apparent disjunction creates a potential

obstacle for creditors seeking to enforce validly perfected security interests.[77]

Relief from Automatic Stay

A creditor of a debtor must obtain relief from the automatic stay to foreclose on its security interest. After relief is obtained, the creditor must comply with the rules of Article 9 of the UCC regarding the disposition of collateral by a creditor after default.

Sale of Collateral

The primary tool for foreclosing on a security interest is for the creditor to sell the collateral at a public or private foreclosure. Article 9 requires specific notice of the sale. It also requires that the sale be conducted in a commercially reasonable manner.[78] In most cases of a partly-developed product (including, among other things, the brand), the creditor in a license relationship would want to avoid a noticed public sale, as it would disclose the developing product to the public (including any competitor). Also, it would be difficult to meet the "commercial reasonableness" requirements for the sale of an incomplete license.

Taking Possession and Ownership in Satisfaction

UCC §9-620 sets out the rules for a creditor to take possession and ownership of collateral in satisfaction of the debt (*i.e.*, a strict foreclosure). In order for a creditor to acquire the collateral as only partial satisfaction of the debt, the debtor must agree to this form of foreclosure after the default. (The debtor cannot waive this right beforehand.) If acquisition is in full satisfaction of the debt, the creditor must follow certain conditions including notice rules, but does not have to obtain permission of the debtor unless the debtor objects. By having the status of a secured creditor (assuming the claim is valid and cannot be set aside as a preference or fraudulent transfer), the creditor can foreclose on its security interest by acquiring the collateral in satisfaction of the claim and get possession of the work without having to pay a bankruptcy trustee. This also prevents its exposure to competitors.

Diminution in Value of Security Interest

A creditor with a security interest in trademarks as collateral must take extra precautions to guard against the diminution of its value (*i.e.*, beyond those taken by holders of liens on other forms of collateral). When the debtor's business ceases to be a going concern during or prior to the bankruptcy, the suspension of the business for a sufficient duration may result in an abandonment of the trademark. Consequently, the creditor must actively monitor the continued use of the trademark in commerce, lest its disuse and abandonment leave the creditor effectively unsecured.[79] The creditor also may find itself without recourse if the trustee disposes of the assets and the goodwill of the business separately from each other, without accounting for the trademark. The rights therein may be lost, despite no fault on the part of the creditor.[80]

Even where the rights are not lost entirely, non-exclusive assignments of a trademark may result in a dilution of the mark, with a resulting diminution in its value.[81] Creditors' concerns are further exacerbated by the lack of a central repository for recording interests in trademarks. As previously discussed, the perfection of security interests in trademarks is governed by UCC Article 9, which requires only a local filing with the state office, and does not require recordation with the USPTO.

Dischargeability of Trademark Judgments in a Bankruptcy Proceeding

Section 523(a)(6) of the Bankruptcy Code provides that an individual debtor may not discharge a debt "for willful and malicious injury by the debtor to another entity or to the property of another entity."[82] Bankruptcy courts analyze both the issues of "willfulness" and "maliciousness" to determine whether a debtor may discharge a particular debt under Section 523(a)(6). A "willful" injury is defined as a "deliberate or intentional injury, not merely a deliberate or intentional act that leads to injury."[83] For an injury to meet the definition of "malicious" it must meet a four-part test. There must be: (1) a wrongful act, (2) done intentionally, (3) which necessarily causes injury, and (4) is done without just cause or excuse. In the event the trademark owner cannot establish both the necessary "willfulness" and "maliciousness," or if the infringing debtor is not an individual, the infringing debtor should be able to discharge the liability on an infringement judgment through bankruptcy.

The dischargeability standard in bankruptcy under Section 523(a)(6) does not correspond with the liability standards for determining willful trademark infringement, patent infringement, or copyright infringement. A finding of willful infringement for purposes of establishing the underlying liability will not necessarily provide a basis for establishing either the "willful"

or "malicious" elements under the Bankruptcy Code. The legal standards are different.

The potential problem is demonstrated by the Ninth Circuit's ruling in *In re Barboza*.[84] There, the Ninth Circuit reversed the Bankruptcy Appellate Panel by holding that a judgment for willful copyright infringement was nondischargeable under the Bankruptcy Code, even though the jury had returned a verdict of willful copyright infringement. Notwithstanding the verdict, the jury made no specific findings as to its basis for finding willful copyright infringement.

In the *Barboza* case, the Ninth Circuit found that the standard for "willfulness" under Section 523(a)(6) of the Bankruptcy Code requires a "deliberate" or "intentional" injury, and determined that the bankruptcy court had no way to determine whether the jury had found willful infringement based on a reckless disregard or a knowing violation of the copyright. The Ninth Circuit also found that the bankruptcy court had erred when it failed to examine separately whether the infringement was malicious under Section 523(a)(6). The "willfulness" and "malicious" elements must be proven separately.

IP owners with willful patent infringement[85] and willful trademark infringement judgments face similar obstacles to avoid dischargeability in bankruptcy. The evidence and jury instructions should be presented with the requirements in mind for showing "willfulness" and "maliciousness" under the Bankruptcy Code. If these requirements are not met, IP owners risk losing any infringement judgments they may have received in the infringer's subsequent bankruptcy proceeding.

Conclusion

Risks relating to bankruptcy need to be fully considered in trademark transactions. In this article, we have outlined a number of those risks and potential strategies to minimize them. Upon request, we would be pleased to provide sample documents illustrating many of the issues discussed above.

As a final thought—if the licensee has a significant level of bargaining power, consider structuring the transaction whereby formal ownership of the trademark is transferred to a "bankruptcy remote entity."

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Endnotes

1 *See* 11 U.S.C. §§1101,1104.

2 *See id.* §§1107, 1108.

3 *See id.* § 1112(b)(2).

4 *See id.* §721.

5 *See id.* §704 (duties of the trustee); §§544-549 (trustee's avoidance powers).

6 *See*, e.g., CAL. CORP. CODE §1800.

7 A trademark is deemed abandoned when either, (1) "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 ... [or]
(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. 15 U.S.C. §1127.

8 11 U.S.C.§541.

9 *See generally* Dailey v. Smith, 684 N.E.2d 991, 993 (Ill. App. Ct. 1997); In re Plunkett, 23 B.R. 392, 393-394 (Bankr. E.D. Wis. 1982); H.R. REP. No. 95-595, at 175 176 (1977). The goodwill supporting a trademark does not vanish with an adjudication of bankruptcy. *See* Mutual Life Ins. Co. v. Menin, 115 F.2d 975, 977 (2d Cir. 1940) (trustee has authority to sell goodwill associated with debtor's business).

10 11 U.S.C. §362(a). This is not a complete list. If there is any question regarding a violation of the automatic stay, reference should be made to the Bankruptcy Code and associated case law.

11 Computer Communications, Inc. v. Codex Corp., 824 F.2d 725 (9th Cir. 1985).

12 *See* 11 U.S.C. §362(d).

13 *Id.* §365(a).

14 In re Trans World Airlines, Inc., 2001 Bankr. LEXIS 267 (Bankr. D. Del. Mar. 12, 2001).

15 Vern Countryman, "Executory Contracts in Bankruptcy: Part I," 51 *Minn. L Rev.* 439,460 (1972-1973). This definition is often referred to as the "Countryman test." *See* In re Robert L. Helms Constr. & Dev. Co., Inc., 139 F.3d 702, 705 (9th Cir. 1998) (applying Countryman definition to determine whether an option is an executory contract).

16 11 u.s.c. §365(d)(2).

17 *See* In re Whitcomb & Keller Mortg. Co. Inc., 715 F .2d 375, 379 (7th Cir. 1983).

18 11 u.s.c. §365(d)(2).

19 *See id.* §365(d)(1).

20 *See id.* §365(b)(1)(A) and (B).

21 *Id.* §365(b)(1)(C).

22 *See id.* §365(c)(1).

23 *Id.* §365(g).

24 *Id.* §363(b)(1) provides: "The trustee, after notice and a hearing, may use, sell, or lease, other than

in the ordinary course of business, property of the estate."

25 *Id.* §363(f) provides: "The trustee may sell property under subsection (b) or (c) of this section free and clear of any interest in such property of an entity other than the estate, only if-
(1) applicable non-bankruptcy law permits sale of such property free and clear of such interest;
(2) such entity consents;
(3) such interest is a lien and the price at which such property is to be sold is greater than the aggregate value of all liens on such property;
(4) such interest is in bona fide dispute; or
(5) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest.

26 *Id.* §554(a).

27 Presumably, the licensee will want the debtor-licensor to assume the license (and assign it to any purchaser of related business assets, if applicable).

28 Section 10 of the Lanham Act prohibits "assignments in gross," *i.e.*, the sale of a trademark and assignment of related rights without the goodwill with which they are associated. *See* 15 U.S.C. §1060(a) ("A registered mark ... shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark"); §1060(a)(4) (an assignment in violation of this mandate is void).
But if the entire business is sold as a going concern, the trademark transfers as a matter of course, even in the absence of an explicit provision for such transfer. *Automated Prods., Inc.*, 1994 WL 513626, at *9 (N.D. Ill. Sept. 16, 1994); *see also*, Ammon & Person v. Narragansett Dairy Co., 262 F. 880, 884 (1st Cir. 1919) ("Where the business goes, the trademark goes, whether in life or in death."). If the trustee disposes of the business assets separately from the goodwill, the trademark will retain its statutory protections only if the sale of the goodwill explicitly provides for inclusion of the trademark. 3 McCarthy on Trademarks and Unfair Competition §18:28.

29 Lewis Bros. Bakeries Inc. v. Interstate Brands Corp. (In re Interstate Bakeries Corp.), 690 F.3d 1069 (8th Cir. 2012).

30 In re Exide Techs., 607 F.3d 957 (3d Cir. 2010).

31 *Id.* at 961.

32 In re Exide Techs., 340 B.R. 222, 227 (D. Del. 2006).

33 In re Exide Techs., 607 F.3d at 963-64.

34 Lubrizol Enters, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 u.s. 1057 (1986).

35 Intellectual Property Licenses in Bankruptcy Act, Pub. L. No. 100-506 (enacted Oct. 18, 1988).

36 *See* 11 U.S.C. §§101, 365(n) (Supp. 1989).

37 *See id.* §365(n)(1)(A).

38 *See id.* §365(n)(1)(B).

39 *Id.* There is much more to Section 365(n) that is beyond the scope of this article. For instance, the licensee must also waive any right of setoff for damages resulting from the rejection and any administrative priority claim under Section 503(b) of the Bankruptcy Code arising from performance under the license. *See id.* §365(n)(2).

40 *See id.* §101 (35A).

41 *See* S. Rep. No. 100-505, 100th Cong., 2d Sess., 5-6 (1988) (attributing the exclusion of trademarks to the requirement that a licensor maintain continuing quality control of the goods or services produced under the mark). In addition, the Bankruptcy Code's definition of intellectual property does not appear to include copyrights and patents under foreign laws.

42 Some courts implicitly suggest Congress's omission of trademarks to have codified *Lubrizol*. *See, e.g.*, In re Centura Software Corp., 281 B.R. 660, 669 (Bankr. N.D. Cal. 2002) ("The plain language of the statute, however, indicates that §365(n) does not include trademark licenses."); In re Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) ("Section 365(n) only allows such retention of rights and continued usage if the executory contract is one under which 'the debtor is a licensor of a right to intellectual property.' Trademarks are not 'intellectual property' under the Bankruptcy Code.") (internal citations omitted). Others find the omission "is just an omission." *Sunbeam*, 686 F .3d at 375 "According to the Senate committee report on the bill that included 365(n), the omission was designed to allow more time for study, not to approve *Lubrizol* (citing S. REP. No. 100-505, 100th Cong., 2d Sess. 5 (1988))); *see also* In re Exide Techs., 607 F.3d 957, 966-67 (3d Cir. 2010) (Ambro, J., concurring) (concluding that 365(n) neither codifies nor disapproves *Lubrizol* as applied to trademarks).

43 *Exide Techs.*, 607 F.3d 957.

44 *Id.* at 964.

45 *Id.* at 965 (Ambro, J., concurring).

46 Sunbeam Prods, Inc. v. Chicago Mfg, LLC, 686 F.3d 372, 375 (7th Cir. 2012).

47 *Id.*

48 *Id.* at 377 ("nothing about this process implies that any rights of the other contracting party have been vaporized").

49 When the debtor-licensor rejects an executory license, it is relieved of its obligations (and has incurred a rejection damages claim). When applicable, even Section 365(n) does not hold debtor-licensors to their affirmative obligations.

50 *See, e.g.*, Mass. Dept. of Unemployment Assistance v. OPK Biotech, LLC (In re PBBPC, Inc.), 484 B.R. 860, 869 (B.A.P. 1st Cir. 2013) (extending "interests" such that the purchaser in a 363 sale was not burdened by the higher unemployment tax rate assessed against the debtor).

51 *See, e.g.*, Order, In re Borders Grp., Inc., Ch. 11 Case No. 11-10614 (MG) (Bankr. S.D.N.Y. Sept. 27, 2011) (free and clear sale of trademark assets). *See also* FutureSource LLC v. Reuters, Ltd., 312 F.3d 281, 285 (7th Cir. 2002) (section 363(f) sale order extinguished all interests in the assets, including license in intellectual property); Hargrave v. Township of Pemberton (In re Tabone, Inc.), 175 B.R. 855, 858 (Bankr. D.N.J. 1994); In re Shary, 152 B.R. 724, 725 (Bankr. N.D. Ohio 1993) ("the State's failure to object to the sale, or the confirmation of the sale, implicitly conveyed its consent to the sale as found under §363(f)(2)."); Citicorp Homeowners Servs., Inc. v. Elliot (In re Elliot), 94 B.R. 343, 345-46 (E.D. Pa. 1988) (finding that "Citicorp consented to the [free and clear sale under 363(f)] by failing to make any timely objection after receiving notice of the sale"); Pelican Homestead v. Wooten (In re Gabel), 61 B.R. 661, 667 (Bankr. W.D. La. 1985) (finding failure to object to constitute implicit consent [to free and clear sale under 363(f)]).

52 Precision Indus., Inc. v. Qualitech Steel SBQ, LLC, 327 F.3d 537 (7th Cir. 2003).

53 Thus, *Qualitech* could easily be extrapolated to allow the extinguishment of IP licenses without giving licensees an opportunity to exercise their section 365(n) election.

54 11 U.S.C. §363(e) provides in relevant part: "Notwithstanding any other provision of this section, at any time, on request of an entity that has an interest in property used, sold, or leased, or proposed to be used, sold, or leased, by the trustee, the court, with or without a hearing, shall prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest."

55 *Id.* §361(3) (emphasis added).

56 *See id.* §365(c)(1).

57 The rule was recently stressed in Cincom Systems,

Inc. v. Novelis Corp., 581 F.3d 431, 437 (6th Cir. 2009). In the *Cincom* case, the Sixth Circuit Court of Appeals discussed the general rule regarding assignability in the context of intellectual property. In particular, the Court noted that intellectual property licenses are presumed to be nonassignable and nontransferable in the absence of "express provisions to the contrary." Where the license agreement is silent on its assignability the license agreement must be construed consistent with federal copyright law and policy prohibiting unauthorized transfers in the absence of express authorization.

58 *See CFLC*, 89 F.3d at 677.

59 Blanks v. N.C.P. Marketing Group, Inc., 337 B.R. 230, 236-237 (D. Nev. 2005).

60 *Id.* at 236 ("the trademark owner not only has a right to assign a trademark, but the same owner also maintains a right and duty to control the quality of goods sold under the mark") (citing 15 U.S.C. §1060).

61 In re XMH Corp., 647 F.3d 690 (7th Cir. 2011).

62 *Id.* at 696-697.

63 *Id.* at 696 ("a trademark license is not assignable without the owner's express permission").

64 *Id.* at 697 ("a trademark owner [or licensee] might delegate so much responsibility to the service provider as to lose the right or power to assure the quality of the trademarked brand, and then he would lose the trademark").

65 See *In re* West Elecs. Inc., 852 F.2d 79, 83 (3rd Cir. 1988); RCI Tech. Corp. v. Sunterra Corp. (In re Sunterra Corp.), 361 F.3d 257 (4th Cir. 2004) (software license); *In re Catapult Entm't, Inc.*, 165 F.3d 747 (9th Cir. 1999), cert. dismissed, 120 S. Ct. 369 (1999); In re James Cable Partners, L.P., 27 F.3d 534, 537-38 (11th Cir. 1994). Thus, *e.g.*, in In re N.C.P. Mktg. Group, the district court held that because the license could not be assigned by the debtor, it could not be assumed either, and had to be rejected by the debtor. 337 B.R. at 236-237.

66 *See* Institut Pasteurv. Cambridge Biotech Corp., 104 F.3d 489 (1st Cir.1997), *cert. denied*, 521 U.S. 1120 (1997); Summit Inv. & Dev. Co. v. Leroux, 69 F.3d 608 (1st Cir. 1995). *See also* In re GP Express Airlines, Inc., 200 B.R. 222, 231 33 (Bankr. D. Neb. 1996) (holding that debtor may assume a patent or copyright license, but may not assign it to a third party).

67 Lower courts in these jurisdictions have tended to apply the actual test. *See, e.g.*, In re Adelphia Commc'ns Corp., 359 B.R. 65 (Bankr. S.D.N.Y. 2007); In re Footstar, Inc., 323 B.R. 566 (Bankr. S.D.N.Y. 2005); In re Ontario Locomotive & Indus. Ry. Supplies (U.S.), Inc., 126 B.R. 146 (Bankr. W.D.N.Y. 1991); In re Mirant Corp., 303 B.R. 319 (Bankr. N.D. Tex. 2003); In re Cajun Elec. Members Comm. v. Mabey (In re Cajun Elec. Power Co-op., Inc.), 230 B.R. 693 (Bankr. M.D. La. 1999); In re Cardinal Indus., Inc., 116 B.R. 964 (Bankr. S.D. Ohio 1990); In re Superior Toy & Mfg. Co., Inc., 1995 WL 276024 (N.D. Ill. May 9, 1995).

68 Noted that this strategy does not run afoul of the rule that a debtor cannot unilaterally contract away its authority to assume or reject an executory contract. *See* In re Trans World Airlines, Inc., No. 01-0056, 2001 Bankr. LEXIS 267 (Bankr. D. Del. Mar. 12, 2001).

69 *See, e.g.*, In re Computer Commons, Inc., 824 F.2d 725 (9th Cir. 1987).

70 Cal. Evid. Code §622 ("The facts recited in a written instrument are conclusively presumed to be true as between the parties thereto.").

71 *See* 11 U.S.C. §547.

72 For instance California's commercial code states that a "[s]ecurity interest" means an interest in personal property ... which secures payment *or performance of an obligation*. Cal. Com. Code §1201(b)(35) (emphasis added).

73 *See* Official Comments, U.C.C. §9-106.

74 *See* In re Roman Cleanser, 43 B.R. 940, 944 (Bankr. E.D. Mich. 1984) ("filing a security interest is not covered under the Lanham Act"); Trimarchi v. Together Dev. Corp., 255 B.R. 606, 611-612 (D. Mass. The UCC itself provides that "[t]he filing of a financing statement otherwise required by this Article is not necessary or effective to perfect a security interest in property subject to ... a statute ... which provides for a national or international registration or ... which specifies a place of filing different from that specified in this Article for filing of the security interest." UCC §9-302(3).

75 However, it is important to note that a USPTO filing, on its own, is insufficient to perfect the security interest. See *Roman Cleanser*, 43 B.R. at 944; *Trimarchi*, 255 B.R. at 611-613.

76 *Trimarchi*, 255 B.R. at 612 ("security interest in a trademark is not equivalent to an assignment"); In re 199Z, Inc., 137 B.R. 778, 782 (Bankr. D. Cal. 1992) (holding that the grant of a security interest does not constitute an assignment to which the Lanham Act applies).

77 *Roman Cleanser*, 43 B.R. at 944-46.

78 Cal. Com. Code §9610(b).

79 Three consecutive years of nonuse constitute prima facie evidence of abandonment. 15 U.S.C. §1127.

80 *See* Hough Mfg. Corp. v. Va. Metal Indus., Inc., 453 F. Supp. 496, 501-502 (E.D. Va. 1978).

81 In re Crowthers McCall Pattern, Inc., 120 B.R. 279, 296 (Bankr. S.D. N.Y. 1990) (citing inherent difficulties in valuing a trademark).

82 *See* In re Barboza, 545 F .3d 702 (9th Cir. 2009).

83 *See* In re Seagate Tech., 497 F.3d 1360, 1371 (Fed. Cir. 2007).

84 *Barboza*, 545 F.3d 702; *see also* Fishman Transducers, Inc. v. Paul, 684 F.3d 187, 191-192 (1st Cir. 2012) (applying *Barboza* analysis to trademark infringement); Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc., 658 F.3d 936, 946 (9th Cir. 2011) (same).

85 *See* N.A.S. Import Corp. v. Chenson Enters, Inc . 968 F.2d 250, 252 (2d Cir. 1992).

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