

## In re Crumbs Bake Shop ? Trademark Licensees May Be Able to Have Their (Cup)Cake And Eat It, Too

November 18, 2014 | Client Update | 2-minute read

Following a recent line of high profile and notable decisions that have sought to protect the rights of trademark licensees in a trademark licensor's bankruptcy, the U.S. Bankruptcy Court for the District of New Jersey has issued a significant decision that, for the first time, extends the protections of Section 365(n) of the U.S. Bankruptcy Code to trademark licensees on equitable grounds (*In re Crumbs Bake Shop, Inc.*, No. 14-24287 (Bankr. D.N.J. Oct. 31, 2014)).

Section 365(n) generally serves to mitigate an intellectual property licensee's exposure to the risk of the licensor's bankruptcy by allowing the licensee to treat the license as terminated or to elect to retain certain of its rights under the license. If the licensee accepts termination of its license, it can file a claim in the bankruptcy case, which would typically be treated as a pre-petition general unsecured claim. If the licensee makes an election under Section 365(n) to retain its rights, the debtor must comply with the confidentiality and exclusivity provisions of the license agreement and continue to provide access to the licensed intellectual property as it existed immediately before the bankruptcy filing. However, because Congress excluded trademarks from the definition of "intellectual property" under the Bankruptcy Code for the purposes of Section 365(n), courts have traditionally reasoned by negative inference that a trademark licensee's rights to licensed trademarks are vulnerable if a trademark licensor in bankruptcy elects to reject the trademark license under Section 365(a).

Recently, courts within the Third and Seventh Circuits have provided trademark licensees with protections against this vulnerability and the court's decision in *Crumbs* extends this trend. Relying on the reasoning articulated by Judge Ambro in his concurring opinion in *In re Exide Technologies*, 607 F.3d 957 (3d Cir. 2010) (Ambro, J., concurring) and citing the legislative history of Section 365(n), the court concluded that even if Section 365(n) does not expressly apply to trademarks, the court has the equitable power to apply Section 365(n) to trademark licenses. In addition, the court concluded that the trademark licensees' Section 365(n) rights were not vitiated by a Section 363 "free and clear" sale of the licensed trademark because it did not have the consent of the trademark licensees. Finally, because the applicable licenses were excluded from the Section 363 sale, the debtors were entitled to collect future royalties from the licensees.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

**Frank Azzopardi**

+1 212 450 6277  
frank.azzopardi@davispolk.com

**David R. Bauer**

+1 212 450 4995  
david.bauer@davispolk.com

**Donald S. Bernstein**

+1 212 450 4092  
donald.bernstein@davispolk.com

**Timothy Graulich**

+1 212 450 4639  
timothy.graulich@davispolk.com

**Marshall S. Huebner**

+1 212 450 4099  
marshall.huebner@davispolk.com

**Brian M. Resnick**

+1 212 450 4213  
brian.resnick@davispolk.com

**Damian S. Schaible**

+1 212 450 4580  
damian.schaible@davispolk.com

*This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.*

## Related materials

[Read the full update](#)