



Bankruptcy ADVISORY ■

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The Tale of Breadcrumbs: Eighth Circuit Finds Trademark License No Longer Executory in Interstate Brands Case

In *Lewis Brothers Bakeries, Inc. and Chicago Baking Co. v. Interstate Brands Corp.* (2014 WL 2535294 (8th Cir. June 6, 2014)), the United States Court of Appeals for the Eighth Circuit, sitting en banc, held that a perpetual, royalty-free, assignable, transferable, exclusive trademark license granted in connection with a substantially consummated asset purchase agreement was not an executory contract that could be assumed or rejected by the licensor-debtor in bankruptcy.

The holding should be noted by parties to trademark licenses as it outlines certain rights when a party to the license files bankruptcy.

Background

More than 15 years ago, pursuant to a settlement with the Department of Justice over antitrust issues, Interstate Bakeries (IBC) divested itself of two of its brands. Lewis Brothers Bakeries (LBB or “Lewis Brothers”) acquired the brands via an asset purchase agreement for the tangible goods, and a licensing agreement that provided for the perpetual, royalty-free, assignable, transferable exclusive license to use the trademarks. The license agreement contained quality control provisions requiring Lewis Brothers to maintain the required character and quality of goods sold under the marks.

In 2004, Interstate Bakeries filed for bankruptcy. In 2008, Lewis Brothers filed an adversary complaint, seeking a declaratory judgment that the license agreement was not an executory contract and was not subject to assumption or rejection by the debtor. Interstate Bakeries characterized the license agreement as executory and that it would be used as part of its reorganization plan.

The bankruptcy court applied the Countryman test to the license agreement to determine if it was executory. The Countryman test states a contract is executory when the obligation of both the bankrupt and the other party to the contract are so far underperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other. Using this standard, and finding the quality control provisions of the license agreement rendered it executory, the bankruptcy court found for Interstate Bakeries, and the district court affirmed.

Lewis Brothers appealed to the Eighth Circuit. A divided panel affirmed the lower courts, but agreed to rehear the case en banc.

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The Decision

In reversing 8–3, the Eighth Circuit ruled that because the license agreement was only one part of a larger, integrated agreement that the company has substantially performed, the decision should be reversed. The court stated that “[t]o treat the license agreement as a separate agreement would run counter to the plain language of both the asset purchase agreement and the license agreement, which describe the two as one piece, and would ignore the valuable consideration paid for the license.”

The court went on to state that the essence of the agreement was “the sale of IBC’s Butternut bread and Sunbeam bread business operations in specific territories, not merely the licensing of IBC’s trademark.” The court noted that LBB paid the full \$20 million purchase price, with \$11.88 million allocated for tangible assets, such as real property, machinery and equipment, computers and licensed computer software, vehicles, office equipment and inventory, and the remaining \$8.12 million allocated to intangible assets, including the license. The court stated:

“IBC’s remaining obligations concern only one of the assets included in the sale—the license. They involve such matters as obligations of notice and forbearance with regard to the trademarks, obligations relating to maintenance and defense of the marks, and other infringement-related obligations. When considered in the context of the entire agreement, these remaining obligations are relatively minor and do not relate to the central purpose of the agreement to sell the Butternut and Sunbeam bread operations and assets to LBB in certain territories.”

The court concluded, “that the contract at issue here is not executory, because IBC substantially performed its obligations under the asset purchase agreement and license agreement and its failure to perform any of its remaining obligations would not be a material breach of the integrated agreement.”

While the issue of whether a trademark license agreement is still executory will always be a fact-specific inquiry, the Eighth Circuit’s decision provides some guidance on what factors a court is to consider in making its inquiry, such as whether the license agreement is part of a larger, integrated agreement.

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