SELLING IT FIRST, STEALING IT BACK LATER:

Uncertainty and Unpredictability of Bankruptcy Costs to Trademarks

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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 assets 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 bargain-for-exchange 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 now to 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, misunderstands the trademark transaction, deeming it as an ordinary "license" when it is truly an outright sale. This Article explains that it 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 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 remainder businesses. The threat of termination of trademark right when the seller is bankrupt some years later in the future will force potential acquirers to negotiate for much lower prices. That will not be good news for the seller at the time of contemplation of the sale of the division.

This Article proceeds as follows. Part II describes trademark license arrangements, typically utilized by the trademark owner to distribute and sell their products in the marketplace. This type of trademark license arrangement is different from the uncommon transactions involving trademark rights, the sale of a corporate division to an unrelated company, as discussed in Part III. The seller wants to sever ties with a particular corporate division while still wishes to keep the other divisions of the business. The seller sells the division together with the grant of a perpetual, exclusive right and royalty-free to the purchaser, to use the trademark in the operation of the corporate division.

Part IV examines the bankruptcy court decision, *In re Exide Technologies*, wherein the transaction involving trademark rights falls 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. The trademark transaction should have been held as a sale, not as a typical license. The decision would cause much uncertainty as potential purchasers would never have fathomed 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 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. When a grant of a perpetual, exclusive and royalty-free trademark right is an outright sale, such as how the Tax Court has treated similar transactions, the purchaser can continue to operate the corporate division after the acquisition. This Article suggests that, if bankruptcy courts adopt and follow *In re Exide Technologies*, the purchaser has no other option to ensure certainty but 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 laws 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* case serve as a reminder of a costly chilling result of the uncertainty and unpredictability.