UNPACKING TRUMP'S BRAND VALUE: THE COST TO SECURED CREDITORS♦

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INTRODUCTION

Michael Cohen's testimony before Congress in early 2019 once again thrust Trump's brand value into doubt.[1] Cohen, the former attorney for Donald Trump, testified that in a 2013 financial statement, Mr. Trump claimed that "$4 billion of his nearly $9 billion net worth was attributable

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[1] David Enrich et al., *Trump Exaggerated His Wealth in Bid for Loan, Michael Cohen Tells Congress*, N.Y. TIMES (Feb. 27, 2019), https://www.nytimes.com/2019/02/27/business/donald-trump-buffalo-bills-deutsche-bank.html [https://perma.cc/766N-8C7H] ("Mr. Trump reported a net worth of up to about $8.7 billion, with much of it coming from the value of his brand and his portfolio of residential properties, office buildings and golf resorts in the United States and overseas.").

to his 'brand value.'"[2] This appraisal raises questions in light of Trump's then-impending bankruptcy filing. In that bankruptcy, the Trump brand was part of the failed casino business in Atlantic City. The hotel casinos were once emblazoned with his name, Trump Plaza and Trump Taj Mahal. This strongly implies that some type of trademark license agreement must have been in existence in order for the two hotel casinos to operate and attract patrons. After Trump's electoral win in late 2016 and before his inauguration, his ethics counsel informed the public that the Trump name is valuable and inseparable from the vast network of Trump companies.[3] Separating the Trump name from the existing dealings would, therefore, be impossible.[4] By continuing to withhold information about his taxes, Trump is leaving the public in the dark.[5]

This Article will shine a small light into that vast darkness by unpacking Trump's brand value related to the dealings in the hotel casino business that led to the Bankruptcy Court of Delaware's decision on Trump's trademark license.[6]

Part I details Trump's hotel casino and trademark dealings in the first two rounds of bankruptcy under chapter 11.[7] Part II discusses how Trump's Trademark License Agreement is intertwined with the Consent and Secured Transaction.[8] Part III explains how Trump employed his strategy of pulling the brand name from the Trump Taj Mahal at the expense of his secured creditors.[9] Part IV focuses on bankruptcy cases, including the bankruptcy court's decision on the Trump trademarks.[10] Part IV also explains how the bankruptcy court's decision on Trump's trademarks was erroneous in allowing Trump to lift the automatic stay,

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2 *Id.*

3 *At This Hour with Berman and Michaela*, CNN TRANSCRIPTS (Jan. 11, 2017, 11:30 AM), http://www.cnn.com/TRANSCRIPTS/1701/11/ath.02.html [https://perma.cc/2NBM-NEUX] ("President-elect Trump's investments and business assets commonly known as the – as the Trump Organization, comprising hundreds of entities which . . . have all been or will be conveyed to a trust . . . . [T]he trust is going to hold his preexisting illiquid, but very valuable business assets, the ones that everyone here is familiar with. Trump owned, operated and branded golf clubs, commercial rental property, resorts, hotels, rights to royalties from preexisting licenses of Trump-Marks Productions and Goods . . . . The Trump brand is key to the value of the Trump Organization's assets.").

4 *Id.* ("And selling his assets without the rights to the brand would greatly diminish the value of the assets and create a fire sale. President-elect Trump should not be expected to destroy the company he built.").

5 Daniel Marans, *White House Petition Demanding Trump Release Tax Returns Gets Over 1 Million Signatures*, HUFFINGTON POST (Feb. 21, 2017, 5:37 PM), https://www.huffpost.com/entry/trump-tax-returns-petition_n_58aca5b8e4b02eb3a9831a8e [https://perma.cc/4DP6-V86X].

6 *In re* Trump Entm't Resorts, Inc., 526 B.R. 116, 118 (Bankr. D. Del. 2015).

7 *See infra* Part I.

8 *See infra* Part II.

9 *See infra* Part III.

10 *See infra* Part IV.

which, as result, freed him up to terminate the exclusive license to use the Trump name in the reorganization of the hotel casino.[11]

This Article demonstrates that in the intersection of trademark license, secured transactions, and bankruptcy law, Trump employed a tactic of undercutting the hotel casino carrying his name—the Trump Taj Mahal—by pulling the very name that the hotel must have in order to reorganize and survive and, consequently, threatening his creditors, who had provided significant credit in exchange for the assurance that the Trump name would continue to be synonymous with the hotel. In unpacking Trump's actions, the Article concludes that the jurisprudence in the intersection of trademark license, secured transactions, and bankruptcy has been developed in haste, leading to erroneous results. Bankruptcy courts must resist the temptation to summarily cite to trademark law at the expense of secured creditors.

I. TRUMP HOTEL CASINOS AND TRADEMARK DEALINGS

On June 12, 1995, Trump himself entered into a Trademark License Agreement to grant the Trump Hotels & Casino Resorts, Inc. (the "Company") the exclusive right to use the Trump marks in connection with the hotel casino services and products.[12] On the same date, the parties also signed a Trademark Security Agreement, wherein the trademarks were used as security for the underlying loans or credit line.[13]

Nine years later, on November 21, 2004, the Company and its subsidiaries filed for bankruptcy under chapter 11 in the Bankruptcy Court for the District of New Jersey.[14] The bankruptcy court confirmed the reorganization plan in 2005.[15] As part of the reorganization, the debtor-in-possession assumed and assigned all of its rights and obligations under the Trademark Security Agreement and the Trademark License Agreement to the reorganized entity, Trump Entertainment Resorts Holdings, L.P. ("Holdings").[16] Accordingly, Trump himself was obligated to (and did) consent and grant to Holdings "a perpetual, exclusive, royalty-free, worldwide license" to use the Trump marks and Trump's likeness "in connection with Casino and Gaming Activities."[17] The license also included the right to sublicense the trademark assets to

11 *See infra* Part IV.

12 *See Amended and Restated Trademark License Agreement*, SEC (May 20, 2005), https://www.sec.gov/Archives/edgar/data/943322/000119312505115760/dex107.htm [https://perma.cc/Y5ES-HV78].

13 *Id.*

14 *Id.*

15 *Id.*

16 *Id.* at 1-2.

17 *Id.* at 2, 5.

third parties.[18] Trump then personally signed the Amended and Restated Trademark Security Agreement with Holdings on May 20, 2005.[19]

However, Holdings, the reorganized business of 2005, did not fare well. Five years after the first bankruptcy, Holdings filed for reorganization under chapter 11 on February 17, 2009.[20] Again, similar to the first reorganization of the hotel casino business, as part of the second reorganization plan, Trump signed the Second Amended and Restated Trademark License Agreement (Second Trademark License Agreement) on July 16, 2010, to the reorganized entity, Trump Entertainment Resorts, Inc.[21] Ivanka Trump, Trump's daughter, joined her father in signing the Second Trademark License Agreement.[22]

Under the Second Trademark License Agreement, Trump and Ivanka granted to the licensees a perpetual, exclusive, royalty-free license to use their names and likenesses in connection with the business of the three hotel casinos located in Atlantic City.[23] The agreement, however, extended the territory of the use beyond Atlantic City to include New York, New Jersey, Connecticut, Pennsylvania, Maryland, and Delaware.[24] The license covered the uses of the Trump trademark in connection with two hundred products that were characterized as "current uses," for which the licensees did not need to obtain prior approval from the Trumps.[25] The extensive license also covered another list of more than two hundred products for which the licensees did not need prior approval but that were subject to the Trumps' ten-day objection right.[26] For "proposed uses" that were not included in the more than four hundred items, the licensees were required to obtain prior approval from the Trumps.[27] The Second Trademark License Agreement also contained extensive quality control provisions for the protection of the trademarks.[28]

The Second Trademark License Agreement, however, was not a typical standalone trademark license but an integral part of the second

18 *Id.* at 5.
19 *Id.* at Signature Pages.
20 Daniel Gill & Deborah Swann, *The Bankruptcies Behind Trump's 'King of Debt' Claim*, BLOOMBERG L. (Oct. 31, 2016, 1:27 PM), https://news.bloomberglaw.com/bankruptcy-law/the-bankruptcies-behind-trumps-king-of-debt-claim.
21 *See Second Amended and Restated Trademark License Agreement*, SEC (July 16, 2010), https://www.sec.gov/Archives/edgar/data/943320/000119312510161799/dex104.htm [https://perma.cc/AEA8-NL8B] [hereinafter *Second TLA*].
22 *Id.*
23 *Id.* at 10; *see In* re Trump Entm't Resorts, Inc., 526 B.R. 116, 119 (Bankr. D. Del. 2015).
24 *In re Trump Entm't Resorts, Inc.*, 526 B.R. at 119 n.2.
25 *Id.* at 118.
26 *Id.*
27 *Id.* at 119.
28 *Second TLA*, *supra* note 21, at 22-27.

reorganization plan of the failed hotel casinos.[29] The Trumps entered into the Second Trademark License Agreement as part of the reorganization Plan Support Agreement, which required a trademark consent with the main secured creditor.[30]

II. DONALD AND IVANKA TRUMP'S TRADEMARK CONSENT WITH SECURED CREDITOR

Under the reorganization plan, Trump and Ivanka were required to expressly enter into a Plan Support Agreement as proposed by the secured creditors.[31] The executed Plan Support Agreement gave rise to the existence of the Trademark License Agreement, as mentioned in the Recitals of the Trademark License Agreement.[32]

Ancillary to the execution of the Trademark License Agreement, Trump and Ivanka signed a Consent Agreement with the First Lien Lender ("Secured Creditor"), the most significant secured creditor in this second round of the chapter 11 bankruptcy.[33] Indeed, the Secured Creditor had provided $292 million under the terms of a pre-petition credit facility to Trump Entertainment Resorts, Inc. (the "Debtors") prior to the filing of the second bankruptcy and received a security interest in all of the Debtors' assets, including the Debtors' rights under the Trademark License Agreement.[34] At the second reorganization, the $292 million unpaid amount constituted "the vast majority" of the capital structure and total outstanding debt.[35]

Under the Consent Agreement, Trump and Ivanka consented to transfer "from time to time of the rights of any one or more of the [Debtors] under the [Trademark License Agreement] upon and following the enforcement by the [First Lien Lender] of its rights under the [Pre-Petition Credit Agreement]."[36] That means if the Debtors were to become in default of the credit agreement, the Secured Creditor would have the right to enforce its security interest against the Debtors and the Trumps. The Trumps would then be required to transfer the trademark license rights from the Debtors to the Secured Creditor.

Consequently, if the Secured Creditor enforced its rights under the Trademark License Agreement, the Trumps would be required to affirmatively recognize the Secured Creditor "as a licensee under the

29 *See generally id.*
30 *Id.* at 2, 31-32.
31 *Id.* at 2.
32 *Id.*
33 *In re* Trump Entm't Resorts, Inc., 526 B.R. 116, 119 (Bankr. D. Del. 2015).
34 *Id.*
35 *Id.*
36 *Id.*

Trademark License Agreement in the place of the Debtor[s]."[37] Accordingly, the Trumps signed the Consent Agreement with the Secured Creditor on July 16, 2010, the same date they executed the Trademark License Agreement with the Debtors, during the second reorganization of the failed hotel casino business.[38]

Analyzing these documents together, Trump's failure in the hotel casino business forced the Secured Creditor to structure the trademark dealings with caution, tying the trademark license in the hotel casino business to the enforcement of the secured credit.[39] In other words, the Secured Creditor would not have supported the reorganization plan if Trump and Ivanka had not signed both the Trademark License Agreement and the Consent Agreement.[40]

III. PULLING THE TRADEMARKS FROM THE TRUMP TAJ MAHAL AND THE IMMEDIATE IMPACT ON THE SECURED CREDITOR

On September 9, 2014, four years after the second reorganization, Trump Entertainment Resorts and affiliates filed for chapter 11 bankruptcy.[41] As of the petition date, the Debtors operated two of the three hotel casinos, which were originally subject to the Trademark License Agreements.[42] A week after the bankruptcy filing, the Debtors closed down the Trump Plaza but kept the Trump Taj Mahal in operation.[43] That meant the reorganization for this third round of bankruptcy specifically focused only on the Trump Taj Mahal.[44]

Most importantly, the Secured Creditor in this third bankruptcy was the same Secured Creditor in the second bankruptcy's Pre-Petition Credit Agreement.[45] In fact, the proposed plan of reorganization in the third bankruptcy included mainly the "debt-for-equity swap of substantially all amounts owing under the Pre-Petition Credit Agreement."[46] A debt-for-equity swap is a refinancing deal where the debtholder gets an equity position in exchange for the cancellation of the debt.[47] The debt-for-

37 *Id.* at 120.
38 *Id.* at 119; *see Second TLA*, *supra* note 21, at 1.
39 *In re Trump Entm't Resorts, Inc.*, 526 B.R. at 119-20.
40 *Id.*
41 *Id.* at 120.
42 *Id.* (specifically, the Trump Plaza Hotel and Casino and the Trump Taj Mahal Casino Resort).
43 *Id.*
44 *Id.*
45 *Id.*
46 *Id.* ("[The] plan of reorganization does not contemplate any significant asset transfer. Instead, the Plan contemplates cancellation of pre-existing equity, a nominal distribution to unsecured creditors, and a debt-for-equity swap of substantially all amounts owing under the Pre-Petition Credit Agreement.").
47 *Debt/Equity Swap*, INVESTOPEDIA, http://www.investopedia.com/terms/d/debtequityswap.asp [https://perma.cc/QD5K-TNFD] (last updated Apr. 12, 2019).

equity swap occurs when a struggling company cannot pay its debt; the swap allows the company to continue to operate.[48] That means the Secured Creditor would have control of the reorganized Debtors if the proposed plan of reorganization was affirmed.[49]

The Secured Creditor, in anticipation of having control of the reorganized Debtors, needed to have the right to use the Trump marks in order to operate the Trump Taj Mahal hotel casino.[50] Therefore, the reorganization plan contemplated the assumption of the Trademark License Agreement.[51] It would be impossible for the Secured Creditor to operate the hotel casino without having the right to continue to use the Trump names and trademarks.[52] Indeed, the use of the Trump marks is "ubiquitous" throughout the hotel casino that had carried the same name.[53] Moreover, it would be "costly and problematic to remove the Trump Marks" from the Trump Taj Mahal.[54]

Instead of allowing the Secured Creditor to procure its rights in the Trademark License pursuant to the Consent Agreement executed by Trump and Ivanka in 2010 and recognizing the Secured Creditor as the soon-to-be owner of the Trump Taj Mahal as the result of the debt-for-equity swap, the Trumps initiated an action in state court a little more than one month before the bankruptcy filing.[55] The Trumps did not want the Trump Taj Mahal to have the right to use the brand name Trump in connection with the hotel casino's services and products.[56] The Trumps also did not want the right to use the Trump brand to be included as part of the failed business's bankruptcy estate.[57] By filing the state court action with allegations of breach of the Trademark License Agreement by the Trump Entertainment Resorts, the entity holding the Trump Taj Mahal, before its bankruptcy filing, the Trumps would increase their chance of achieving their objectives.[58]

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48 *Debt Restructuring*, WIKIPEDIA, https://en.wikipedia.org/wiki/Debt_restructuring [https://perma.cc/N69H-TWBN] (last modified Feb. 24, 2017) ("Debt for equity deals often occur when large companies run into serious financial trouble, and often result in these companies being taken over by their principal creditors. This is because both the debt and the remaining assets in these companies are so large that there is no advantage for the creditors to drive the company into bankruptcy. Instead the creditors prefer to take control of the business as a going concern. As a consequence, the original shareholders' stake in the company is generally significantly diluted in these deals and may be entirely eliminated, as is typical in a Chapter 11 bankruptcy.").

49 *Id.*

50 *In re Trump Entm't Resorts, Inc.*, 526 B.R. at 119-20.

51 *Id.*

52 *Id.*

53 *Id.* at 120.

54 *Id.*

55 *Id.*

56 *See generally id.*

57 *Id.*

58 *Id.*

Strategically, the Trumps first alleged violations of the Trademark License Agreement against Trump Entertainment Resorts.[59] After the bankruptcy filing occurred, Trump sought the bankruptcy court's decision to lift the automatic stay on the state proceeding so that the Trumps could proceed to terminate the Trademark License Agreement for breach in state court.[60] Moreover, based on the current bankruptcy jurisprudence on the intersection of bankruptcy and trademark law, the Trumps could block the debtor-in-possession from having to assume the Trademark License Agreement.[61] That means the reorganized entity would not be able to use the Trump brand name or marks in the operation of the Trump Taj Mahal.[62] Consequently, the Secured Creditor would have control of the Trump Taj Mahal but without the Trump trademark to operate the hotel casino.[63] It would be a devastating blow to the secured transaction, as the Secured Creditor could not readily recover the $292 million credit it had provided.

IV. HASTE IN BANKRUPTCY JURISPRUDENCE AT THE INTERSECTION OF SECURED TRANSACTIONS AND TRADEMARK LICENSES

A. *Bankruptcy Law on Assumption and Assignment of Executory Contracts*

Generally, a trustee in chapter 7 or a debtor-in-possession in chapter 11 may assume or reject an executory contract.[64] An executory contract means that there are existing obligations on the bankrupt (the debtor) and the other party to the contract (the non-debtor) to fulfill, and failure to perform them would constitute a material breach.[65] With respect to rejection of an executory contract, the debtor would not continue its obligations, resulting in a breach of the contract that would effectively

59 *Id.*
60 *Id.*
61 *Id.* at 121-27.
62 *Id.*
63 *Id.*
64 Mark G. Douglas, *Can an Executory Contract Lose Its Executoriness? "Maybe," Says the Second Circuit*, JONES DAY (July/Aug. 2008), http://www.jonesday.com/can-an-executory-contract-lose-its-executoriness-maybe-says-the-second-circuit-08-01-2008/ [perma.cc/27S7-H45N].
65 Sharon Steel Corp. v. Nat'l Fuel Gas Distribution Corp., 872 F.2d 36, 39 (3d Cir. 1989) (citing Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973), https://scholarship.law.umn.edu/cgi/viewcontent.cgi?article=3458&context=mlr [https://perma.cc/CG6Q-YY2E]) ("[An executory contract is] a contract under which 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.").

terminate the contract.[66] On the other hand, if the debtor assumed an executory contract, the debtor would keep the contract.[67]

For a chapter 11 debtor, assumption of an executory contract allows the reorganized entity to continue to benefit from the rights pursuant to the contract in order to operate its business.[68] There is a fear that the debtor may assign the executory contract to a third party after assumption of the executory contract.[69] Recognizing that fear as legitimate, some courts do not permit debtors to assume an executory contract, even in the context of reorganization and in the absence of the debtors' intent to ever assign the contract to a third party.[70] Nevertheless, these courts believe that the debtors may assume and *hypothetically* assign executory contracts.[71]

Moreover, there is a statutory internal conflict regarding the debtor's ability to assume and assign executory contracts.[72] On the one hand, under section 365(f)(1) of bankruptcy law, the debtor may assign an executory contract notwithstanding any provision in the contract or applicable non-bankruptcy law that prohibits the assignment.[73] On the

66 Douglas, *supra* note 64.

67 *In re Trump Entm't Resorts, Inc.*, 526 B.R. at 121-27.

68 Peter M. Gilhuly et al., *Intellectually Bankrupt?: The Comprehensive Guide to Navigating IP Issues in Chapter 11*, 21 AM. BANKR. INST. L. REV. 1, 10 (2013) (explaining that the assumption of an executory contract allows the debtor to "continue to perform its obligations during and after emerging from bankruptcy").

69 *See generally In re* Neuhoff Farms, Inc., 258 B.R. 343, 347 (Bankr. E.D.N.C. 2000).

70 *Id.* at 350 (citing *In re* Catapult Entm't, 165 F.3d 747, 750 (9th Cir. 1999)) ("[A] debtor in possession may not assume an executory contract over the nondebtor's objection if applicable law would bar assignment to a hypothetical party, even where the debtor in possession has no intention of assigning the contract in question to any such party.").

71 Gilhuly et al., *supra* note 68, at 12-16 (discussing the growing conflict amongst circuit courts that has resulted from the inconsistent adoption of two competing tests—i.e., the "hypothetical" test and the "actual" test—for determining the assumption and assignment of executory contracts); *see* Thomas M. Mackey, *Post-Footstar Balancing: Toward Better Constructions of § 365(c)(1) & Beyond*, 84 AM. BANKR. L.J. 405 (2010) (reviewing the historical developments of the "hypothetical test versus actual test" dilemma surrounding the courts determination of assumption and assignment of executory contracts in bankruptcy disputes).

72 Michael J. Kelly, *Recognizing the Breadth of Non-Assignable Contracts in Bankruptcy: Enforcement of Nonbankruptcy Law as Bankruptcy Policy*, 16 AM. BANKR. INST. L. REV. 321, 321-22 (2008) (summarizing the statutory conflicts); *see* William P. Weintraub, *Historical Defaults and Cross-Defaults: Here a Default, There a Default, Everywhere a Default, Default, Default*, 26 CAL. BANKR. J. 286, 288-90 (explaining that courts have avoided answering "the question of how to reconcile sections 365(c) and 365(f) and instead focused on federal common law as overriding the Bankruptcy Code"); *see also In re* CFLC, Inc., 89 F.3d 673, 677 (9th Cir. 1996) ("Because . . . as we hold below, a nonexclusive patent license is personal and nondelegable under federal law, § 365(c) bars the assumption and assignment of the license in this case under either test and we need not attempt to resolve whatever conflict exists between the two decisions.").

73 11 U.S.C. § 365(f)(1) (2012), https://www.govinfo.gov/content/pkg/USCODE-2017-title11/pdf/USCODE-2017-title11-chap3-subchapIV-sec365.pdf [https://perma.cc/V249-CJZ4] ("Except as provided in subsections (b) and (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.").

other hand, section 365(c)(1) instructs that a debtor may not assume or assign an executory contract if non-bankruptcy law prohibits the assignment of the contract.[74] Some courts have addressed this conflict by requiring bankruptcy courts, in determining whether an "applicable nonbankruptcy law" stands or falls under section 365(f)(1), to ask *why* the applicable law prohibits assignment.[75] That means for section 365(c)(1) to apply, "the applicable law must specifically state that the contracting party is excused from accepting performance from a third party under circumstances where it is clear from the statute that the identity of the contracting party is crucial to the contract . . . ."[76] For example, if the applicable law is contract law, and the executory contract is not a personal services contract, bankruptcy courts will permit the debtor to assume and assign the executory contract.[77]

B. *Bankruptcy Law Meets Trademark Licenses and Secured Transactions*

As intellectual property assets have become more prevalent in bankruptcies, courts have applied the above bankruptcy law on assumption and assignment in cases where the executory contracts concern trademark license agreements.[78] This is where bankruptcy law intersects with trademark law.

1. *In re Rooster*—A Simple Case

The first reported case on the intersection of bankruptcy law on assumption, assignment, and trademark licenses is *In re Rooster, Inc*.[79] In

[74] *Id.* § 365(c)(1)(A)-(B) ("The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and (B) such party does not consent to such assumption or assignment . . . .").

[75] *In re Catapult Entm't, Inc.*, 165 F.3d at 752 ("Subsection (f)(1) states the broad rule—a law that, as a general matter, 'prohibits, restricts, or conditions the assignment' of executory contracts is trumped by the provisions of subsection (f)(1). Subsection (c)(1), however, states a carefully crafted exception to the broad rule—where applicable law does not merely recite a general ban on assignment, but instead more specifically 'excuses a party . . . from accepting performance from or rendering performance to an entity' different from the one with which the party originally contracted, the applicable law prevails over subsection (f)(1). In other words, in determining whether an 'applicable law' stands or falls under § 365(f)(1), a court must ask *why* the 'applicable law' prohibits assignment." (internal citations omitted)).

[76] *In re* ANC Rental Corp., 277 B.R. 226, 236 (Bankr. D. Del. 2002).

[77] *In re* Glob. Home Prods., LLC, No. 06-10340-KG, 2006 WL 2381918, at *1 (D. Del. Aug. 17, 2006) (holding that "the Bankruptcy Court correctly concluded that the [trademark license] was not a personal services contract and was freely assignable as an exclusive license that places no restriction on assignments").

[78] *See* Gilhuly et al., *supra* note 68, at 12-16 (discussing non-trademark license cases).

[79] *In re* Rooster, Inc., 100 B.R. 228 (Bankr. E.D. Pa. 1989).

that case, the debtor was in the business of manufacturing, distributing, and selling neckties.[80] The debtor entered into a trademark license agreement for the right to use the Bill Blass trademark.[81] The agreement provided the debtor with a sublicense to use the Bill Blass trademark in distribution and sales in the United States.[82] Bill Blass, the licensor, imposed strict quality standards and inspections on the products.[83] The licensor conducted product reviews prior to production and distribution.[84] The debtor subsequently filed for bankruptcy.[85] Prior to the bankruptcy filing, the debtor arranged for the licensor to meet with another manufacturer as a potential substitute for the debtor in relation to the trademark license agreement.[86] The licensor brought a motion to compel the debtor to decide whether to assume or assign the trademark license agreement.[87] The licensor did not want the debtor to assume and assign the trademark license agreement to a third party.[88]

The bankruptcy court in that case had to decide whether the debtor could assume the trademark license agreement under non-bankruptcy applicable law.[89] The court permitted the debtor to assume and assign the trademark license agreement over the licensor's objections because a third-party assignee could perform the obligations under the trademark license agreement.[90] The strict quality control imposed by the licensor on the trademarked neckties meant that the trademark license agreement did not require the substituting third party to have any personal ability or integrity to perform the obligations.[91] The court noted that because the licensor retained and exercised the quality control over the trademarked products, the licensor would "not rely on the personal performance" of the debtor.[92] Further, if the licensor was dissatisfied with the new assignee of the trademark license agreement, the licensor could exercise the "veto power and prevent the products' being marketed."[93]

Subsequently, cases involving the assumption and assignment of trademark license agreements in bankruptcy often focus on whether the trademark license agreement in question requires "the identity of the

80 *Id.* at 230.
81 *Id.*
82 *Id.*
83 *Id.*
84 *Id.*
85 *Id.* at 231.
86 *Id.*
87 *Id.* at 232.
88 *Id.* at 231.
89 *Id.* at 232.
90 *Id.* at 234-35.
91 *Id.* at 233-35.
92 *Id.* at 235.
93 *Id.*

contracting party."[94] Analyzing various provisions under a trademark license agreement with care is often the hallmark of these types of cases. The non-debtor licensor in these types of cases often relies on trademark law to argue that it has the right to control the identity of the entity that would be its licensee.[95] That assertion, however, is but one of the many reasons for the licensor to block the debtor from assuming the trademark license agreement. The motive behind blocking the debtor from assumption and assignment of the trademark license agreement is economic.[96] The licensor wants to have sole control over who will be the assignee in order to have direct negotiation and to obtain better terms.[97]

2. *In re Trump Entertainment Resorts, Inc.*, Haste in Law, and Harm to Secured Creditors

The decision and reasoning embodied in the *Rooster* case was not adopted in *In re Trump Entertainment Resorts, Inc*.[98] Instead, the Bankruptcy Court for the District of Delaware ruled in the Trumps' favor and did not allow the debtor to assume the Trademark License Agreement.[99] As discussed above, the Trumps sought the bankruptcy court's decision to lift the automatic stay on the state proceeding so that the Trumps could proceed in the earlier filed state court action to terminate the Trademark License Agreement for breach against the Trump Taj Mahal.[100]

The court reasoned that it declined the debtor's assumption of the Trademark License Agreement because the applicable non-bankruptcy law does not allow the assignment of the Trademark License Agreement to a third party without the licensor's consent.[101] The court summarily stated that it relied on trademark law as the applicable law for the non-assignability because the licensor has the right to select and know the identity of its licensee.[102] Here, the court ignored how the *Rooster* case had addressed the identity of the third-party assignee of the trademark license. In *Rooster,* upon finding that the licensor inspected every necktie

94 *In re* ANC Rental Corp., 277 B.R. 226, 235 (Bankr. D. Del. 2002).
95 *See In re Rooster, Inc.*, 100 B.R. at 231.
96 *Id.* (explaining that "implicit in the litigation over the sublicensing agreement (as with most litigation under 11 U.S.C. § 365) is a contest for control and recovery of the economic value of the agreement").
97 *Id.* at 231 n.4 (explaining that, although the recovery of economic value was not the non-debtor licensor's sole motivation for initiating litigation over the sublicensing agreement, its concession that "it may seek higher minimum royalties from a new sublicensee of its choosing" indicate that "economic issues"—to reject the debtor's assumption—"are relevant").
98 *See generally In re* Trump Entm't Resorts, Inc., 526 B.R. 116 (Bankr. D. Del. 2015).
99 *Id.* at 127.
100 *Id.* at 120.
101 *Id.* at 125.
102 *Id.* ("[F]ederal trademark law prohibits assignment of trademark licenses under circumstances where it is clear that the identity of the licensee is crucial to the agreement.").

sample before production and distribution, which meant that the licensor did not rely on the debtor for special skills or knowledge, and that a third-party substitute for the debtor would be able to fulfill the obligations under the trademark license agreement, the court allowed the debtor to assume and assign the trademark license agreement.[103] Also, the *Rooster* court observed that if the new assignee of the trademark license agreement failed to perform its obligations, the licensor could easily exercise its veto power and prevent the trademarked products from being produced or marketed.[104]

If the *Trump* court had paid a little bit more attention, it would have noticed analogous facts in its case and the *Rooster* case. Both trademark license agreements contained strict quality control provisions of the trademarked products, pursuant to trademark law, to protect licensed marks from being deemed a "naked license" that may lead to abandonment.[105] The licensor in *Rooster* inspected necktie samples.[106] The Trumps did that and more.[107] The Trumps included extensive procedures to control the quality of the products and the use of the trademarks in connection with the hotel casino services and products.[108] In fact, these provisions occupied five pages of the Trademark License Agreement.[109] It is undeniable that, like the licensor in *Rooster*, the Trumps retained and exercised quality control over the trademarked products; the Trumps therefore would "not rely on the personal performance" of the debtor.[110]

It follows that, because the assumption and assignment of the Trademark License Agreement to a third party substituting for the debtor was acceptable to the *Rooster* court**,** the debtor in *In re Trump Entertainment Resorts, Inc*. should also have been permitted to do the same. In fact, given that the Trumps imposed even higher quality control standards and more cumbersome procedures than the licensor in *Rooster*, the court should have been more comfortable with allowing the debtor to assume and assign the agreement to a third party. The court also should have observed that, like the licensor in *Rooster*, if the Trumps were

103 *In re* Rooster, Inc., 100 B.R. 228, 234-35 (Bankr. E.D. Pa. 1989).
104 *Id.* at 235.
105 *See generally* Katya Assaf, *Brand Fetishism*, 43 CONN. L. REV. 83, 110 (2010) ("Licensing without quality control constitutes a so-called 'naked license,' and results in the loss of trademark rights."); *see also* Irene Calboli, *The Sunset of "Quality Control" in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 351 (2007), https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1027&context=aulr [https://perma.cc/DB9R-EKU9] (discussing the history of trademark licensing and "quality control").
106 *In re Rooster, Inc.*, 100 B.R. at 230.
107 *See Second TLA*, *supra* note 21, at 22-27.
108 *Id.*
109 *Id.*
110 *Id.*; *see also In re Rooster, Inc.*, 100 B.R. at 235.

dissatisfied with the new assignee of the Trademark License Agreement, the Trumps could exercise the veto power and prevent the services and products being marketed to protect the Trumps' trademark rights.

Moreover, the "third party" in this case is none other than the Secured Creditor because it is the entity that would have control of the Trump Taj Mahal. Even if the Secured Creditor may later assign the Trademark License Agreement to a different entity to operate the Trump Taj Mahal on its behalf, the licensors—Trump and Ivanka—have the unfettered right to veto and prevent the services and products from being produced, marketed, distributed, and sold.

The *Trump* court claimed to distinguish its case from *Rooster* by asserting that it applied "federal trademark law," whereas the *Rooster* court applied only contract law.[111] Ironically, if federal trademark law was the only law controlling this matter, the *Trump* court failed to notice that the licensor relied solely on contract law as its recourse—it specifically sought to terminate the Trademark License Agreement in state court instead of bringing the litigation in a federal court for both contract breach *and* trademark infringement against the debtor for continued use of the trademarks after the licensor allegedly had terminated the trademarks.[112] As to the attempt to characterize the *Rooster* decision as distinguishable based on an application of federal trademark versus contract law, a careful reading of the *Rooster* decision suggests otherwise. In fact, the *Rooster* court applied both trademark and contract laws, as these two intersected in the trademark license agreement context.[113]

Further, the *Trump* court ignored the interconnection between the Trademark License Agreement, the Consent Agreement, and the Secured Transaction. The court treated the Trademark License Agreement as though it was a standalone contract signed between the trademark

111 *In re* Trump Entm't Resorts, Inc., 526 B.R. 116, 126 (Bankr. D. Del. 2015).

112 *Id.* at 120; *see generally* La Quinta Corp. v. Heartland Props. LLC, 603 F.3d 327 (6th Cir. 2010) (breach of contract and trademark infringement); *see generally* Choice Hotels Int'l, Inc. v. Raj, Inc., No. 2:13-cv-02313-EFM-JPO, 2013 WL 11901514 (D. Kan. Aug. 14, 2013) (same); *see generally* Best W. Int'l, Inc. v. Richland Hotel Corp. GP, LLC, No. CV-11-1246-PHX-SMM(LOA), 2012 WL 612784 (D. Ariz. Feb. 27, 2012) (same); *see generally* Hyatt Corp. v. Epoch-Fla. Capital Hotel Partners, Ltd., No. 6:07-cv-1260-Orl-KRS, 2008 WL 490121 (M.D. Fla. Feb. 20, 2008) (same).

113 *In re Rooster, Inc.*, 100 B.R. at 233-35. Notably, although the court did not formally utilize conventional trademark terminology or precise trademark language, its opinion nevertheless relied on many fundamental concepts of trademark law. *See id.* For example, when discussing the licensor's right to exert reasonable veto power over the production of any finished product for which it was dissatisfied, the court considered the scope of the licensor's artistic input in decisions pertaining to the ultimate creation of the trademarked product's actual design—specifically, its right to exercise control over selections of design, color, and quality (i.e., the "look" of the intended product). *Id.* These, as the court in *Rooster* suggests, are the typical quality control provisions in a trademark license. *Id.*

licensor and the debtor licensee.[114] The court forgot that the reorganization plan that was to be confirmed had been structured to swap the secured debt for equity, turning the Secured Creditor into a controlling shareholder of the reorganized debtor, the Trump Taj Mahal.[115] By overlooking this fact, the court failed to realize that without the Trumps' trademarks, the Secured Creditor would stand to lose virtually everything—what good would the Trump Taj Mahal be as a reorganized hotel casino without the Trumps' trademarks?

Therefore, the only solution for the Secured Creditor is to initiate an action to enforce the original Pre-Petition Credit Agreement and to cause the Trumps to transfer the trademark rights under the Trademark License Agreement to the Secured Creditor. The Secured Creditor would then become the new licensee under the Trademark License Agreement. The Secured Creditor could then assign the newly acquired trademark license right to the reorganized debtor, as the Secured Debtor would accept the debt-for-equity swap and be in control of the reorganized debtor! This would be an additional burden and would prolong the bankruptcy process.

Consequently, because of its haste, the *Trump* court set a new precedent that invoking trademark law could be sufficient to deny a debtor from assuming and assigning a trademark license agreement. This precedent finds no support in the intersection of both trademark law and contract law in the context of trademark licensing, in connection with secured transactions in the bankruptcy context.

CONCLUSION

The current bankruptcy jurisprudence in the area of assumption and assignment of trademark licenses intersecting secured transactions would give licensors additional, unwarranted economic benefits and would discourage secured creditors from extending credit.

114 *See generally In re Trump Entm't Resorts, Inc.*, 526 B.R. 116.
115 *Id.* at 120.