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# THE TRADE OF THE MARKS: HOW WILL THE SUPREME COURT DECIDE THE RIGHT OF A LICENSEE TO USE TRADEMARKS POST-REJECTION IN BANKRUPTCY?

MAWERDI HAMID

The intersection between intellectual property (IP) law and bankruptcy law has gained prominence lately in both legal fields. There is currently a case pending in the Supreme Court involving IP rights in bankruptcy. As different as these two legal fields are, it is important for practitioners in both fields to understand the treatment of IP rights in bankruptcy proceedings. This article explores the treatment of IP and, specifically, trademarks in bankruptcy and how the Supreme Court could decide the issue.

The foundation of bankruptcy law is to provide a fresh start to the bankrupt. IP laws, on the other hand, protect the exclusive rights of those who produce original works or products of creative expression and innovation. IP laws also protect the public from confusion as to the quality of the product or the work.

### What Are Trademarks?

The Lanham Act regulates trademarks. The act defines "trademark" as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify and distinguish his goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown."[1]

The intent of the act is to regulate commerce within the control of Congress by "making actionable the deceptive and misleading use of marks in such commerce … to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks."[2] Trademark law thus has a dual purpose. It protects the entrepreneur to capitalize on any goodwill that the business creates and it protects the public from confusion and ensures quality of products.[3]

The principal value of a trademark, for both the owner and the public, is therefore the consumers' perception of the mark.[4] In protecting its rights, the goal of the owner of the trademark is therefore to monitor and prevent unwarranted interference and use of the marks by others.[5] The owner is also able to control the use, quality, and value of the products.[6]

### Bankruptcy Laws and IP Rights

Bankruptcy laws provide a financially distressed debtor with numerous advantages that are not available outside of bankruptcy. Some of these benefits include the debtor's ability to sell its property free and clear of any interest, the ability to stay pending and future actions, and the ability to reject contracts without an obligation of specific performance. Section 363 of the Bankruptcy Code allows the debtor-licensor to sell its IP free and clear of any interest, including the interest of the licensee. Section 365, the focus of this article, allows the debtor-licensor to either assume or reject an executory contract.

An executory contract is not defined in the Bankruptcy Code. Most courts use professor Verne Countryman's definition of executory contract, which states that it is a type of contract where "the obligation on both the debtor 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 the performance of the other."[7]

Most often, IP agreements in bankruptcy are considered executory contracts. Therefore, IP agreements that meet the definition of an executory contract can either be assumed or rejected under § 365(a).[8]

Section 365(a) allows the bankrupt to rid itself of contracts that are economically burdensome and to assume contracts that are economically beneficial. Section 365(a), therefore, plays an important role in furthering the paramount objective of reorganization of the bankrupt. The section and other bankruptcy laws in general provide the financially struggling debtor with an important remedy to purge the bankruptcy estate from obligations that hinder the reorganizations.[9]

Rejecting an agreement is generally treated as a breach of the contract as of the date of the bankruptcy petition.[10] Rejecting an IP agreement would free the debtor-licensor from performing its obligation under the agreement. A debtor-licensor may even be allowed to sell its IP to a third-party free and clear of any obligations.[11] However, § 365(n) enacted in 1988 affords a licensee whose IP contract is rejected by the debtor-licensor with certain protections.

## When the Debtor is a Licensor

When the debtor is licensor, it has the option of either rejecting or assuming the IP contract. If the debtor assumes the agreement, it is obligated to cure defaults or provide adequate assurance that it will do so and provide adequate assurance of future performance.[12] When the debtor chooses to reject the agreement, § 365(n) provides the licensee with the right to choose to retain its rights to the IP for the remainder of the contract terms. The debtor is required to extend the license to the licensee. The licensee is allowed to exercise all of its rights under the license and make the required payments.

## When the Debtor is a Licensee

When the debtor is a licensee, it is also allowed to either assume or reject the IP contract. When the debtor choses to assume and assign the agreement to a third party, it is required not only to cure defaults and provide adequate performance, but the assignment to the third party is also subject to "applicable law," which may prevent such assignment to a third party without the consent of the licensor.[13] The Ninth Circuit prevents a debtor-licensee from not just assigning but also assuming, even for its own use.[14]

## Section 365(n)

Congress enacted § 365(n) in direct response to a decision by the Fourth Circuit in *Lubrizol Enterprises Inc. v. Richmond Metal Finishers Inc.*[15] In *Lubrizol*, the circuit court held that the rejection of an IP license deprived the licensee of the rights previously granted under the license.[16] Many in the industry saw *Lubrizol* as unjust because monetary damages, "even assuming the debtors would be able to pay," would "not make up for the loss of a one-of-a-kind technology around which the licensee built its business."[17] Lawmakers were concerned that "technologists would respond to *Lubrizol* by insisting on outright assignments" of IP rather than agree to a licensing arrangement that could "evaporate in the event of bankruptcy."[18]

Congress enacted § 365(n) primarily to allow a licensee, when the debtor-licensor rejects an IP agreement, a right to elect to retain its rights to the licensed IP provided that it will continue to make any required payments to the licensor. Congress also defined IP in the Bankruptcy Code to include:

> (A) trade secret; (B) invention, process, design, or plant protected under Title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under Title 17; or (F) mask work protected under Chapter 9 of Title 17; to the extent protected by applicable nonbankruptcy law.

What is missing from this definition is trademark, which is the issue currently pending before the Supreme Court. The case pending before the Court deals precisely with the issue of whether the right to use trademark in post-rejection is protected under § 365(n) or whether there are other non-damages remedies afforded to the licensee of the debtor's trademarks.

There are not many circuit court cases dealing the treatment of trademark rights in bankruptcy in post-rejection.[19] There are also not many bankruptcy court decisions dealing with this issue. In fact, there are only two circuit court cases that dealt with the issue and they are in direct conflict with each other.[20] It is evident that the Supreme Court's grant of certiorari to review and settle this issue, only after two circuit court splits, signals the important role IP laws play in our economy.

## Circuit Splits

### The *Sunbeam* Bankruptcy

In the 2012 *Sunbeam Products* case, the Seventh Circuit directly addressed, for the first time, whether a licensee may use the debtor's trademarks after rejection by the debtor-licensor.[21] *Sunbeam* involved the debtor-licensor's ability to reject a contract authorizing the licensee to use its trademarks and what it meant to reject the contract under § 365(a). The court did not go into whether § 365(n) protected the licensee's right to use trademarks. The court agreed with the bankruptcy court that a rejection under § 365(a) did not end the right to use the trademarks by the licensee that invested substantial resources in making the products, but it disagreed with the judge's equitable reasoning.[22]

The circuit court relied on what § 365(g) provided to the licensee when an agreement is rejected.[23] It held that because § 365(g) provides that "rejection constitutes a breach of such contract," the court was required to determine what type of breach the licensee was entitled to outside of bankruptcy.[24] Here, outside of bankruptcy, in a default, the debtor-licensor could not have ended the licensee's right to sell the products that are already manufactured by the licensee just because the licensor failed to perform on its own duties. It held that though a debtor is not subjected to an order of specific performance after a rejection in bankruptcy, the licensee's right remained in place.[25] It held that it was only the debtor's unfulfilled obligation that converted "to damages and nothing of rejection implies that any rights of the other contracting party have been vaporized."[26] Therefore, it held that rejection merely freed the estate from the obligation to perform but that such rejection had no effect upon the licensee's right to use the trademark.[27]

### The *Tempnology* Bankruptcy

The *Tempnology* bankruptcy case, pending before the Supreme Court, involved the right of the debtor-licensor, a material innovation company that developed chemical-free cooling fabrics for use in consumer product, to reject a license with Mission, the licensee, a company that marketed and distributed innovative sports technology.[28] Tempnology and Mission entered into a co-marketing and distribution agreement three years before Tempnology filed for a Chapter

11 protection.[29] The agreement provided Mission with the following three relevant categories of rights:

1. In the first category of rights, the debtor granted Mission distribution rights to certain of the debtor's manufactured products identified as "cooling accessories" within the United States.[30] There were two types of cooling accessories: (1) exclusive products the debtor agreed it would not license or sell to anyone other than Mission during the terms of the lease and (2) nonexclusive products the debtor reserved for itself the right to sell to others.
2. The second category of rights was a "nonexclusive, irrevocable, royalty-free, fully paid-up, perpetual, worldwide, fully transferable license to sublease, use, reduce, and modify" the debtor's IP excluding the trademarks.[31]
3. The third category of rights was a "nonexclusive, nontransferable, limited license to use the trademarks for the term of the agreement."[32]

The agreement also gave both parties a right to terminate the agreement without cause, which would trigger a two-year wind-down period.

Before Tempnology filed for bankruptcy, Mission exercised the option to terminate the agreement without cause, setting in place a wind-down period.[33] A month later, Tempnology also sent a notice of termination for cause.[34] The parties arbitrated the termination and breach, and the arbitrator in a two-phased arbitration process decided that the agreement remained in full force and effect.[35] Before the arbitrator decided who breached the agreement, Tempnology filed for a bankruptcy protection.[36]

Among other motions, the debtor filed a motion seeking to reject the agreement with Mission as executory contract. Mission responded to the motion by filing a notice of election pursuant to § 365(n)(1)(B), asserting that it retained its exclusive product distribution rights, its rights under the IP license, and the limited trademark license.[37] Mission argued that it could continue to exercise and exploit all these rights without interference from the debtor pursuant to § 365(n).[38] The debtor objected to Mission's assertion of the protection under § 365(n), arguing that the section only protects "license agreements embodying" IP and does not protect other contractual rights such as the one at issue, which was merely a right to distribution.[39] The debtor did not dispute the application of § 365(n) to the second category of rights, the license to use the IP. It only disputed Mission's first and third categories of rights, the right to distribution and the right to use of trademarks.

The bankruptcy court looked at the plain words of § 365(n) and its purpose and determined that it was enacted "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license in the event of the licensor's bankruptcy."[40] It held that the protection afforded to the licensees under § 365(n) was solely limited to IP rights, and that Mission's rights to exclusively sell and distribute the debtor's products were only distribution rights not rising to the level of those protected rights that are "embodiment[s] of … intellectual property."[41] The bankruptcy court therefore held that the exclusive distribution rights granted to Mission were not rights that could be retained post-rejection under§ 365(n).

The bankruptcy court also held that Mission did not retain rights to the debtor's trademarks post-rejection because trademarks were notably not listed under the definition of "intellectual property" under § 101(35A) and were "consciously excluded" according to the accompanying Senate report.[42] The bankruptcy court followed the majority of the bankruptcy courts that reasoned by negative inference and held that the omission of trademarks from the definition of "101(35A) means *Lubrizol's* holding was not overruled with respect to trademark license and those rights are not afforded any protection under 365(n)."[43] It held that the omission of trademarks from the definition of IP indicated that Congress did not intend for trademarks to be treated the same as the other identified categories of IP rights and, thus, that § 365(n) affords no protection to rights in trademarks.[44]

In an appeal to the bankruptcy appellate panel, the panel affirmed the bankruptcy court's holding that the nonexclusive distribution rights were outside of the protection of § 365(n) because it was not an agreement embodying IP.[45] The appellate panel agreed with the bankruptcy court's holding that the right to use trademarks is not protected under § 365(n), but it disagreed with what happened to Mission's right with regards to the use of the trademarks after the rejection of the contract. The appellate panel adopted the holding of *Sunbeam* and held that, even though trademarks are not included in the categories of IP entitled to protection under § 365(n), Mission's right to use the trademarks after the debtor's rejection of the agreement did not vaporize and are governed by the terms of the agreement and applicable nonbankruptcy law.[46]

The First Circuit agreed with both the bankruptcy court and the bankruptcy appellate panel that Mission did not have protection under § 365(n) with regards to the first category of rights, the exclusive distribution rights.[47] With regards to the rights to use the trademarks, it agreed with the bankruptcy court and held that the rejection of the agreement left Mission with only a pre-petition damages claim and that no obligation by the debtor to further perform under the trademark license survived.[48]

The court rejected the *Sunbeam* decision because it improperly relied on the premise that "it is possible to free the debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark."[49] It held that this was impossible because the effective licensing of a trademark required the debtor to monitor and exercise control over the quality of the goods sold to the public and to ensure that the public is not deceived as to the nature or quality of the goods sold.[50] It noted that failure by the owner of the trademark to monitor its trademark "jeopardizes the continued validity of the trademark" and may lead to abandonment.[51] The court rejected placing a debtor in a position of performing executory obligation arising from the continuance of the trademark license or at risk of a permanent loss of its trademark leading to a diminished value to the debtor.[52] Therefore, it held forcing the debtor to perform such obligation departs from the purpose of § 365(a) and thus the overall purpose of Chapter 11 reorganization to successfully reorganize the debtor.

### The Treatment of Trademarks in the Bankruptcy Courts

The bankruptcy courts are also divided in applying § 365(n)'s protection to the licensee's rights to use the trademark post-rejection.

The majority of bankruptcy court decisions use equitable argument to allow the licensee to use the trademark post-petition. These courts rely on Judge Thomas Ambro's concurrence in the *Exide* case. Judge Ambro pointed to Congress' statement that it expected the bankruptcy courts to develop an equitable treatment of trademark licensee's rights.[53] He argued that Congress directed bankruptcy courts to use their equitable powers to give a debtor a fresh start without stripping the licensee of its "fairly procured trademark rights."[54]

A small group of bankruptcy court decisions refuse to allow licensees the right to use trademarks post-rejection by using a "negative inference" reasoning, holding that the omission of trademarks from the definition of IP in the Bankruptcy Code indicated that Congress intended for the *Lubrizol's* decision to control when a debtor-licensor rejects a trademark license.[55] It is evident that these groups of cases also look to the intent of Congress to reach the negative inference conclusion.

Bankruptcy courts that have applied *Lubrizol,* when the debtor-licensor rejects the trademark license, have held that the debtor is excused of the affirmative obligation to continue to allow the licensee to use its trademarks.[56] These decisions also hold that rejection of the right to use trademarks leaves the licensee only with a claim for breach.[57] In this line of cases, the courts have held that despite what is included in the agreement between the debtor-licensor and the licensee, the licensee is only entitled to a general unsecured claim for the debtor's breach of its executory contract.[58] This is because rejection relieved the debtor of an obligation to allow the licensee to use its trademarks and thereby the licensee's right to use the trademarks is extinguished.[59]

The courts that use the equitable argument to allow the licensee to use trademark post-rejection have specifically rejected the negative inference rationale.[60] These courts rely on the legislative history of § 365(n) in rejecting the negative inference rationale. They argue that Congress did not intend to leave trademarks unprotected but "merely intended to provide more time for legislative deliberation and, in the meantime, to allow the courts to develop equitable principles that might fill the void."[61] These courts allow the licensee to retain the use of the trademarks because Congress intended the bankruptcy courts to exercise their equitable powers to decide, on a case-by-case basis, whether trademark licensee rights are protected under § 365(n).[62]

The *SIMA International* bankruptcy case followed the Seventh Circuit's decision and held that rejection merely freed the estate from the obligation to perform, but it did not make the contract disappear.[63] It held that, other than treating rejection as termination, neither § 365 nor any other section the Bankruptcy Codes explicitly provide for the rights regarding the agreement termination.

Thus, the bankruptcy court must look to state law.[64] Relying on Connecticut law, the court held that the estate's rejection is not a material breach and therefore preserves the right of the licensee to use the trademarks.[65] The court also held that because the use of the trademark is central to the use of the other intellectual property that is "directly embedded within, supplemental to, and integral to the intellectual property," § 365(n)'s protection extends to the right to use the trademarks.[66]

### How Will the Supreme Court Resolves the Split?

In addressing this issue, the Supreme Court will first look to the relevant statutes, §§ 365(n) and 101(35A). In interpreting the statutes, the Supreme Court will determine whether the language of §§ 365(n) and 101(35A) have a plain and unambiguous meaning with regard to the particular dispute at issue.[67] If the Court finds the language of the statute to be unambiguous and the statutory scheme coherent and consistent, it will cease all inquiry and apply the statute as it is.[68] The "plainness or ambiguity of statutory language is determined by reference to the language itself, the specific context in which that language is used, and the broader context of the statute as a whole."[69] If the language of the statute is ambiguous, the Court may look to legislative history to determine the meaning of the statute.

The issue in this case may be viewed as twofold. The first is whether the protection of § 365(n) extends to the use of trademarks post-rejection. This issue depends on the definition of IP in § 101(35A). It is clear that the IP's definition unambiguously excludes trademarks. The Supreme Court may simply decide that § 101(35A) is unambiguous and clearly excludes trademarks and that, therefore, § 365(n) protection does not extend to trademarks. The Supreme Court has held that where the language of the statute is clear, judicial inquiry is complete.[70] Therefore, the case may just depend on whether the Supreme Court will only look at the statute, ending the inquiry there and avoid looking into legislative history. Similar to some bankruptcy courts that have refused to look at legislative history because the language of §§ 365(n) and 101(35A) are unambiguous, the Supreme Court may also hold that the statute can be interpreted on its face and refuse to delve into legislative history.[71] The clarity of § 365(n) and the exclusion of trademarks from the definition of IP in § 101(35A) will then lead the Court to hold that it is unnecessary and inappropriate to look into the legislative history.

However, even if the Court finds the language in §§ 365(n) and 101(35A) are unambiguous, it may find that the statutory schemes are not coherent and consistent. This may be the case because the legislative intent, the purpose of § 365(n), to protect the rights of both licensors and licensees, may not be consistent with the harsh treatment of excluding licensees to use the trademarks post-rejection. If such statutory scheme is not coherent or consistent from the plain language of the statute, the Court may continue its inquiry into legislative history. If Court's inquiry leads to the legislative history, it is clear that Congress instructed bankruptcy courts to construct equitable arguments to allow a licensee to continue to use the debtor-licensor's trademarks. Granted that Congress' instruction to bankruptcy courts is in the senate report and not the statute itself, the Court may instruct the bankruptcy courts to develop equitable arguments to allow licensees to use trademarks post-rejection. The Court may use similar arguments as those supported to protect the right of licensee to use other IP post-rejection to justify the licensee's right to use trademarks.

The second issue the Supreme Court will address is the *Sunbeam* reasoning, that the licensee of trademarks will have remedy different from monetary damages post-rejection. In the author's opinion, the Supreme Court will reject this line of reasoning. It is settled bankruptcy law that a debtor cannot be obligated to specific performance and breach converts to damages. The Seventh Circuit's reasoning that the debtor-licensor's breach has a separate treatment than that of the licensee's remedy is a stretch that the Supreme Court will not allow in other non-IP right cases and will not allow here.

### Conclusion

It is evident that Congress purposefully determined that it should postpone action in extending the protection of § 365(n) to trademarks. Despite the fact that Congress instructed bankruptcy courts to develop equitable case law with regards to protection for the licensee's use of trademarks post-rejection in the legislative history, the Supreme Court may not be likely to add trademark under the protection of § 365(n). The Court may instruct the bankruptcy courts to develop case law on equitable grounds and on a case-by-case basis. The Court may also defer to Congress to amend the statutes either to include language instructing the bankruptcy courts to build equitable case law or to simply allow the use of trademarks post-rejection. Without Congress' action, the Supreme Court may not protect the right of a licensee to use trademarks post-petition. ⊙

*Mawerdi Hamid is a law clerk to Judge Robert J. Kressel at the U.S. Bankruptcy Court for the District of Minnesota and the Bankruptcy Appellate Panel for the Eighth Circuit.*

## Endnotes

[1] 15 U.S.C. § 1127 (1988).
[2] *Id.*
[3] *Stork Rest. v. Sahati,* 166 F.2d 348, 354 (9th Cir.1948).
[4] *Power Test Petroleum Distribs. Inc. v. Calcu Gas Inc.,* 754 F.2d 91, 96 (2d Cir. 1985).
[5] *Id.*
[6] *In re N.C.P. Mktg. Grp. Inc.,* 337 B.R. 230, 236 (D. Nev. 2005), *aff'd*, 279 F. App'x 561 (9th Cir. 2008).
[7] Verne Countryman, *Executory Contracts in Bankruptcy*, Part 1, 57 Minn. L. Rev. 439, 460 (1973).
[8] There has also been litigation to determine whether a certain intellectual property agreement was an executory contract or not. *See In re Exide Techs.,* 607 F.3d 957, 962 (3d Cir. 2010) (citations omitted); *Lewis Bros. Bakeries Inc. v. Interstate Brands Corp. (In re Interstate Bakeries Corp.)*, 690 F.3d 1069 (8th Cir. 2012).
[9] Congress' principal aim in providing for rejection was to "release the debtor's estate from burdensome obligations that can impede a successful reorganization." *NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984). The purpose behind § 365(a) is "to permit the trustee or debtor-in-possession to use valuable property of the estate and to renounce title to and abandon burdensome property." *In re Orion Pictures Corp.,* 4 F.3d 1095, 1095 (2d Cir. 1993).
[10] 11 U.S.C. § 365(g).
[11] *Id.* at § 363.
[12] *Id.* at § 365(b).
[13] *Id.* ar § 365(c)(1).
[14] *In re Catapult Entm't Inc.*, 165 F.3d 747 (9th Cir. 1999).
[15] *Lubrizol Enters. Inc. v. Richmond Metal Finishers Inc.,* 756 F.2d 1043 (4th Cir. 1985).
[16] *Id.* at 1048.
[17] *See* S.Rep. No. 100-505, 10th Cong., 2d Sess. (1988), *reprinted in* 1988 U.S.C.C.A.N. 3201-02.
[18] *Id.* at 3202.
[19] *Sunbeam Prods. Inc. v. Chicago Am. Mfg. LLC*, 686 F.3d 372, 376 (7th Cir. 2012).
[20] There were two other circuit cases that tangentially mentioned the issue without directly dealing with it. In 1997, the Second Circuit, though not the central issue in the case, indicated that the protection of § 365(n) does not extend to trademark, an issue that was yet to be litigated by the parties. *Corporation & Orologi Paolo v. Sinatra* (*In re Gucci*), 126 F.3d 380, 394 (2d Cir. 1997). In *Exide Techs*, the Third Circuit dodged having to decide whether the right to use trademarks post-rejection survived by deciding that the agreement at issue was not an executory contract that may be rejected because the agreement did not contain at least one ongoing material obligation. *In re Exide Techs.*, 607 B.R. at 964.
[21] *Sunbeam Prods.*, 686 F.3d 372.
[22] *Id.* at 376.
[23] *Id.*
[24] *Id.* at 377.
[25] *Id.*
[26] *Id.*
[27] *Id.*
[28] *In re Tempnology LLC*, 541 B.R. 1 (Bankr. D. N.H. 2015).
[29] *Id.* at 2.
[30] *Id.*
[31] *Id.* at 3.
[32] *Id.*
[33] *In re Tempnology LLC*, 559 B.R. 809, 813 (B.A.P. 1st Cir. 2016).
[34] *Id.*
[35] *Id.*
[36] *Id.*
[37] *In re Tempnology LLC*, 541 B.R. at 4.
[38] *Id.*
[39] *Id.*
[40] *Id.* at 6.
[41] *Id.* at 7.
[42] *Id.*
[43] *Id.*
[44] *Id.* at 8.
[45] *In re Tempnology LLC*, 559 B.R. at 818.
[46] *Id.* at 822-23.
[47] *In re Tempnology LLC*, 879 F.3d 389, 392 (1st Cir. 2018).
[48] *Id.*
[49] *Id.* at 402.
[50] *Id.*
[51] *Id.*
[52] *Id.*
[53] *See Exide,* 607 F.3d at 967; *In re Centura Software Corp.,* 281 B.R. 674-75 (Bankr. N.D. Cal. 2002).
[54] *Id.*
[55] *See In re HQ Global Holdings Inc.,* 290 B.R. 507, 513 (Bankr. D. Del. 2003); *In re Old Carco LLC,* 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re HQ Global Holdings Inc.,* 290 B.R. 507, 513 (Bankr. D. Del. 2003) (emphasis added); *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.),* 281 B.R. 660, 669-75 (Bankr. N.D. Cal. 2002); *In re Chipwich,* 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985).
[56] *In re HQ Glob. Holdings Inc.,* 290 B.R. 507, 513 (Bankr. D. Del. 2003); *Raima,* 281 B.R. at 673.
[57] *Id.*
[58] *Id.*
[59] *Id.*
[60] *See In Re Crumbs Bake Shop Inc.,* 522 B.R. 766 (Bankr. D. N.J. 2014).
[61] *Id.* at 770-72.
[62] *Id.*
[63] *In re SIMA Int'l Inc.,* 17-21761, 2018 WL 2293705, at *8 (Bankr. D. Conn. May 17, 2018).
[64] *Id.*
[65] *Id.*

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- Screening employee speeches, presentations, and marketing materials for inadvertent disclosure of trade secret information; and/or
- Putting someone in charge of the company's trade secret program.

Furthermore, a company should establish a protocol for departing employees that includes:

- Conducting formal employee exit interviews;
- Prohibiting the deletion of any electronically stored information unless authorized in writing;
- Requiring the documentation, return, or disposal of any trade secret information found in the employee's office or on the employee's devices;
- Forensically examining computers to determine if the employee copied or transmitted any trade secret information, accessed any unauthorized materials, or engaged in any other questionable activities; and
- Notifying the former employee's new employer that the employee signed an NDA and that the company is serious about enforcing it.

### Step 3: Take Action Against Misappropriation

When a misappropriation of a company's trade secrets has occurred, it is important for a company to take immediate and decisive action to prevent further dissemination of the trade secret.

#### Cease-and-Desist Letter

A cease-and-desist letter is designed to put the misappropriator of the trade secrets on notice that the company is aware of the misappropriation, that the company expects the trade secrets to be immediately returned and not disclosed, and that there will be serious consequences if the information is not returned. If an NDA exists, it should be enclosed with the cease and desist letter, and the person should be reminded of his or her contractual obligations. If the misappropriator is a former employee, subcontractor, or vendor, a copy of the letter should be sent to the highest-ranking official at that person's current employer. Finally, the cease and desist letter should inform the accused that misappropriation of a trade secret may constitute a crime.

#### File Suit and Seek an Injunction

Both DTSA and UTSA allow for the filing of a lawsuit against the person who (1) acquired the trade secret by improper means, (2) disclosed or used the trade secret by improper means, or (3) disclosed or used the trade secret if the person knew or had reason to know that the trade secret was derived from or through a person who utilized improper means to acquire it or who was under a duty to maintain its secrecy or limit its use.[10]

DTSA contains specific provisions for obtaining *ex parte* seizure orders in extraordinary circumstances to allow for law enforcement officials to seize the trade secret information without notice in order to prevent its dissemination.[11] DTSA and UTSA contain specific provisions for obtaining a court order for actual or threatened misappropriation of trade secrets.[12] In addition, DTSA and UTSA authorize a court to order misappropriated trade secrets be returned to the aggrieved party.[13] However, courts cannot presume irreparable harm—a necessary element to secure injunctive relief—because DTSA does not mandate injunctive relief as a remedy.[14] Finally, should a court dismiss a lawsuit alleging a violation of DTSA and the dismissal is without prejudice, no party "prevails" in order to be entitled to an award of attorney's fees for a claim brought in bad faith.[15]

### Conclusion

Although a variety of steps can be taken to protect trade secrets, the primary objectives of a trade secret program is to (1) identify the company's valuable trade secrets and (2) prevent their public disclosure by making reasonable efforts under the circumstances to maintain their secrecy. Each company has its own unique needs and requirements. Thus, whatever trade secret program is adopted and implemented must be tailored to and should complement the company's existing methods of operation, employment structure, and third-party relationships. ⊙

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*Joseph F. Cleveland Jr. practices in the areas of trade secrets litigation at Brackett & Ellis P.C. in Fort Worth, Texas. Cleveland is the current president of the Fort Worth Chapter of the Federal Bar Association and a former chair of the Trade Secrets Committee of the Intellectual Property Section of the State Bar of Texas. He routinely counsels clients on issues related to trade secrets and represents clients in trade secret cases in both state and federal courts.* 

### Endnotes

[1] 18 U.S.C. §§ 1831-36.
[2] *Id.* § 1839(3); Unif. Trade Secrets Act § 1(4) (Nat'l Conf. of Comm'rs on Unif. State Laws 1985).
[3] 18 U.S.C. § 1839(3).
[4] 18 U.S.C. § 1839(3)(B); Unif. Trade Secrets Act § 1(4)(i).
[5] 18 U.S.C. § 1839(3)(A); Unif. Trade Secrets Act § 1(4)(ii).
[6] 18 U.S.C. §§ 1836(b)(3)(A)-(D); Unif. Trade Secrets Act §§ 1-3.
[7] 18 U.S.C. § 1833(b)(1).
[8] 18 U.S.C. § 1838; Unif. Trade Secrets Act § 7.
[9] 18 U.S.C. § 1836(b)(3)(D); Unif. Trade Secrets Act § 4.
[10] 18 U.S.C. §§ 1836(b)(1), 1839(5); Unif. Trade Secrets Act § 1(2).
[11] 18 U.S.C. §§ 1836(b)(2)(A)(i)-(ii).
[12] *Id.* § 1836(b)(3)(A); Unif. Trade Secrets Act § 2(a).
[13] 18 U.S.C. § 1836(b)(3)(A)(ii); Unif. Trade Secrets Act § 2(c).
[14] *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1140 (10th Cir. 2017).
[15] *Dunster Live LLC v. LoneStar Logos Mgmt. Co. LLC*, 908 F.3d 948, 950 (5th Cir. 2018).

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[66] *Id.*
[67] *See United States v. Ron Pair Enter. Inc.,* 489 U.S. 235, 240 (1989); *Connecticut Nat'l Bank v. Germain,* 503 U.S. 249, 253-54 (1992).
[68] *Id.*
[69] *Estate of Cowart v. Nicklos Drilling Co.,* 505 U.S. 469, 477 (1992); *McCarthy v. Bronson,* 500 U.S. 136, 139, 111 S.Ct. 1737, 1740 (1991).
[70] *Barnhart v. Sigmon Coal Co. Inc.,* 534 U.S. 438, (2002).
[71] *Lomas Mortg. USA v. Wiese,* 998 F.2d 764 (9th Cir. 1993).