

Selling it First, Stealing it Later The Trouble with Trademarks in Corporate Transactions in Bankruptcy

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I. INTRODUCTION

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Imagine this hypothetical. Ten years ago, Apple, Inc. (AI), wishing to concentrate on its software business, decided to sell off its struggling Apple Music Division. The sale of the corporate division included physical and intangible assets, facility and personnel. AI found a willing purchaser (NewCo) for the division at a negotiated price. AI and NewCo entered into an asset sale and purchase agreement, together with a perpetual, exclusive, royalty-free trademark license agreement. The parties bargained for and agreed that AI would continue to use the trademark “Apple” in business outside the division, and NewCo has the right to use the trademark “Apple” in connection with the music products and services offered by the division. NewCo began the operation of the division after the acquisition. Things had been going very well for NewCo; it had expanded into the digital music world with many new “Apple” products and services.

Fast forward ten years. AI is now going through reorganization under bankruptcy law. AI seeks to terminate the exclusive trademark right used by NewCo in the music industry. AI will not compensate NewCo for the trademark right to use. The reversion of the exclusive right to use the trademark “Apple” in the music industry was never anticipated by either AI or NewCo at the time of the sale and purchase of the corporate division ten years ago. NewCo’s executives are furious as they are facing a business and legal nightmare. How can NewCo proceed with its business without the trademark right that it has been using to market and sell products in the last ten years? How can it be that the “perpetual and exclusive” right to use the trademark in connection with the marketing and sales of music products and services now has no meaning? NewCo’s bargained-for right to use the trademark faces elimination, even though it was never in breach of the trademark agreement.

Why does AI get two bites of the “Apple” trademark? Should AI be allowed to grant the right to use the trademark “perpetual and exclusive” with the sale of the music division and steal it back for free, ten years later? This article is part of an ongoing and broader inquiry into the intersection of trademark, contract and bankruptcy laws. This article argues that recent bankruptcy decisional law, notably the *In re Exide Technologies* decision,¹ misunderstands the “perpetual and exclusive” trademark transaction, deeming it as an ordinary “license” when it is truly an outright sale. This article explains that the “perpetual and exclusive” trademark transaction is a type of transaction that allows the seller to rid itself totally from a struggling division by selling all the property required for the operation of the division to a willing buyer. It is a transaction that permits the seller to divide up the trademark so the buyer can

1. *In re Exide Techs.*, 340 B.R. 222 (Bankr. D. Del. 2006).

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use the trademark forever with the acquired division and the seller can also use the trademark outside the division. This article also argues that the misunderstanding of corporate trademark transactions will lead to uncertainty, discouraging similar future transactions to occur. Companies will be reluctant to acquire a corporate division, along with the perpetual and exclusive right to use a trademark that is also the trademark used in the seller's remaining businesses. The threat of termination of the trademark right when the seller is bankrupt some years later in the future will force potential acquirers to negotiate for much lower prices, to the detriment of the seller at the front end of the transaction.

This article proceeds as follows. Part II describes trademark license arrangements that are typically utilized by the trademark owner to distribute and sell their products in the marketplace and not to sale an entire business unit to a purchaser. This type of trademark license arrangement is different from the uncommon transactions involving in essence a sale of trademark rights that accompany the sale of a corporate division to an unrelated company, as discussed in Part III. In this more uncommon transaction, the seller wants to sever ties with a particular corporate division while retaining the other divisions of the business. The seller sells the division to a purchaser, together with the grant of a perpetual, exclusive, and royalty-free right to use the trademark in the operation of the corporate division.

Part IV examines the bankruptcy court decision, *In re Exide Technologies*,² where the transaction involving trademark rights, properly understood, fell within the type identified in Part III, the corporate sale of a business division together with the grant of right to use the trademark perpetually, exclusively and without further payment beyond the lump-sum purchase price of the corporate business division. That trademark transaction should have been held to be a sale, not as a typical license of merely the right to use. The *Exide Technologies* decision causes much uncertainty as potential purchasers may not be aware at the time of the acquisition that it may lose the perpetual and exclusive right to use the trademark in connection with the purchase of the corporate division. Why should a purchaser pay a large sum for all the assets, tangible and intangible, including the trademark right that it will not have in the future? Why should a purchaser pay for a property right that it later adds more value to through extensive advertising to be one of the best brands, if it will eventually be taken away without any compensation?

Part V argues that the uncertainty must end, calling on the courts to recognize the reality and the substance of the corporate sale transactions of assets. If a grant of a perpetual, exclusive and royalty-free trademark right is an outright sale of the right to the trademark, the purchaser can continue to operate

2. *Id.*

the corporate division after the acquisition. This article suggests that, if bankruptcy courts adopt and follow *In re Exide Technologies*, the purchaser will have no other option to ensure certainty that its purchased business will not be destroyed other than to negotiate for a concurrent use of the same trademark with the seller by means of an assignment of the trademark right in specified fields of use. The trademark concurrent use doctrine allows two or more owners of the same trademark to operate in distinct territories. The doctrine has its drawbacks as two owners attempt to coexist, but allows the purchaser to keep the trademark out of the debtor seller's bankrupt estate and alleviate the deadly reversion of the trademark right.

This article concludes that the intersection of trademark and bankruptcy law has brought more uncertainty and unpredictability to the corporate sales of assets transactions. The damages suffered by the purchaser in the *In re Exide Technologies*³ case serve as a reminder of a costly and chilling result of the uncertainty and unpredictability.

II. TRADEMARK IN LICENSES—TYPICAL, ORDINARY TRANSACTIONS

The owner of trademarks can exploit the commercial power of the trademarks by licensing the trademarks to others. A trademark license is generally a contractual agreement between the trademark holder and a third party to use the trademark in connection with certain goods or services and within a certain territory.⁴ The licensee enjoys the right to use the trademark, while the owner continues to possess the title to and ownership in the trademark.

A trademark license agreement can be oral, but most are in writing.⁵ A typical trademark license agreement contains provisions relating to the scope of the grant, quality control, duration of the license, royalty provision, best efforts of the licensee, registration,⁶ and termination.⁷ Trademark license agreements

3. *Id.*

4. Irene Calboli, *The Sunset of "Quality Control" in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 348 (2007) (noting that the trademark owner's authorization by contracts to allow a third party to use the trademark is a trademark license); *see also* Jennifer T. Miller, *Trademark Licensing*, 928 PLI/PAT 423, 427 (2008) (stating that "[a] trademark license is a contract between the owner of a trademark (the 'licensor') and a third party (the 'licensee') permitting the licensee to make a specific, limited use of the trademark in commerce.").

5. *See, e.g.*, *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1017–18 (9th Cir. 1985) (en banc).

6. Some trademark license agreements will contain a registration provision. Outside the United States, the licensee may have to register the license agreement with the appropriate authority. International trademark license agreements may include a provision relating to the registration of the agreements on the part of the licensees. *See* Anne Bright

specify the scope of the grant so the parties know what the licensor is granting and what the licensee will receive as to the trademarks, the exclusivity of the right to use them, plus fields of use and territory.⁸

Trademark license agreements often include a quality control provision to maintain the quality of the products or services bearing the licensed trademark. If the licensor fails to exercise quality control, the license arrangement may be viewed as “naked” licensing, and the licensor may face the risk of losing the trademark.⁹ The trend in trademark licensing today with respect to quality control has changed, as courts have adopted a flexible approach that allows licensors to rely on the reputation and expertise of the licensees for the quality control of the trademarked products; the licensor is no longer directly involved in quality control.¹⁰

Trademark licensors want to be compensated for the use of trademarks pursuant to the license arrangement. Trademark license agreements include royalty provisions detailing the methods of calculation and payment schedules. Running royalty payments are dependent on volume of sales, net sales, distribution, or production.¹¹ Licensees generally prefer the running royalty

Gundelfinger, *International Trademark Management*, 393 PLI/PAT 125, 137 (1994). Also, trademark license agreements include the allocation of cost with respect to trademark registration. See Peter E. Mims, *Trademark Licensing: Fundamentals and Practical Considerations*, 762 PLI/PAT 391, 429 (2003) (discussing the registration provisions).

7. See samples of trademark license agreements as attachments in Miller, *supra* note 4 at 433–45. These license agreements contain the typical provisions such as license grant and territory, quality control, term, and termination. *Id.* at 428–33.

8. Debbie K. Wright, *Trademark Licensing*, 915 PLI/PAT 25, 31 (2007) (observing that one of the most fundamental, key provisions in a trademark license includes the “scope of territory of how the licensee may use the trademark (e.g., geographic territory, exclusive rights, non-exclusive rights, good/services licensed)”).

9. See *Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589, 596–97 (9th Cir. 2002) (licensor failed to provide evidence of quality control in a case where licensor claimed to rely on licensee’s quality controls, but did not have knowledge of such controls); see also *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 872 (10th Cir. 1995).

10. For example, in *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, the Seventh Circuit affirmed the district court’s finding that the license arrangement for the use of the Land O'Lakes trademark for canned food wherein the licensor relied on the licensee for quality control was not a naked license since the arrangement lasted for forty years without any complaints about the quality of the goods. 330 F.2d 667, 670 (7th Cir. 1964). See generally NGUYEN, ET. AL, *INTELLECTUAL PROPERTY, SOFTWARE AND INFORMATION LICENSING* 351 (BNA 2006) (“The reason for the trend towards flexibility is the practical reality that a licensing arrangement may entail some loss of control over product quality. But as long as the licensor maintains reasonable control over product quality, consumers ultimately do rely upon the licensor’s quality control. Consumers generally are oblivious to the corporate structure relating to trademark transfers or licenses.”).

11. Here is an example of running royalty payment provision excerpted from *Black*

payments because they want to minimize the exposure of paying the licensor a large sum in advance.¹² From the licensor's perspective, including a minimum royalty payment plan is a necessary protection.¹³ Essentially, the licensor forces the licensee to use its best efforts and diligently exploit the licensee's rights under the license agreement by requiring that the licensee pay a minimum fixed amount regardless of the volume of sales, production, or distribution of the trademarked products.¹⁴ Additionally, the licensor will monitor and audit royalty payments, and to that end, the agreement typically includes provisions relating to record keeping, reporting, and audits.¹⁵

Obviously, if the licensee fails to pay the required royalties, it is in breach of the license agreement.¹⁶ Generally, a trademark license agreement will allow for a cure period. If a breach is not timely cured, the license agreement is subject to termination.¹⁷ The termination provision may include a list of events deemed terminable.¹⁸ When the licensee fails to perform its obligations such as lack of adherence to the quality control provision or breach of certain material

& *Decker(US) Inc. v. Catalina Lighting, Inc.*, 953 F. Supp. 134, 136 n.6 (E.D. Va. 1997):

Year 1: 2% of all Net Shipments of Westinghouse Brand products with minimum payment of \$250,000. Payments commencing when Net Shipments begin, but the first year minimums are calculated during the first 18 months of the contract;

Year 2: 2% of all Westinghouse Brand Net Shipments with minimum royalty payment of \$500,000;

Year 3: 3% of all Westinghouse Brand Net Shipments with minimum total Net Shipment of Westinghouse Brand products of \$25 million;

Year 4: 4% with minimum Net Shipments of Westinghouse Brand products of \$40 million;

Year 5 and thereafter: 4% with minimum Net Shipments of Westinghouse Brand products of \$60 million.

12. Eleanor M. Lackman, *Licensing Your Trademarks*, 893 PLI/PAT 283, 297 (2007) (advising licensees to avoid initial licensing fees and only provide for royalties in "very spaced out installments").

13. On the other hand, the licensees should "[a]void minimums if license is non-exclusive, and if minimums must be paid, then choosing minimum royalties over minimum sales might be preferable." *Id.*

14. For example, a "Best Efforts" provision imposes on the licensee that it "will proceed with diligence and will exert its best efforts in the exploitation, manufacture and sale of the licensed products, and in all ways and to the best of its ability will promote the sale of the licensed products throughout the licensed territory and supply the market therefor." *Saverslak v. Davis-Cleaver Produce Co.*, 606 F.2d 208, 210 n.2 (7th Cir. 1979).

15. *Caterpillar Inc. v. Jerryco Footwear, Inc.*, 880 F.Supp. 578, 578-84 (C.D. Ill. 1994) (finding the licensee underreported and understated the royalties).

16. See generally Liisa M. Thomas, *Trademark Licensing*, 927 PLI/Pat 511, 520 (2008) (describing termination provision).

17. The cure period can be quite short if the licensee fails to make royalty payment. *Id.* (noting that some licensors will only allow 10 days for such cure).

18. *Id.*

provisions, it triggers the termination provision.¹⁹

In summary, the devices used by trademark owners in their efforts to exploit their trademarks is the license or permission to third parties to limited use of the trademarks for a specific duration. The license agreement contains many provisions to protect the licensors as the owners of the trademark with a stake in the continued viability of the mark.

III. TRADEMARKS IN CORPORATE TRANSACTIONS

When a company, owning many divisions of its growing expansive business under common trademarks or house marks,²⁰ decides to unload a division of its business, it must determine how to structure the transaction including the intangible assets, such as the trademarks.²¹ Generally, a potential

19. *Id.* (providing a sample of termination provision favorable to the licensor). The sample termination provision allows the licensor to

terminate this Agreement upon thirty (30) days written notice to the licensee if: (i) Licensee fails to actively manufacture and distribute the Licensed Products; (ii) Licensee fails to make a payment and does not cure such failure within ten (10) days after notice thereof; (iii) Licensee fails to comply with any of its material obligations hereunder or breaches any warranty or representation made by it hereunder and does not cure such failure or breach within ten (10) days after notice thereof; or (iv) Licensee sells or otherwise disposes of all or substantially all of its business or assets to a third party, or control or Licensee is transferred. Upon termination, Licensee shall immediately cease all use of the Licensed Mark/Work, and shall immediately cease all sales, distribution and marketing of items bearing the Licensed Mark/Work.

Id.

20. See Lyrrisa Barnett Lidsky & Thomas F. Cotter, *Authorship, Audiences, and Anonymous Speech*, 82 NOTRE DAME L. REV. 1537, 1564 (2007) (noting that companies such as Coca-Cola or Samuel Adams market new products under their known “family” or “house” marks). Professor Thomas McCarthy discussed how companies use house marks in connection with new product marks to capitalize on the strength of the house marks. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 7:5 (4th ed. 2008) (providing familiar examples of house mark and product mark usage as seen in “SONY WALKMAN audio equipment, INTEL PENTIUM processor chips, APPLE MACINTOSH computer, FORD MUSTANG auto and VASELINE INTENSIVE CARE hand lotion”). Professor McCarthy explained that when the mark KELLOGG appears along with the mark POP-TARTS, the house mark KELLOGG “does not per se detract from the trademark function of the product mark POP-TARTS.” *Id.*

21. It is not surprising that the company generally will sell the financially struggling division of its business. For example, Capital Cities/ABC (“ABC”), the parent company of Chilton, decided to divide up various subdivisions of Chilton and sold them to different purchasers. See *Hearst Bus. Pub., Inc. v. W.G. Nichols, Inc.*, 76 F. Supp. 2d 459, 461–62 (S.D.N.Y. 1999). Capital Cities/ABC sold the Chilton automotive publishing business to a purchaser, Motor Informational Systems, Inc. (“Motor”), a Hearst division. *Id.* The sale

purchaser of the division needs to acquire the perpetual and exclusive right to use the existing trademarks in the operation of the purchased division. This is so the purchaser can market, distribute and sell products and services while the seller company desires to keep its ownership in the trademarks for the continuation of the remaining divisions of its business. The company has several options to structure the transaction, depending on the circumstances.²² For example, the company may want to provide the purchaser the right to use the trademark only within the division.²³ Accordingly, the company will insist on a license agreement with field of use restriction.²⁴ In some cases, where the trademarked products are confined within a particular territory, the company may furnish the purchaser the right to use the trademark in the specified territory.²⁵ That means, in addition to the Asset and Purchase Agreement, the seller will grant a license with a territorial restriction to the purchaser.

included a right to use the Chilton trademark for a short duration of two years. *Id.* It also sold to the W.G. Nicols, Inc. “all of Chilton’s existing properties, assets and business related exclusively to the Consumer Automotive Division.” *Id.* at 462. Capital Cities/ABC then sold the remainder of Chilton, including the Chilton trademark and trade name, to a third company, Reed. *Id.* If the parent company does not want to conduct an assets sale, it can pursue a sale of the shares in the corporate division. *See generally* Linde Aktiengesellschaft v. Clark Equip. Co., No. K78-147 CA8., 1985 WL 2178 (W.D. Mich. January 15, 1985) (providing detailed information on a transaction involving shares of the corporate division and a license to use a trademark in connection with the products sold by the corporate division).

22. *See generally* Mark V.B. Partridge, *Trademark Licensing in A Corporate Transaction*, at 3 (Pattishall McAuliffe, Chicago, IL.) (raising the question that when “the goal of the transaction is to sell certain subsidiaries as they are currently operated while continueing [sic] in business with the other subsidiaries, what happens to the house mark?” and exploring different issues arising from the transaction), *available at* <http://www.patishall.com/pdf/TrademarkLicensing.pdf>.

23. For example, the seller and the purchaser may agree that the duration will be a short period of time so the purchaser can transition the products to be marketed under new trademarks. *See* Neil S. Hirshman, *Ownership of Intellectual Property Technology Assets: Contracting, Joint Development and Alliances*, 740 PLI/PAT 199, 251 (2003) (noting that in an Asset Purchase, the seller and the buyer typically have two options: either the “Seller owns all of the intellectual property and grants a perpetual, irrevocable, paid-up, non-exclusive license in certain fields to the Buyer” or the “Buyer owns all of the intellectual property but Seller retains a perpetual, irrevocable, paid-up, royalty-free, nonexclusive license in certain fields.”).

24. Thomas, *supra* note 16, at 518 (noting that the phrase “field of use refers to the territories and markets in which the mark can be used, while scope of use usually refers to the goods or services with which the mark will be used.”).

25. *Id.* (stating that “[L]icensors typically seek to limit the field of use with which their asset is used, while licensees seek broad grants”). When a license agreement contains a territory provision, it aims to address the question “In what territories may the licensee use the trademark?” Amanda Laura Nye, et. al, *Fundamentals of Trademark Licensing*, 763 PLI/PAT 705, 719 (2003).

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Moreover, the seller may reserve the right to use the trademark on products or services outside of the field of use restriction, knowing that the seller has rights inside the geographical territory, as long as not within the field of use granted to the licensee.

The potential purchaser, contemplating the acquisition, will plan to pay either a lump sum or a combination of a lump sum and contingent payments to acquire the assets of the corporate division from the company seller.²⁶ Spending significant financial resources to acquire the division, the purchaser obviously believes that the acquisition is a good business decision, and that it will turn the division into a profitable enterprise, yielding a nice return on its investment. To achieve those goals, the purchaser will negotiate for a price that will give it the right to the physical assets, manufacturing facility, key personnel, and intangible assets,²⁷ including the perpetual, exclusive trademark right to continue the operation of the division.²⁸

Below are illustrative examples from reported cases of corporate sales of assets transactions, together with the right to use trademarks within a field of use and a geographical territory.

A. Chain v. Tropodyne: Sale of Assets and Trademark Use Within the Acquired Division

In *Chain v. Tropodyne Corp.*, the Jeffrey Chain division of Dresser Industries was in the business of manufacturing engineering grade chains.²⁹ In 1985, Dresser Industries sold the Jeffrey Chain division to a purchaser.³⁰ Under the Asset Purchase Agreement, the purchaser acquired the manufacturing plant and the right to use the name “Jeffrey Chain” as its corporate name.³¹ Pursuant to the ancillary License Agreement, as part of the

26. Compare to the complex structure of royalty scheme dependent on production or sale volumes or the annual minimum royalty payment. *See Nye, et. al, supra* note 25, at 722–29 (discussing the various royalty scheme payments under a typical, stand-alone trademark license agreement).

27. *See* Judith L. Church, *Structuring Deals Involving Intellectual Property Assets*, 794 PLI/PAT 123, 146 (2004) (noting that buyers usually prefer an asset deal over a stock deal because “it provides an opportunity for the buyer to select assets and liabilities and leave behind those that are undesirable”).

28. *See id.* at 138 (noting that “exclusive rights are more valuable than non-exclusive rights. The scope of an exclusive grant can be limited in other ways (e.g., by field of use or territory).”).

29. *Chain v. Tropodyne Corp.*, 93 Fed. Appx. 880, 881 (6th Cir. 2004).

30. *Id.*

31. The Asset Purchase Agreement between Dresser Industries and the purchaser provided in pertinent part: “Use of Jeffrey Name. Seller will license Buyer to use the name Jeffrey Chain in connection with the sale of chain products. Buyer shall not be entitled to use

transaction, Dresser Industries granted the new Jeffrey Chain Company a perpetual, exclusive license to use the “Jeffrey” and “J” marks in the sale of non-plastic sewage chains.³² Dresser Industries reserved “sole and exclusive ownership” in the trademarks “Jeffrey” and “J” in the remainder of its business while it agreed not to use the trademarks contrary to the license terms specified in the License Agreement.³³ After the acquisition, Jeffrey Chain used the “Jeffrey Chain” name on engineering class chains which included all types of metallic and plastic chains.³⁴

Seven years later, in 1992, Dresser Industries struggled with its remaining business and spun off its plastic sewage chain division and sold it to Indresco.³⁵ The sale of the plastic sewage chain division included an assignment of Dresser Industries’ ownership interest in the “Jeffrey” and “J” trademarks.³⁶ Three years thereafter, in 1995, Tropodyne acquired Indresco Company.³⁷ From 1996 to 2004, Jeffrey Chain and Tropodyne engaged in trademark infringement and unfair competition disputes.³⁸ The Sixth Circuit held that the original transaction between Jeffrey Chain and Dresser Industries gave Jeffrey Chain the exclusive right to use the mark “Jeffrey” together with the word “Chain” in the non-plastic chain business, as well as the right to use “Jeffrey Chain” as a

the name “Dresser” or any name implying that Buyer is associated with Dresser, or to use the name “Jeffrey” except when immediately followed by “Chain,” as in Jeffrey Chain. . . . The use of the Jeffrey name and trademark is the subject of a license agreement . . . a copy of which is attached as Exhibit D hereto.” *Id.* at 882 n.2.

32. The ancillary License Agreement provided in pertinent part:

A. LICENSOR grants to LICENSEE the right to use the mark “Jeffrey,” but only when coupled with the word “Chain,” in its corporate or business name.

B. LICENSOR hereby grants to LICENSEE the sole, perpetual, and exclusive right and license to manufacture, use, and sell metallic and non-metallic chains and parts and components thereof, other than plastic chains and chain parts and components to be used in the sewage industry, throughout the world under the trademarks “Jeffrey” and/or “J” as hereinabove described (herein, the LICENSED MARKS”), subject, however, to the following:

(i) LICENSEE may use the LICENSED MARKS only when the LICENSED MARKS are associated with the word “Chain” ...

Id. at 882 n.3.

33. “C. LICENSOR also expressly reserves the sole and exclusive ownership of the trademarks “Jeffrey” and “J” and LICENSEE agrees not to use the same except as specifically provided herein.” *Id.*

34. *Id.* at 882.

35. *Id.*

36. *Id.*

37. *See id.*

38. *See generally id.* (stating that Jeffrey Chain initiated a trademark infringement and unfair competition suit against Tropodyne in 1996). The Sixth Circuit Court of Appeals rendered its decision in 2004. *Id.* at 884.

corporate name, and the right to expand its business in the plastic chain business, in addition to the right to use the corporate name in conjunction with the sales of plastic chain.³⁹

The *Chain v. Tropodyne* case demonstrates that, when an entire division of a business is sold, the purchaser acquires the physical assets and the perpetual and exclusive license to use the trademark so it can continue to operate and later expand the products and services as it desires. In fact, the purchaser Jeffrey Chain did expand its chain business after the acquisition, and also expanded the use of the trademark on new products.⁴⁰ The license in *Chain v. Tropodyne* is exclusive and that means only the purchaser Jeffrey Chain can use the trademark within the field.⁴¹ Although the seller continued to possess legal ownership of the trademark in the remaining areas of its business, it could not use the trademark in the same field pursuant to the Asset Purchase and License Agreements.⁴² Regardless of whether the seller continued to operate its remaining business or sold and assigned all of its rights, including the trademark rights, Jeffrey Chain was the only entity that had the sole right to use the trademark within the acquired division. The seller and its successors had already received the monetary sum for the sale of the assets of the division and could not go back to the purchaser to reclaim the trademark license. Consequently, the seller or its successors were not allowed to compete against Jeffrey Chain in the same market using the same trademark. If it did so, the seller or its successor would face trademark actions brought by Jeffrey Chain.⁴³

B. *Seattle Brewing & Malting Co. v. Commissioner: Sale of Assets and Trademark Use Restricted to Field of Use and Geographical Territory*

In *Seattle Brewing & Malting Co. v. Commissioner*, the Tax Court held that the taxpayer's acquisition of a brewing plant together with the perpetual, exclusive license to use the trademark for alcoholic beverages within a limited geographical territory was not a "license," but a capital asset.⁴⁴ Therefore, the cost of the transaction was not deductible from income as a business expense.⁴⁵

In that case, the taxpayer Century Brewing Association ("taxpayer" or "Century") was a manufacturer of beer in Seattle, Washington.⁴⁶ The Seattle Brewing & Malting Company ("Rainier") was also in the same business in the

39. *Id.* at 884.

40. *Id.* at 882.

41. *Id.* at 881–82, 882 n.3.

42. *Id.*

43. *See id.*

44. *Seattle Brewing & Malting Co. v. Comm'r*, 6 T.C. 856, 873 (1946).

45. *Id.*

46. *Id.* at 857.

Seattle area with its corporate headquarters in California.⁴⁷ The taxpayer and Rainier entered into an agreement entitled “Licensing Agreement,” wherein Rainier sold its physical plant, property and equipment located in Seattle, together with the right to use the trademark “Rainier” in Washington and Alaska, in consideration for payments contingent on either a production basis or a minimum royalty.⁴⁸ Pursuant to the Agreement, Rainier agreed that it would not sell or distribute alcoholic beverages in Washington and Alaska.⁴⁹ The parties acknowledged that Rainier was the owner and would continue to have the sole and exclusive right to manufacture and distribute non-alcoholic beverages in the same territory under the same trademark.⁵⁰

The Agreement contained a provision wherein Rainier agreed to maintain all federal registrations of the trademark.⁵¹ With respect to quality control, Century agreed that it would manufacture alcoholic beverages of the same quality as those manufactured and marketed by Rainier, and that the alcoholic beverages would be produced under the same formulae used and provided by Rainier.⁵²

Although Century acquired the title to the physical plant and real property from Rainier for the brewing business, Rainier demanded and Century agreed

47. *Id.*

48. *Id.* at 858.

49. *Id.* at 859 (“Rainier agrees that during the period of time this agreement remains in force, it will not manufacture, sell or distribute, within the territory herein described, directly or through or by any subsidiary company or instrumentality wholly owned or substantially controlled by it, beer, ale, or other alcoholic malt beverages, or directly or indirectly enter into competition with Century in said territory.”).

50. *Id.* (“It is understood and agreed, however, that Rainier shall have the sole and exclusive right to manufacture, sell, and distribute non-alcoholic beverages within said territory under said trade names or brands of ‘RAINIER’ and ‘TACOMA’ and any and all other trade names or brands that it owns and desires to use.”).

51. *Id.* (Rainier agrees that during the period of time this agreement remains in force it will maintain in full force and effect Federal registrations of said trade names or brands, ‘RAINIER’ and ‘TACOMA’ and will likewise maintain in full force and effect the present registration of said trade names or brands within the State of Washington and Territory of Alaska.”).

52. The Quality Control provision pursuant to the Licensing Agreement is as follows:

Century agrees that any and all beer, ale, or other alcoholic malt beverages manufactured by it pursuant to this agreement and marketed under said trade names and brands of ‘RAINIER’ and ‘TACOMA’ shall at all times be of a quality at least equal to the quality of similar products then manufactured and marketed under said trade names and brands by rainier; and shall be manufactured under the same formulae used in the manufacture of similar products by Rainier, which formulae Rainier shall make available to Century.

Id.

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to provide security for all of its ongoing obligations under the License Agreement.⁵³ To that end, the Agreement included a provision wherein Century agreed that if it was in default of any of its obligations, the title to the real property would pass to Rainier as liquidated damages.⁵⁴

Rainier and Century devised an elaborate royalty payment plan dependent on the alcoholic beverage production levels.⁵⁵ The parties also included a minimum annual royalty payment fee to ensure that Rainier would continue to receive a minimum sum, if Century failed to meet its own production and sales.⁵⁶ Century agreed to use its best efforts to increase the sales of alcoholic beverages within the territory and to expend advertising amounts to market the products.⁵⁷ In anticipating potential local prohibition laws on the manufacturing of alcohol, the Agreement also contained provisions to address how the minimum royalty payments would be adjusted accordingly.⁵⁸

In addition, the Agreement contained an option provision.⁵⁹ Pursuant to that provision, Century had the right and option to terminate all royalties by paying a sum of \$1 million to Rainier, after the Agreement had been in force for five years from the original execution date.⁶⁰

After the acquisition, Century spent large sums on advertising the Rainier trademarked products in the territory.⁶¹ Consequently, Century witnessed an increase in the production and sale of Rainier beer during the five-year period after the acquisition.⁶² Century anticipated that the payments at the barrelage

53. *See id.* at 860.

54. The security provision provided:

Century agrees that upon acquiring title to the real property herein agreed to be sold to it by Rainier, it will, in addition to executing the mortgage provided in paragraph THIRD hereof, execute and deliver to Rainier such document or documents as Rainier shall deem necessary to cause said real property to stand as security for the prompt and faithful compliance by Century of all of its obligations under this agreement, to the end that should Century default in the performance of its obligations under this agreement and should Rainier elect to terminate this agreement, then and in that event, title to said real property shall pass to Rainier, free and clear of all liens and encumbrances, as and for liquidated damages due to such default.

Id.

55. *Id.* at 858–61.

56. *Id.* at 858.

57. *Id.* at 861.

58. *Id.* at 859–60.

59. *Id.* at 860–61.

60. *Id.*

61. *Id.* at 863. Century continued to increase its advertising expenditures after the first five years period and the volume of the sales of the Rainier beer expanded “steadily” in the subsequent years. *Id.*

62. *Id.* at 862 (the production and sales of Rainier beer climbed up every year and the

rate for the next five years would exceed \$1 million, and its board of directors thus decided to exercise the option provided in the License Agreement with Rainier.⁶³ Century executed a promissory note to pay Rainier the \$1 million option price, together with interest.⁶⁴ The Tax Court treated the transaction as a sale, and the \$1 million price as the cost of acquiring a capital asset.⁶⁵ Therefore, the cost was held not deductible from income as a business expense.⁶⁶

The case above represents another example of a corporate transaction wherein the seller is not operating a very profitable division and decides to sell the entire division to an unrelated company. The seller wants to continue to use the trademark outside of the specified field of use, alcoholic beverages, for its future business. The seller also wants to limit the use of the trademark to a defined territory. The acquirer desires to obtain the manufacturing plant, real property, and equipment, in addition to the right to use the trademark so it can continue production upon acquisition. The acquirer pays the agreed amount according to the payment plan, provides security for its obligations in the event of default, and uses its best efforts to produce and market the trademarked products. In fact, the acquirer aggressively operates and expands its advertising expenditures and sales of the products after the acquisition. The seller receives what it wants: monetary sums for its struggling business division, as it keeps its end of the bargain to restrain its trademark use in the specified territory. It continues ownership of the trademark and has the right to use the trademark in other fields of use. It maintains the federal trademark registration and receives \$1 million when the acquirer exercises the option to purchase the business and ceases to pay royalties.

Both *Chain v. Tropodyne*⁶⁷ and *Seattle Brewing & Malting Co. v. Commissioner*⁶⁸ serve as examples of sophisticated transactions in which corporations are often involved. These transactions are nothing new.⁶⁹ Upon acquisition the purchasers of the assets often face issues related to tax treatment

sales reached a total amount of more than \$415,000 during the first five years).

63. *Id.*

64. *Id.* (resolution of the board of directors to execute the promissory note of \$1 million to Rainier and terminate the royalty payments under the Licensing Agreement).

65. *Id.* at 873.

66. *Id.*

67. 93 Fed. Appx. 880 (6th Cir. 2004).

68. 6 T.C. 856 (1946).

69. The *Seattle Brewing & Malting Co.* case was decided in 1946. *Id.* The Tax Court noted that several cases had decided similar issues related to corporate transactions. *Id.* at 869–73. See, e.g., Judith L. Church, *Structuring Deals Involving Intellectual Property Assets*, 751 PLI/PAT 223 (2003) (providing a comprehensive overview of issues related to corporate transactions involving various forms of intellectual property assets such as trademarks, patents and copyrights).

of the amounts paid, i.e., whether the acquisition cost is deductible as an expense or is a capital asset not deductible from the income earned during the year the expense was incurred. Another issue purchasers may confront is a breach of contract action involving the right to use the trademark, originally obtained from the seller, against the seller, its successors or licensees. These two types of events are foreseeable at the time the purchasers decide to spend a large sum to acquire the business division from the seller. What the purchasers cannot imagine is that the perpetual, exclusive and royalty-free right to use the trademark for the operation of the business division could be taken away at some unknown future time if the sellers, after the sale of the assets to the purchasers, continue to struggle financially file for bankruptcy.⁷⁰

IV. CORPORATE DIVISION SALE OF ASSETS AND TRADEMARK USE IN *IN RE EXIDE TECHNOLOGIES*

The unpredictability of the corporate transaction in which a purchaser has so willingly invested its resources to acquire the assets of the corporate division from a seller is seen in the following case, *In re Exide Technologies*.⁷¹ In a nutshell, the purchaser paid millions of dollars to the seller in exchange for the entire corporate division of its industrial battery business, together with a perpetual, exclusive and royalty-free license to use the necessary trademark in the continuing operation of that business.⁷² Over the course of a decade, the purchaser had turned the business into a profitable enterprise while the seller continued to face financial hardship with its remaining divisions.⁷³ When the seller filed bankruptcy, the purchaser confronted an unimaginable situation, losing the right to use the trademark in its purchased business because the seller was in bankruptcy and seeking to reject the trademark license and recapture what was sold to the purchaser, the right to use the trademark in the industrial battery business.

A. *In re Exide Technologies*

The Bankruptcy Court in the District of Delaware held that the debtor-seller Exide Technologies could reject the license agreement with EnerSys,

70. See, e.g., *In re Exide Techs.*, 340 B.R. 222, 228 n.5 (Bankr. D. Del. 2006) (quoting the testimony of the purchaser EnerSys' President and CEO, Mr. John Craig for the description of the unexpected course of event wherein the debtor-in-possession decided to reject the perpetual, exclusive and royalty-free license that was part of the corporate assets sale transaction from Exide to EnerSys: "Exide .. is trying to ... steal back the Exide trademark and I don't think that is fair.").

71. See *id.*

72. *Id.* at 227–28.

73. *Id.* at 241–42.

Inc., which had purchased the industrial battery business from Exide Technologies along with the perpetual and exclusive right to use the trademark EXIDE for that business.⁷⁴

Ten years before Exide Technologies filed for bankruptcy, it decided to divest itself from the industrial battery business by selling the division to Yuasa, EnerSys' predecessor, for \$135 million.⁷⁵ The transaction was a typical asset sale and purchase, wherein Exide Technologies sold to EnerSys the manufacturing plants, equipment, and other assets, assigned key employees to EnerSys, signed a non-compete agreement for ten years, and granted a perpetual, exclusive, royalty-free license to use the EXIDE trademark in the industrial battery business.⁷⁶

Upon the acquisition of the battery business, EnerSys devoted its expertise and significant resources to continue to build the industrial battery business for nine years more by making high quality products.⁷⁷ EnerSys became successful in establishing a strong presence for EXIDE industrial battery and claimed to be the "leading manufacturer of motive power batteries in the world."⁷⁸

Almost a decade after its divestment from the industrial battery business, Exide Technologies decided to reenter the business by terminating the non-compete agreement with EnerSys one year early.⁷⁹ As a result, Exide Technologies purchased GNB Industrial Battery Company and competed directly against EnerSys.⁸⁰ Exide Technologies wanted to sell the industrial battery products again under the EXIDE trademark.⁸¹ Exide Technologies made several overtures to take the trademark EXIDE back from EnerSys without success because it had granted EnerSys the perpetual and exclusive right to use the EXIDE trademark in the industrial battery business.⁸²

74. *Id.* at 227.

75. *Id.*

76. *Id.* at 227–28.

77. *Id.* at 233 ("The record reflects that Exide did not receive any reports from within the industrial battery industry regarding any significant problems with the quality of EnerSys's batteries.")

78. *Id.* EnerSys stated that it has spent millions of dollars since the acquisition to promote the trademark in the industrial battery business. Consequently, it became the "leading manufacturer of motive power batteries in the world." EnerSys Mem. Supp. of Objection to Debtors' Sum. J., 2003 WL 23964244 (Bankr. D. Del. Sept. 22, 2003).

79. *In re Exide Techs.*, 340 B.R. at 228.

80. *Id.* (stating that "Exide believed that there was significant goodwill attached" to the trademark, but "EnerSys had the exclusive right to use the Exide mark in the industrial battery business" and that Exide was determined to re-enter the industrial business).

81. *Id.*

82. *Id.* (noting that "Exide made several unsuccessful . . . overtures to EnerSys in attempts to regain the Exide mark" before Exide filed for bankruptcy).

In April 2002, Exide Technologies filed for reorganization under Chapter 11 of the Bankruptcy Code.⁸³ Exide Technologies sought to reject the perpetual and exclusive trademark agreement granted to EnerSys.⁸⁴

The bankruptcy court found that the trademark license was an executory contract because there were material and ongoing obligations remaining unperformed under the agreement.⁸⁵ The court then evaluated the agreement and held that Exide Technology's rejection of it was an exercise of sound business judgment for the debtor's reorganization effort.⁸⁶ EnerSys' right to use the trademark in the industrial battery business was extinguished upon rejection of the trademark license.⁸⁷

To support its conclusion that the trademark agreement was an executory contract, the court's legal analysis proceeded with the familiar "Countryman standard."⁸⁸ Under that standard, the bankruptcy court stated that "a contract is executory when 'the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other.'"⁸⁹ The court noted that it looked at the "four corners" of the agreement to determine whether "both parties have unperformed material obligations" under the Agreement.⁹⁰

The court relied on the use restriction⁹¹ and quality control⁹² provisions of the trademark agreement which prohibited EnerSys from using the trademark outside of the industrial battery business and imposed on it the requirement to use the trademark in accordance with a quality control standard.⁹³ The

83. *Id.* at 229.

84. *Id.* at 227; 11 U.S.C. § 365 (2000 & Supp. V 2005).

85. *In re Exide Techs.*, 340 B.R. at 239. The court stated that it looked at "the Trademark License, the Asset Purchase Agreement, the Administrative Services Agreement, and the December 27, 1994, letter agreement all comprise one, integrated agreement." *Id.* at 229.

86. *Id.* at 239–40.

87. *Id.* at 250.

88. *Id.* at 229.

89. *Id.* at 229 (quoting Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973)).

90. *In re Exide Techs.*, 340 B.R. at 229; *see also In re Bradlees Stores*, Nos. 00-16033 (BRL), 00-16035(BRL), 00-16036(BRL), 01-CV-3934 (SAS), 2001 WL 1112308, at *8 (S.D.N.Y. Sept. 20, 2001) ("the executory analysis examines an agreement on its face to determine whether there are material obligations that require substantial performance from the parties.").

91. *In re Exide Techs.*, 340 B.R. at 233–34.

92. *Id.* at 231–33.

93. *Id.* at 234.

provisions are material,⁹⁴ the court found, and any default of either provision by EnerSys would result in a “material breach,” and therefore allow Exide to terminate the agreement.⁹⁵

Also, the court stated that the Use Grant provision is a “material obligation” on Exide, wherein Exide agreed not to use the trademark in conjunction with the industrial battery business sold to EnerSys and not to license the trademark to any other third parties after EnerSys purchased the battery division.⁹⁶ Additionally, under the Registration provision, Exide was obligated to maintain registration of the Exide trademark, and such “affirmative duty” to maintain the trademark and to give notice to EnerSys upon any lapse of the trademark rendered the provision a “material, ongoing obligation” of Exide.⁹⁷ Under the same provision, EnerSys was also required to comply with the trademark user registration in other countries for the use of the trademark in

94. *Id.* at 234–35.

95. *Id.* at 232. The court relied on the Termination provision to support its conclusion. The provision states:

Termination. Licensor shall have the right to terminate this Trademark License if (a) products covered hereunder and sold by Licensee in connection with the Licensed Marks fail to meet the Quality Standards, or (b) Licensee uses, assigns or sublicenses its rights under the Licensed Trade Name or the Licensed Marks outside the scope of the Licensed Business and, in either such case, reasonable measures are not initiated to cure such failure or improper use within ninety (90) days after written notice from Licensor. Upon termination of this Trademark License, Licensee and its sublicensees shall, within a reasonable period of time not to exceed two (2) years, discontinue all use of the Licensed Marks and Licensee shall discontinue all use of the Licensed Trade Name and shall cancel all filings or registrations made pursuant to Paragraph 10 hereof and change its corporate or trade name registrations, if any, to exclude the Licensed Trade Name; provided, however, that if any failure to meet Quality Standards or improper use of, or assignment or sublicense of rights under, the Licensed Trade Name or Licensed Marks occurs in any jurisdiction other than the United States and is not remedied as permitted hereunder, this Trademark License will terminate only with respect to the jurisdiction in which such failure or improper use occurred.

Id. at 231.

96. *Id.* at 235.

97. *Id.* at 237. The Registration provision states in pertinent parts:

Licensor shall maintain Licensed Marks in accordance with Licensor's usual and customary business practices. In the event that Licensor intends in good faith to cease payment of maintenance fees for or otherwise allow to lapse any of the Licensed Marks in a particular country, Licensor will notify Licensee of its intention to take such action at least one hundred twenty (120) days in advance ... except in the case where Licensor intends to refile an application to register such Licensed Mark covering goods within the scope of the Licensed Business

Id. at 236–37.

the battery division.⁹⁸ Again, the provision was deemed by the bankruptcy court as imposing “ongoing, material obligations” on EnerSys.⁹⁹

In summary, with those material obligations identified by the court, the agreement is deemed an “executory contract.”¹⁰⁰ Therefore, Exide could reject the agreement and EnerSys must stop using the trademark upon rejection.¹⁰¹

A. *Causing Uncertainties*

At a first glance, the *In re Exide Technologies* decision seems unremarkable as one of those reported and unreported cases where license agreements involving various forms of intellectual property, such as patents, copyrights, and trademarks, are either assumed or rejected by the debtor in bankruptcy. It is unremarkable since it addresses whether a license agreement is an executory contract and thus whether the debtor has the right to assume or reject the contract under the relevant statute. Court after court has routinely held, either with a cursory analysis or none at all, that patent, copyright, and trademark license agreements are executory contracts because both parties to the agreements have some unperformed obligations to fulfill.¹⁰²

However, a careful examination of *In re Exide Technologies*¹⁰³ reveals a different picture. The agreement in *Exide* was not the typical, stand-alone, license agreement between a debtor and non-debtor party. The perpetual, exclusive and royalty-free right to use the trademark in this case must be analyzed in connection with the outright sale and purchase of the industrial battery business division because the sale of the entire business included the trademark use right.¹⁰⁴ Unfortunately, the court ignored the reality underlying

98. *Id.* at 237.

99. *Id.*

100. *Id.* at 239.

101. *Id.* at 250–51 (allowing EnerSys a transition period to cease its use of the trademark).

102. *See, e.g., In re Sunterra Corp.*, 361 F.3d 257, 264 (4th Cir. 2004) (the copyright license agreement for software was executory because “each party owed at least one continuing material duty to the other under the Agreement”); *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996) (concluding that the licensee must refrain from suing for infringement and the licensor must mark all products made under the license); *Krebs Chrysler-Plymouth, Inc. v. Valley Motors, Inc.*, 141 F.3d 490, 498 (3d Cir. 1998) (concluding that trademark licenses are executory contracts subject to be assumed and assigned in bankruptcy); *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489, 493 (1st Cir. 1997) (allowing debtor-in-possession to assume executory patent license agreement).

103. *See supra* notes 71–101 and accompanying text.

104. The good will of a business and trademark are generally inseparable. *See Coca-Cola Bottling Co. v. Coca-Cola Co.*, 269 F. 796, 806 (D. Del. 1920). The sale of the goodwill of business together with the right to use the trademark is characterized as a sale, not a license. *See Griggs, Cooper & Co. v. Erie Pres. Co.*, 131 F. 359, 361–62 (W.D.N.Y.

the inseparability of the sale of the battery division and the perpetual, exclusive and royalty-free right to use the trademark in the battery division.¹⁰⁵ The transaction was an outright sale of that portion of the trademark related to industrial batteries, not a mere stand-alone license.¹⁰⁶

By critically examining the transaction, it becomes apparent that the right to use the trademark in the present case was a property right sold to the acquirer as part of the entire industrial battery business.¹⁰⁷ The plain language of the right granted (exclusive, perpetual, and royalty-free) conveys the intention of an outright sale to the acquirer of a portion of the entire trademark.¹⁰⁸ Indeed, the reason that the right to use the trademark is *perpetual* is because the purchaser paid millions of dollars for the business, including the tangible and intangible property and rights, so it could continue to operate the business and generate profits from the acquisition.¹⁰⁹ The purchaser did not just acquire the perpetual right to use the trademark as a stand-alone transaction, and the seller did not grant the right to use the trademark to the purchaser as a typical, stand-alone license in the ordinary course of business. By granting a perpetual right to use the trademark to the purchaser, the seller knew that it was severing itself from a particular business so it could concentrate on the remainder of its businesses. The purchaser acquired the right to use the trademark forever so it could achieve certainty for its ongoing activity in the acquired business.¹¹⁰

1904).

105. Although the court claimed that it looked at the other agreements, including the Asset Sale Agreement, it mostly focused on the Trademark Agreement. *See In re Exide Techs.*, 340 B.R. at 230–38.

106. *See generally* *Seattle Brewing & Malting Co. v. Comm’r*, 6 T.C. 856, 873 (1946) (finding that the exclusive and perpetual license to use the Rainier trademark in a limited territory, “while not disposing of the entire property in the grantor,” together with the transfer of the physical assets to manufacture beers, is a capital asset transaction, not a license); *Reid v. Comm’r*, 26 T.C. 622, 632 (1956) (“An exclusive perpetual grant of the use of a trade name, even within narrower territorial limits than the entire United States, is a disposition of such trade name falling within the ‘sale or exchange’ requirements of the capital gains provisions.”).

107. *See Seattle Brewing & Malting Co.*, 6 T.C. at 868 (stating that the right to use the trademark Rainier is “a property right”).

108. The grant to use the trademark EXIDE was perpetual, exclusive and royalty-free. *In re Exide Techs.*, 340 B.R. at 228. Such grant, as found in *Seattle Brewing & Malting Co.*, was deemed a sale. *Seattle Brewing & Malting Co.*, 6 T.C. at 869 (“If such grant is exclusive and perpetual, its characteristics more resemble a sale than a license, and this is particularly true where all the consideration has been paid.”).

109. *Seattle Brewing & Malting Co.*, 6 T.C. at 858–62.

110. *See id.* at 873 (holding the \$1 million option purchase price the cost of the sale of the trademark because the right to use was perpetual and exclusive); *See Ste. Pierre Smirnov, Fls, Inc. v. Hirsch*, 109 F. Supp. 10, 12 (S.D. Ca. 1952) (“It has been repeatedly held over a long period of time that the grant of an exclusive and irrevocable right to use a

The right to use the trademark is *exclusive* so the seller and its successors cannot compete directly against the purchaser within the defined market upon the acquisition of the business. The purchaser does not want to acquire the business from the seller for a very large sum and then have to face direct competition from the seller and its other non-exclusive licensees in the same fields of use and in the same geographical territory.¹¹¹ The purchaser's chance to succeed with the acquired business may be dismal if it was forced to operate among competitors with the to use the trademark in the same field of use and geographic territory.¹¹² That competition would render the acquisition meaningless. The purchaser's millions of dollars of investment in the acquisition would be wasted. The seller typically knows that payment for the transfer of the business represents the premium for the assets as well as the goodwill of that business with the exclusivity of the right to use the trademark in connection with the operation of the specific business. The purchaser negotiates and pays a price for the business and the exclusivity of the trademark in that operation in exchange for the certainty that no other entity beside it has the right to use the trademark. That certainty is important; the purchaser can prevent the seller and its successors from using the trademark in the field of use and in the territory.¹¹³

The right to use the trademark is *royalty-free* because the purchase price for the business encompasses the price of the trademark right. Instead of a royalty payment plan, the purchaser paid a lump sum amount for all the property and rights, tangible and intangible, including the right to use the mark in the operation of the business. The trademark is not free; full consideration is paid as part of the purchase price of all of the assets of that business. The lump sum price in the *In re Exide Technologies* case reflected the seller's

mark in a designated territory is an assignment and not a mere license.”).

111. Even in the typical, stand-alone trademark license arrangement, most licensees view exclusivity as a “critical term” because “[w]ithout [the exclusivity], it can be difficult to recover their investment in developing a market for the products, since others can sell the same product in their territory.”). Anne S. Jordan, *Avoiding the Pitfalls in International Licensing*, 915 PLL/PAT 411, 419 (2007).

112. *Id.*

113. See *Quabaug Rubber Co. v. Fabiano Shoe Co.*, 567 F.2d 154, 159 (1st Cir. 1977) (“exclusive licensees’ who had a right by agreement with the owner of the trademark to exclude even him from selling in their territory.”) (citations omitted). In *So Good Potato Chip Co. v. Frito-Lay, Inc.*, the exclusive licensee alleged that the licensor breached the franchise and trademark agreement by selling in the franchise territory snack food items that were competitive with the licensee’s sales of corn chip products covered by the exclusive agreement. 462 F.2d 239, 239–40 (8th Cir. 1972). The Eighth Circuit affirmed the district court’s denial of injunctive relief because the franchisor’s new products were not “competitive” within the meaning of the franchise and license agreement. *Id.* at 242–43.

wishes to withdraw from the industrial battery business altogether.¹¹⁴ Also, the lump sum price established that Exide, at the time of the transaction, did not want to use the trademark again in connection with the industrial battery business.¹¹⁵ The right to use the trademark was granted *royalty-free* because the value of the trademark usage was included in the purchase price of the business; thus, the seller and the purchaser could each go their separate ways in order to implement their own future business plans with certainty.

In contrast, in a typical, stand-alone trademark license agreement, a lump sum payment is not the usual term because licensors generally want to maximize the royalties by having those royalties dependent on net sales (often with guaranteed minimum payments), and by imposing a best efforts standards on the licensees to ensure the royalties' generation.¹¹⁶ Paying for the total price, as EnerSys did in the *In re Exide Technologies* case, eliminated the periodic royalty payments dependent on production or minimum royalty payments, the maintenance of records for frequent audits conducted by the seller to verify the payments, or the enforcement of a best-efforts standard imposed on the licensee.¹¹⁷

Most importantly, with the payment of the lump sum price, the purchaser attained a certainty which it would not have with a periodic royalty payment structure. In a royalty structure that demands a guaranteed minimum payment, the purchaser must make projections as to production, volume of sales, and expenses in order to arrive at an accurate number for the guaranteed minimum.¹¹⁸ Also, in a royalty structure dependent on volume of sales or production, the purchaser must determine all the deductions so that it could arrive at a "net sales" amount for each royalty payment period.¹¹⁹ The lump-sum price establishes the purchaser's willingness to invest in the acquisition of

114. Exide exited the industrial battery business for ten years, as shown in the non-compete provision. *In re Exide Techs.*, 340 B.R. 222, 227–28 (Bankr. D. Del. 2006).

115. *Id.* at 228 ("To accommodate the needs of both parties, Exide granted EnerSys a perpetual, exclusive, royalty-free license to use the Exide mark in the industrial battery business. This way, Exide retained ownership of the mark and could use it outside the industrial battery business and EnerSys could use the mark exclusively within the industrial battery business.").

116. The lump sum payment feature is not included in the typical, stand-alone trademark license agreement which generally includes royalty payments dependent on production, sales volume, or a minimum royalty amount. Nye et. al, *supra* note 25, at 723–29 (explaining various types of royalties, timing of payments and audits to detect discrepancy between paid royalties and audit results).

117. *Id.* (comparing the licensor's goals and the licensee's goals under different issues related to royalty payment structures).

118. *Id.* at 727.

119. *Id.* ("Licensee will also want to make sure it has a clear understanding of what constitutes 'net sales,' and deduct those things that Licensee does not make any money on.").

the business, as well as the purchaser's strong desire to focus on the production and marketing of the products upon the acquisition. The purchaser has paid for the new business and is thus motivated to use all of its efforts to make the business competitive and successful. The purchaser is not bound by any best efforts provisions, and both the purchaser and the seller have no concerns as to whether the purchaser is using its best efforts in manufacturing, selling, and advertising the trademarked products.

In summary, the *perpetual, exclusive and royalty-free* right to use the trademark at stake in the *Exide Technologies* case was part of the acquisition of the industrial battery business division. That right is property acquired by the purchaser, EnerSys, for the continuing operation of the industrial battery division, just as if Exide had sold EnerSys a physical manufacturing facility or equipment as part of the sale of the division's assets. Those property rights should not be seized from the purchaser solely for the benefit of the seller-debtor. The seller-debtor had already received its bargained-for-exchange in the form of the lump sum payment for all the assets of that division. The seller-debtor desired to rid itself of the industrial battery business and found a purchaser who was willing to pay a large sum for the business. The transaction as a whole was an outright sale, severing the seller's right to what it was sold by transferring it to the purchaser. When the seller filed bankruptcy, the perpetual, exclusive and royalty-free right to use the trademark in the battery division should not be considered to be part of the bankrupt estate and the executory contract provision of the Bankruptcy Code should not be used to reacquire those transferred property rights.

An acquirer like EnerSys would never have thought, at the time of the acquisition that it would lose the right to use the perpetual and exclusive right to use the trademark in connection with the business purchased. The acquirer generally would believe that it had negotiated and paid the purchase price for the entire property, tangible and intangible, including the perpetual and exclusive right to use the trademark necessary to operate the acquired business. EnerSys, like any acquirer in similar circumstances, naturally spent resources to manufacture, market and sell the products in connection with the trademark. If the acquirer knew that the perpetual and exclusive right to use the trademark was subject to reversion to the seller without any compensation, the acquirer would have factored the reversion into the price. Why should an acquirer pay much more for a property right if it will not possess it in the future? Why should an acquirer pay for something that later increases in value, but is then taken away without any compensation?

Likewise, a seller like Exide Technologies would never have imagined that after pocketing the lump sum for the sale of the corporate division along with the grant of a perpetual, exclusive and royalty-free right to use the trademark in connection with the manufacturing, marketing and sale of industrial batteries, it would have the right to take the trademark back. In fact, the seller Exide

Technologies knew very well that after the sale of the corporate division to EnerSys, it had no right to use the trademark in the same fields of use ever again.¹²⁰ Knowing the reality, ten years later Exide Technologies approached EnerSys several times with overtures to use the trademark, but EnerSys refused.¹²¹ At the time of the transaction, if the seller knew that it would obtain the windfall right to use the trademark again, and the purchaser knew that it will stand to lose the perpetual, exclusive and royalty free right to use the trademark in connection with the industrial battery business, it is unfathomable that the seller would have been able to fetch the high price that it received for the sale of the division. The purchaser would not be so naïve to pay for something for which it would invest substantial efforts, in addition to the original sum, just to lose it all.¹²²

*In re Exide Technologies*¹²³ sends a chilling message to would-be acquirers that their investment in acquiring a business or corporate division might be wasted. At any given time in the future, the property negotiated and purchased for part of the acquisition might not be theirs to use in the operation of the business. Terms like “perpetual,” “exclusive” and “royalty-free” become meaningless as the acquirer faces the enormous risk of losing the right to use a trademark or brand name in the acquired business when the seller files for bankruptcy. The uncertainty of the transaction conveyed in *In re Exide Technologies* and similar cases is paramount.

V. ENDING THE UNCERTAINTIES

A. Looking Beyond Form, Facing the Substance

By examining a trademark agreement granted in connection with the corporate acquisition of a business division as a typical, stand-alone trademark license agreement in the ordinary business of the trademark owner, courts focus erroneously on the form, not the substance and the reality of the asset sale and purchase transaction.¹²⁴ The proposed focus on substance requires the court to

120. *In re Exide Techs.*, 340 B.R. at 228 (noting that Exide Technologies could only use the trademark outside the industrial battery business).

121. *Id.* (stating that Exide re-entered the industrial battery business again, bought GNB Industrial Battery Company, had no right to use the EXIDE trademark, and made “several unsuccessful . . . overtures to EnerSys in attempts to regain the EXIDE mark.”).

122. The price tag for the damages the purchaser EnerSys will incur has been estimated around \$71 million. *Id.* at 245 n.35. The damages include the costs of switching to new brand, lost of investment, lost profit on lost sales, and lost price premium. *Id.*

123. *Id.* at 250–51.

124. *See, e.g., id.* at 229, 239 (“I must determine whether both parties have unperformed material obligations under the Agreement . . . I conclude that the Agreement is a license with respect to the Exide mark: “[g]enerally speaking, a license agreement is an

evaluate the operation of the provisions of the agreement to determine if they operate in a meaningful manner to place the attributes of ownership of the trademark rights transferred in the purchaser of the business.

For example, in a stand-alone license transaction, courts would know that a quality control provision is critical because without such a provision the trademark holder risks abandonment of its trademark. In contrast, in the sale transaction of a business, which includes the perpetual, exclusive, and royalty-free right to use the trademark in connection with that business, the “maintenance of quality” is “for the mutual benefit of the parties” and does not possess the same importance.¹²⁵ The purchaser, not the seller, will be the one who will care about quality control.

Similarly, “the agreement to protect the licensee against infringement” and other ongoing obligations of the agreement, such as the “restriction of trademark use” provision, the registration provision, and the termination provision “no longer existed in a real sense” in the *perpetual, exclusive* and *royalty-free* type of agreement in connection with the acquisition of the corporate division, as once the price is paid, the triggers for termination of the right to use the trademark can no longer be realistically invoked.¹²⁶

In a typical license arrangement, the “use grant” provision generally sets forth the scope of the grant so each party knows exactly the parameter of the field of use and territory. The use grant in the context of a corporate sale of a business division means something more: it establishes what the seller sells and

executory contract as such is contemplated in the Bankruptcy Code.”). This substance over form approach is readily apparent in the legion of cases concerning whether a purported lease of personal property is a “true lease” or a disguised sale with a retained security interest. See Robert W. Ihne, *Seeking a Meaning for “Meaningful Residual Value” and the Reality of “Economic Realities”—An Alternative Roadmap for Distinguishing True Leases from Security Interests*, 62 BUS. LAW. 1439 (2007). If the transaction is a “true lease”, it is subject to rejection under 11 U.S.C. § 365 (2000 & Supp. V. 2005), but if it is a disguised sale with a retained security interest, it is not subject to such rejection. See, e.g., *In re United Air Lines*, 447 F.3d 504 (7th Cir. 2006); *In re Bailey*, 326 B.R. 156 (Bankr. W.D. Ark. 2005).

125. *Seattle Brewing & Malting Co. v. Comm’r*, 6 T.C. 856, 868 (noting that the trademark license agreement with provisions “such as the maintenance of quality, advertising, and the purchase of malt” were “for the benefit of both parties, and the agreement to protect the licensee against infringement was no different than one to protect title. . . . [p]rovisions for the mutual benefit of the parties became of relative minor importance” when the licensee paid the \$1 million option price in lieu of the royalty payments). The Court held that the transaction was deemed a sale, not a license. *Id.* at 873.

126. *Id.* at 857–61 (identifying various ongoing obligations under the Trademark License Agreement between Rainer and Century); *id.* at 868 (“agreement to protect licensee against infringement was no different than one to protect title.”). The Court noted that as soon as the price was fully paid, all the obligations “no longer existed in a real sense” and “became of relative minor importance” because the “most important provision in the contract was the payment of the price.” *Id.* at 868.

what the purchaser acquires with respect to trademark rights so the purchaser can continue to operate the business acquired and the seller may use the trademark in connection with its remaining business after the sale. This is akin to dividing one piece of property into two independent pieces of property, with the dividing line determined by the terms of the “use grant” provision. That means the seller should not be able to come back, whether on the day after the transaction or years later, to take the property of the purchaser, that is use the trademark contrary to the use grant provision. It has already sold that specified right of use to the purchaser. If a seller or its successor ignores the use grant, it might face a breach of contract action brought by the purchaser. Even in a trademark case where the facts are not as compelling as those in the *In re Exide Technologies* case, the court found in *Shoney’s Inc. v. Schoenbaum* a breach of contract in favor of the exclusive licensee.¹²⁷

In *Shoney’s Inc. v. Schoenbaum*, the licensor brought a declaratory judgment action against the licensee, seeking to determine whether the licensor could license the “Shoney’s” trademark for use in connection with motel services to a restaurant owner in the same geographic area.¹²⁸ The licensor had originally entered into a license agreement for the exclusive right to use the “Shoney’s” trademark for restaurant services.¹²⁹ The licensee countered with a breach of contract claim against the licensor because the licensor had licensed the same trademark to a different licensee for use in connection with different services in the same licensed territory.¹³⁰ The licensee asserted that the license agreement failed to reserve the licensor’s right to use and license the trademark for different purposes within the licensed territory.¹³¹ The license agreement contained the following provision:

License and Licensed Territory. Licensor grants to licensee, for the terms and subject to the condition set forth herein, the exclusive right to use the Shoney’s System, Trade Names and Marks within the licensed territory as hereinafter described.¹³²

The district court held that under the above provision, the licensor granted to the licensee the exclusive right to the name Shoney’s in the territorial area and “that in turn prohibits the licensor from granting the use of the Shoney’s, or using the name themselves, in any other establishment in the [territorial] area. Thus, the licensee is assured that no other uses of the word will be made in the

127. *Shoney’s, Inc. v. Schoenbaum*, 894 F.2d 92, 97–98 (4th Cir. 1990).

128. *Id.* at 92.

129. *Id.* at 93.

130. *Id.* at 93–94.

131. *Id.* at 94.

132. *Id.* at 95.

area.”¹³³ The Fourth Circuit Court of Appeals agreed that such an interpretation “is supported in logic and by the traditional canons of statutory construction” because the language of the above provision literally grants to the licensee, with no express limitations, the exclusive and absolute right to use the trademark within the territorial area.¹³⁴ The Court of Appeals affirmed the breach of trademark license agreement claim asserted by the licensee against the licensor for licensing the same trademark to others for use in connection with other services, without reservations of such rights in the license agreement.¹³⁵

In some instances, the seller or its successor may face a trademark infringement or unfair competition action brought by the purchaser.¹³⁶ Indeed, in *Chain v. Tropodyne*, discussed above, the acquirer who purchased the engineering-grade chain corporate division from the seller, Dresser Industries, brought a trademark infringement and unfair competition claim against the seller’s successor, Tropodyne.¹³⁷ The use grant in the trademark license entered into in connection with the sale of assets in that case limited the purchaser to use the trademark only in the non-plastic sewage chains and the name “Jeffrey Chain” as its corporate name.¹³⁸ Under the use grant, the purchaser had no right to use the trademark outside of the defined scope and the seller could not use the trademark within the field of use, non-plastic sewage chains and the corporate name “Jeffrey Chain” for the engineering grade chain division.¹³⁹ The seller retained ownership and right to the trademark and could continue to use the trademark in other businesses outside the spin-off division.¹⁴⁰ The seller, Dresser Industries, did use the trademark in its remainder business for some time after the sale of the assets and then sold a

133. *Id.* at 95.

134. *Id.* at 96.

135. *Id.* at 97–98.

136. Generally, a licensee will not have standing to sue the licensor and its other licensees under a trademark infringement or unfair competition action. *See, e.g.*, *Shoney’s, Inc. v. Schoenbaum*, 686 F. Supp. 554, 564–65 (E.D. Va. 1988) (holding that the licensee had no standing to bring a trademark infringement action against the licensor); *Silverstar Enters., Inc. v. Aday*, 537 F. Supp. 236 (S.D.N.Y. 1982) (the licensee had the right under a trademark license agreement to use “MEAT LOAF” on clothing, but lacked standing to bring a trademark infringement suit against the licensor who subsequently engaged another party to market merchandise on an upcoming European tour). The *Chain v. Tropodyne* case added a twist; Tropodyne, the successor of the original seller/licensor brought a counterclaim to prevent Jeffrey Chain, the original purchaser/licensee from using the trademark in non-plastic chains, but lost. 93 Fed. Appx. 880, 882 (6th Cir. 2004).

137. *Chain*, 93 Fed. Appx. at 882.

138. *Id.* at 881–82.

139. *Id.* at 882 n.3.

140. *Id.*

different corporate division to Tropodyne, together with the exclusive right to use the trademark in that division.¹⁴¹ The seller's successor, Tropodyne, obtained what the seller had.¹⁴² The Sixth Circuit Court of Appeals held that Tropodyne could not prevent the purchaser from using the trademark in the field of use and that expanding its business was not in conflict with the license agreement between the original seller and Jeffrey Chain.¹⁴³

In summary, looking beyond form and focusing on the substance, the "license" of a trademark in sale of a business is in substance a sale of the trademark right in connection with that sale.

B. Sales, Not Licenses

There are examples of cases where courts examined the substance of the transactions and held that the transactions were sales of trademarks or other intellectual property and not mere licenses. For example, in *Ste. Pierre Smirnoff, FLS., Inc. v. Hirsch*, the court found that there was enough evidence to establish that the plaintiff became the owner of the name "Smirnoff" in the United States "by virtue of a purchase for a lump sum of the entire exclusive and irrevocable right in the business, good will of the business, and the name . . ."¹⁴⁴ The court noted that other precedents supported its ruling that "the grant of an exclusive and irrevocable right to use a mark in a designated territory is an assignment and not a mere license."¹⁴⁵ Similarly, in *A. Bourjois & Co., Inc. v. Katzel*, Justice Holmes observed that "[a]fter the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff. That plainly follows from the statute authorizing assignments."¹⁴⁶ Likewise, in *Reid v. Commissioner*, the Tax Court announced that "an exclusive perpetual grant of the use of a trade name, even within narrower territorial limits than the entire United States, is a disposition of such trade name falling within the 'sale or exchange' requirements" rather than a license.¹⁴⁷

The *Seattle Brewing & Malting Co. v. Commissioner*, discussed in Section

141. *Id.* at 882.

142. *Id.*

143. *Id.* at 884.

144. *Ste. Pierre Smirnoff, FLS., Inc. v. Hirsch*, 109 F. Supp. 10, 12 (S.D. Ca. 1952).

145. *Id.*

146. *A. Bourjois & Co. v. Katzel*, 260 U.S. 689, 691 (1923).

147. *Reid v. Comm'r*, 26 T.C. 622, 632 (1956). "Licenses" of other intellectual property, such as patents, trade secrets and copyrights, are treated as "sales" where the grant is perpetual and exclusive. *See, e.g.*, *Merck & Co. v. Smith*, 261 F.2d 162 (3d Cir. 1958); *United States v. Carruthers*, 219 F.2d 21 (9th Cir. 1955); *Herwig v. United States*, 105 F. Supp. 384 (Ct. Cl. 1952); *Laurent's Est. v. Comm'r*, 34 T.C. 385 (1960).

III, is also instructive.¹⁴⁸ In that case, after the transaction with the Rainier Company, Century sought to deduct the \$1 million option payments so it would not have to pay any royalties based on alcoholic production.¹⁴⁹ Century claimed that the \$1 million were royalties because it did not receive full title and right to the trademarks and the payments were merely prepayments of future operating or production expenses.¹⁵⁰ The Commissioner of the Internal Revenue rejected Century's characterization of the \$1 million payments. It contended that the taxpayer Century's conversion of the Agreement from a royalty basis to a transaction under which it acquired exclusive and perpetual rights of a capital nature to manufacture and sell alcoholic beverages under the Rainier trademark; such cost may not be deducted as an expense.¹⁵¹

The question for the Tax Court to decide was whether the \$1 million should be regarded as an expense in the nature of prepaid royalties or a capital expenditure.¹⁵² If it is a royalty expense, the taxpayer can deduct the amount in the year incurred.¹⁵³ The Tax Court held that the taxpayer acquired a capital asset when it exercised the option and paid the \$1 million.¹⁵⁴ The Court explained that Century's execution and delivery of the promissory note to Rainier eliminated the payment of royalties dependent on products sold and that the \$1 million was in the consideration for the exclusive and perpetual use of the rights in the territory.¹⁵⁵ Since the transaction was a "capital transaction," the amount paid by the taxpayer is not deductible from income.¹⁵⁶ The Court proclaimed that "[w]e see no inhibition, where a corporation owns a trade name, to its assigning a right to use that name in a designated territory for a price, and if the right to use is perpetual and exclusive it is more consistent with the idea of a sale than a lease"¹⁵⁷

Under the logics of the above cases, the trademark transaction in *In re Exide Technologies* case was a sale, not a typical, ordinary license that Exide regularly engaged in to sell its products and expand its market reach. The perpetual, exclusive and royalty-free rights wherein all consideration was paid as part of a lump sum purchase price of an entire business was a sale of a property right. The perpetual and exclusive rights granted rendered the

148. *Seattle Brewing & Malting Co. v. Comm'r*, 6 T.C. 856, 856 (1946).

149. *Id.* at 864 (explaining the taxpayer's argument).

150. *Id.*

151. *Id.* (stating the Commissioner's contention).

152. *Id.*

153. *Id.* at 867; *see generally* NGUYEN, ET. AL., *supra* note 10, at 1045–46 (explaining the tax consequences on the transferring and licensing of intellectual property assets).

154. *Seattle Brewing & Malting Co.*, 6 T.C. at 873.

155. *Id.*

156. *Id.*

157. *Id.* at 871.

subsequent conditions and obligations which the court in *Exide Technologies* considered to be “material” obligations as “no longer exist[ing] in a real sense.”¹⁵⁸ As Judge Learned Hand observed: “It does not unduly strain the meaning of sale to make it include an exclusive license”¹⁵⁹

C. *Concurrent Use—Assignment of Trademark Rights in Different Fields of Use*

If the bankruptcy court’s decisions continue to result in uncertainties by following the *In re Exide Technologies* ruling and reasoning, a potential acquirer of a corporate division has no other option but insist on an assignment of trademark right concerning the division. Alternatively, the acquirer can attempt to rely on the concurrent use doctrine in its negotiation with the seller for an assignment of trademark right in the specific field of use for the corporate division.

1. Concurrent Use Doctrine

Under the concurrent use doctrine, two different parties can own the same trademarks and agree to use the trademarks in two distinct, non-overlapping territories.¹⁶⁰ The doctrine had its roots in two early important cases before it became part of the Lanham Act, the federal trademark and unfair competition statute.¹⁶¹ The cases are *Hanover Star Milling Co. v. Metcalf*¹⁶² and *United*

158. *Id.* at 868. The Tax Court identified the ongoing obligations such as the quality control provision, the restriction of use provision, the registration provision, and the termination provisions in the Trademark License Agreement. *Id.* at 858–61. All of these provisions were no longer important. *Id.* at 868.

159. See *Goldsmith v. Comm’r*, 143 F.2d 466, 468 (Hand, J. concurring).

160. See David S. Barrett, *The Future of the Concurrent Use of Trademarks Doctrine in the Information Age*, 23 HASTINGS COMM. & ENT. L.J. 687, 689–92 (2001) (providing a brief history of the trademark concurrent use doctrine).

161. See *infra* notes 195–197 and accompanying text.

162. 240 U.S. 403 (1916). The plaintiff, Allen & Wheeler Company, brought its action against “Hanover Star Milling Company on May 23, 1912 in the United States district court for the eastern district of Illinois.” *Id.* at 407. The Seventh Circuit Court of Appeals ruled in favor of the defendant, Hanover Star Milling Company “upon the ground that although the adoption of the Tea Rose mark by the latter antedated that of the Hanover Company, its only trade, so far as shown, was in territory north of the Ohio river, while the Hanover Company had adopted ‘Tea Rose’ as its mark in perfect good faith, with no knowledge that anybody else was using or had used those words in such a connection, and during many years it had built up and extended its trade in the southeastern territory, comprising Georgia, Florida, Alabama, and Mississippi, so that in the flour trade in that territory the mark ‘Tea Rose’ had come to mean the Hanover Company’s flour, and nothing else.” *Id.* at 411–12.

*Drug Co. v. Theodore Rectanus Co.*¹⁶³

In *Hanover Star Milling Co. v. Metcalf*, the plaintiff used the trademark “Tea Rose” in connection with its flour business in 1872 within the region encompassing Ohio and Pennsylvania.¹⁶⁴ The defendant began to use the same trademark “Tea Rose” on flour products in 1885 “in good faith without knowledge or notice” that the trademark had been adopted and used earlier by the plaintiff.¹⁶⁵ The plaintiff and the defendant operated their business and sales within their respective geographical territories without any consumer confusion problem until 1904, when the defendant decided to mount “a vigorous and expensive” campaign to advertise its products extensively outside its territory.¹⁶⁶ The defendant advertised in Alabama, Mississippi, Georgia and Florida.¹⁶⁷ The defendant’s advertising campaign, however, did not reach the plaintiff’s market territory of Pennsylvania, Ohio and Massachusetts.¹⁶⁸ The parties were not aware of each other’s products and trademarks since their products neither overlapped nor were sold within the same market.¹⁶⁹

The Court observed that through the extensive advertising campaign the defendant’s Tea Rose Mill and Tea Rose flour products became known in the southern states.¹⁷⁰ The plaintiff, on the other hand, confined their use of the “Tea Rose” trademark to a limited geographical territory, “leaving the southeastern states untouched.”¹⁷¹ The Court ruled that since “Tea Rose” in the southern states meant the defendant’s flour products, the plaintiff could not assert trademark infringement against the defendant in that territory.¹⁷² The Court reasoned that, to permit the plaintiff to use the trademark in the southern states, restricting the defendant’s use of the trademark would cause “the

163. 248 U.S. 90 (1918).

164. See *Hanover Star Milling*, 240 U.S. at 409. The Court observed that the plaintiff had never advertised or sold its products in the defendant’s market. *Id.* The plaintiff’s “Tea Rose” products were also not “heard of by the trade in Alabama, Mississippi, or Georgia.” *Id.*

165. *Id.* at 410.

166. *Id.* (commenting that the defendant employed “many ingenious and interesting devices” in its advertising campaign to promote its Tea Rose products).

167. *Id.* (noting that the defendant’s advertising campaign covered “the whole of the state of Alabama, and parts of Mississippi, Georgia, and Florida . . .”).

168. See *id.*

169. *Id.* (stating that there was “nothing to show any present or former competition in Tea Rose flour between the latter company and the Allen & Wheeler firm or corporation, or that either party has even advertised that brand of flour in territory covered by the activities of the other”).

170. *Id.*

171. *Id.* at 419.

172. *Id.*

complete perversion of the proper theory of trademark rights.”¹⁷³

Hanover Star Milling Co. v. Metcalf created the “Tea Rose” standard for concurrent use, allowing two unrelated companies to own and use the same trademark in connection with different products in different geographical territories.¹⁷⁴ The Court recognized that trademark rights are established in markets where the trademark is known, but those rights do not extend to markets where the trademark holder’s products does not reach.¹⁷⁵

Two years later, the Supreme Court addressed *United Drug Co. v. Theodore Rectanus Co.*, which contained similar facts to the “Tea Rose” trademark case.¹⁷⁶ In that case, the plaintiff Ellen M. Regis used the trademark Rex, a derivation of her surname, to sell medicinal products for cases of dyspepsia and other ailments.¹⁷⁷ The plaintiff registered her trademark in Massachusetts in 1898 and subsequently with the United States Patent and Trademark Office in 1900.¹⁷⁸ The plaintiff also established its trademark priority against a retail drug company, “Rexall,” and then purchased the retail store in 1911.¹⁷⁹ At the time of the purchase, the retail drug company had its distribution and sales in the “Rexall stores” in various states, including four stores in Louisville, Kentucky.¹⁸⁰

In 1883, Theodore Rectanus of Louisville, familiarly known as “Rex,” began to use the word as a trademark for a blood purifier medicinal preparation.¹⁸¹ He advertised and sold his products without knowledge of the

173. *Id.* at 420.

174. *Id.* at 415. The Court simply stated its new rule:

In the ordinary case of parties competing under the same mark in the same market, it is correct to say that prior appropriation settles the question. But where two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant; unless, at least, it appears that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade or the like.

Id.

175. *Id.* at 415–16 (framing the confine of the trademark right in “markets the use of a trademark has extended, or its meaning has become known, there will the manufacturer or trader whose trade is pirated by an infringing use be entitled to protection and redress. But this is not to say that the proprietor of a trademark, good in the markets where it has been employed, can monopolize markets that his trade has never reached, and where the mark signifies not his goods, but those of another.”).

176. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

177. *Id.* at 94.

178. *Id.*

179. *Id.*

180. *Id.*

181. *Id.*

Regis' "Rex" products.¹⁸² In 1906, Mr. Rectanus sold his business to a purchaser.¹⁸³ The new owner continued to use the "Rex" trademark to sell the blood purifier products in the Louisville area.¹⁸⁴

Almost seventeen years later, in 1912, the plaintiff Regis began to ship its "Rex" dyspepsia products to its Rexall stores.¹⁸⁵ Advertisements for the products were published by the stores in local newspapers.¹⁸⁶ However, prior to the advertisements, no customer in Kentucky had heard of the plaintiff's Rex products.¹⁸⁷ The customer in Kentucky only knew "Rex" for the Rectanus company and their blood purifier product.¹⁸⁸

The Supreme Court observed that the successors of Mrs. Regis' company and Mr. Rectanus' store conducted their respective businesses using the same trademark on medicinal products in two distinct geographical territories for sixteen to seventeen years until the plaintiff brought the trademark suit.¹⁸⁹ Both parties had expended significant resources and efforts to build the goodwill of the trademark in their respective markets.¹⁹⁰ There was no bad faith to use the goodwill of the other party.¹⁹¹ Consequently, the Court declined to grant an injunction against the defendant Rectanus company's use of the trademark "Rex".¹⁹²

The Court noted that the present case was similar to *Hanover Star Milling Co. v. Metcalf*.¹⁹³ The Court added to the "Tea Rose" concurrent use standard a

182. *Id.* at 95.

183. *Id.*

184. *Id.*

185. *Id.*

186. *Id.*

187. *Id.*

188. *Id.*

189. *Id.*

190. *Id.* at 96.

191. *Id.* at 95-96.

192. *Id.* at 101-02. The Court explained its reasons:

To hold otherwise-to require Rectanus to retire from the field upon the entry of Mrs. Regis' successor-would be to establish the right of the latter as a right in gross, and to extend it to territory wholly remote from the furthest reach of the trade to which it was annexed, with the effect not merely of depriving Rectanus of the benefit of the good will resulting from his long-continued use of the mark in Louisville and vicinity, and his substantial expenditures in building up his trade, but of enabling petitioner to reap substantial benefit from the publicity that Rectanus has thus given to the mark in that locality, and of confusing if not misleading the public as to the origin of goods thereafter sold in Louisville under the Rex mark, for, in that market, until petitioner entered it, 'Rex' meant the Rectanus product, not that of Regis.

Id.

193. *Id.* at 103.

new rule that if a junior user has adopted a trademark in good faith and built the goodwill in the trademark in a particular market, the senior user cannot enter that market with the same trademark used first in other geographical markets.¹⁹⁴

The Tea Rose-Rectanus doctrine was later superseded by the Lanham Act which explicitly permits concurrent registration of multiple, similar trademarks.¹⁹⁵ Under the relevant statutory provision, registration for concurrent use trademarks are allowed if the parties can establish that they are entitled to use the trademarks based on “their concurrent lawful use in commerce” prior to the filing dates of the pending applications and as long as there is no confusion, mistake, or deception.¹⁹⁶ Concurrent use registrations may also be issued by the Trademark Office when a court has determined that one or more persons are entitled to use the same or similar trademarks in commerce.¹⁹⁷

Meijer, Inc. v. Purple Cow Pancake House illustrates the application of the concurrent use statutory provision. In that case, the applicant, Meijer, and the registrant, Purple Cow Pancake House, reached an agreement for concurrent use and registration for the trademark Purple Cow.¹⁹⁸ Meijer would possess the

194. *Id.* at 103–04.

195. *See* 15 U.S.C. § 1052(d) (2000).

196. 15 U.S.C. § 1052 provides in relevant part that

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it – . . .

(d) Consists of or comprises a mark which so resembles a mark registered in the Patent and Trademark Office, or a mark or trade name previously used in the United States by another and not abandoned, as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive: Provided, That if the Director determines that confusion, mistake, or deception is not likely to result from the continued use by more than one person of the same or similar marks under conditions and limitations as to the mode or place of use of the marks or the goods on or in connection with which such marks are used, concurrent registrations may be issued to such persons when they have become entitled to use such marks as a result of their concurrent lawful use in commerce prior to (1) the earliest of the filing dates of the applications pending or of any registration issued under this chapter[.]

197. 15 U.S.C. § 1052 (d) continues in relevant part:

Use prior to the filing date of any pending application or a registration shall not be required when the owner of such application or registration consents to the grant of a concurrent registration to the applicant. Concurrent registrations may also be issued by the Director when a court of competent jurisdiction has finally determined that more than one person is entitled to use the same or similar marks in commerce. In issuing concurrent registrations, the Director shall prescribe conditions and limitations as to the mode or place of use of the mark or the goods on or in connection with which such mark is registered to the respective persons.

198. *Meijer, Inc. v. Purple Cow Pancake House*, 226 U.S.P.Q. 280, 280–81 (T.T.A.B.

trademark for its ice cream and confectionery stores east of the Mississippi River, while Purple Cow Pancake House would own the trademark for restaurant services west of the Mississippi River.¹⁹⁹ The Board approved the agreement and allowed the concurrent use and registration to be granted to Meijer.²⁰⁰ The Board reasoned that the agreement contained provisions which impose restrictions on the advertisements and displays of the trademark in the specific territory.²⁰¹ Any “spill over” advertisements into the registrant’s territory would carry a disclaimer of affiliation to the registrant, Purple Cow Pancake House.²⁰²

2. Co-existence Separately

The concurrent use doctrine allows more than one owner for the same trademark. Extending the concurrent use doctrine, the seller of a corporate division and the purchaser can enter into an agreement wherein the seller assigns all of its rights in the trademark in the field of use for the continuation of the corporate division while keeping the ownership of the same trademark in the other divisions of the business. With the agreement and assignment finalized, the purchaser can obtain federal registration of the trademark in the specific classes of goods and services in its own name.

The seller, however, may be reluctant to divide up its trademark into different fields of use. If the seller’s remaining business and the purchaser’s corporate division business approach closely to each other’s fields of use, the seller may not want to assign the trademark in a particular field of use to the purchaser for fear that consumer confusion may occur in the future. To minimize consumer confusion, the parties must advance with care to keep their businesses distinct and apart. In other words, the parties must learn to co-exist together while selling or offering to sell distinct products in different markets but in the same nationwide geographical territory.

Co-existence carries another risk that after the acquisition, either the purchaser or the seller may decide to manufacture and sell products of lower quality compared to those offered prior to the acquisition. Consequently, the

1985). *See also* CDS, Inc. v. I.C.E.D. Mgmt., Inc., 80 U.S.P.Q. 2d 1572, 1585 (T.T.A.B. 2006) (holding that the applicant CDS is entitled to a concurrent use registration for the mark THE COPY CLUB in connection with document copying, publishing, and management services “for the State of Kansas and that portion of the state of Missouri located within 50 miles of Lenexa, Kansas” while registrant I.C.E.D.’s has its trademark COPY CLUB for similar and overlapping services in the entire United States except for the territory of use identified for CDS’s trademark registration).

199. *Meijer*, 226 U.S.P.Q. at 281.

200. *Id.* at 282.

201. *Id.* at 281–82.

202. *Id.* at 282.

other party has no right to intervene, as it is not the owner of the trademark in connection with products and services outside of its agreed field of use. Nevertheless, the co-existence option is still better than facing the complete loss of the trademark right if the seller is in bankruptcy and the bankruptcy court followed *In re Exide Technologies*. With the concurrent use doctrine, an outright assignment of the relevant trademark right to use in the acquired business, the buyer has a better chance of keeping its acquisition of the trademark right from becoming part of the seller's bankrupt estate.

3. Imperfect Coexistence, But Do Not Touch the License

Co-existence of owners of the same trademark had its share of headline stories in recent history.²⁰³ In the case of *Apple Corps Limited v. Apple Computer*, Apple Corps is the record label founded by the Beatles in London and Apple Inc. is the Silicon Valley-based computer company that entered into a coexistence trademark agreement in 1991.²⁰⁴ Apple Inc. paid \$26 million to Apple Corps for the co-existence right.²⁰⁵ The agreement provided that Apple Computer had the exclusive right to use its Apple trademark "on or in connection with electronic goods, computer software, data processing and data transmission services," and Apple Corps had its exclusive right to use its own Apple trademark "on or in connection with any current or future creative work whose principle content was music and/or musical performances, regardless of the means by which those works were recorded, or communicated, whether tangible or intangible."²⁰⁶ Both companies coexisted in their distinct fields of

203. See Laurie J. Flynn, *After Long Dispute, Two Apples Work It Out*, N.Y. TIMES, Feb. 6, 2007, at 1, available at http://www.nytimes.com/2007/02/06/business/06apple.html?_r=1&oref=slogin.

204. The Trademark Agreement of 1991 stated its purposes:

Whereas, the context in which this Agreement arises is the parties' desire to reserve for Apple Corp's field of use for its trademarks, the record business, the Beatles, Apple Corp's catalog and artists and related material all as set forth in section 1.3 herein and to reserve for Apple Computer's field of use for its trademarks, the computer, data processing and telecommunications business as set forth in section 1.2 herein and to co-ordinate the use of their respective trademarks in such fields of use as set forth in section 4 herein.

Apple Corps Limited v. Apple Computer, Inc., 2006 EWHC (Ch) 996, [6] (Eng.), available at <http://news.findlaw.com/hdocs/docs/apple/aclac50806opn.html>.

205. *Id.* at [7].

206. See *IP and Business: Trademark Coexistence*, WIPO MAGAZINE (Nov. 2006), available at http://www.wipo.int/wipo_magazine/en/2006/06/article_0007.html. The pertinent provisions of the Trademark Agreement provide:

1.2 Apple Computer Field of Use' means (i) electronic goods, including but not limited to computers, microprocessors and microprocessor controlled devices, telecommunications equipment, data processing equipment, ancillary and

use, and each built goodwill in the trademark in their markets.²⁰⁷

As technologies changed in the digital music business, the two companies' fields of use grew close to each other's market, although they did not foresee such a possibility at the time they executed the coexistence agreement.²⁰⁸ Apple Inc. developed their new products, iPod and iTunes software and music, resulting in litigation brought by Apple Corps for breach of the coexistence agreement.²⁰⁹ Apple Inc. prevailed as there was no consumer confusion and no evidence to support the breach argument.²¹⁰ The parties settled the case by entering into a new agreement wherein Apple, Inc. became the new owner of all trademarks related to "Apple" and it will license the trademark back to Apple Corps for certain fields of use.²¹¹

The Apple dispute demonstrates that even with the coexistence agreement, parties in such a dispute faced months of failed negotiation and costly litigation. With all the imperfection of concurrent use and coexistence of two owners of the same trademark, it may be tempting to go back to the one ownership/licensing arrangement. That was the path Apple Inc. and Apple Corps took recently to move from concurrent ownership of the same trademark

peripheral equipment, and computer software of any kind on any medium; (ii) data processing services, data transmission services, broadcasting services, telecommunications services; (iii) ancillary services relating to any of the foregoing, including without limitation, training, education, maintenance, repair, financing and distribution; (iv) printed matter relating to any of the foregoing goods or services; and (v) promotional merchandising relating to the foregoing.

1.3 Apple Corps Field of Use' means (i) the Apple Musical Artists; the Apple Catalog; personalities or characters which appear in or are derived from the Apple catalog; the names, likenesses, voices or musical sounds of the Apple Musical Artists; any musical works or performances of the Apple Musical Artists; (ii) any current or future creative work whose principal content is music and/or musical performances; regardless of the means by which those works are recorded, or communicated, whether tangible or intangible; (iii) promotional merchandise relating to any of the foregoing;

Apple, 2006 EWHC (Ch) 996, [6] (Eng).

207. The parties explicitly specified their exclusive worldwide trademark rights in their respective fields of use:

4.1 Apple Computer shall have the exclusive worldwide right, as between the parties, to use and authorize others to use the Apple Computer Marks on or in connection with goods and services within the Apple Computer Field of Use.

4.2 Apple Corps shall have the exclusive worldwide right, as between the parties, to use and authorize others to use the Apple Corps Marks on or in connection with goods and services within the Apple Corps Field of Use.

Apple, 2006 EWHC (Ch) 996, [6] (Eng).

208. *See id.* at [7].

209. *See id.* at [8]–[14].

210. *Id.* at [111].

211. *See Flynn, supra* note 203, at 1.

to a situation of a one-owner/license arrangement, a situation close to *In re Exide Technologies*. Lawyers for the licensee may not be aware about the intersection of trademarks and bankruptcy. They probably do not foresee that the licensor may be in bankruptcy in the future and that the licensee's trademark right will be in peril. When that happens it would be too late for the licensee of the trademark to have protected itself against the loss of its rights.²¹²

VI. CONCLUSION

The \$71 million in damages suffered by the purchaser in the *In re Exide Technologies* case is a reminder that the intersection of trademark and bankruptcy laws has brought more uncertainty and unpredictability to a corporate sale of assets transaction that attempts to transfer an entire business line to a purchaser.²¹³ It will not encourage potential purchasers to acquire a corporate division if in the future they might lose the perpetual, exclusive and royalty free trademark right used in the operation of the business. In the seller's future bankruptcy, in addition to retaining the original purchase price,²¹⁴ the seller will reap the windfall of recapturing the trademark it effectively sold to another. The uncertainty must end, either by courts recognizing the transfer of the trademark as in substance the sale of a capital asset, not as a license of merely a limited right to use the trademark, or by the parties crafting assignments of divided trademark rights in different fields of use.

212. The licensee will face the rejection of the trademark license agreement. The licensor will now have the reversion of the trademark rights. See *In re Exide Techs.*, 340 B.R. at 250 ("The primary benefit to rejecting a trademark license is reacquiring the right to use the mark in whatever capacity or market in which use by the licensor was previously excluded and extinguishing the licensee's right to use it.").

213. *In re Exide Techs.*, 340 B.R. at 246 n.35.

214. Exide Technologies' 10K report in 1995 stated:

In June 1991, the Company sold substantially all of the assets relating to its industrial battery product line to Yuasa-Exide, Inc., formerly Yuasa Battery (America), Inc., affiliated with Yuasa Battery Co. Ltd. of Japan. The buyer paid approximately \$97,000,000 in cash and assumed certain liabilities. In addition, ECA entered into a 10-year agreement not to compete with the buyer in the industrial battery field and received a cash payment of \$20,000,000 as consideration. As a result of this sale, the Company recorded a gain of \$22,075,000.

Exide Techs 1995 10-k Report, available at, <http://buck.com/10k?tenkyear=95&idx=E&co=EXDTQ&nam=DEMO2&pw=DEMO2>.