LBB: Leveraged Brand Buyouts and the Value Behind the Brand

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I. Introduction

In 2013, shareholders of J. Crew approved a $3.1 billion sale of the popular preppy retailer to two private equity firms.1 Today, J. Crew is struggling under the weight of this leveraged buyout (“LBO”) with almost $2 billion in debt and declining retail sales.2 To avoid

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bankruptcy, J. Crew exploited a “back-door provision” in its term loan agreement (“TLA”) that allowed the company to transfer certain of its intellectual property (“IP”) assets to unrestricted subsidiaries that were not subject to the restrictions of the TLA. In a two-step process, J. Crew transferred $250 million worth of its trademarks and other IP assets including its most value-driving asset, the J. Crew brand, into newly created non-guarantor restricted subsidiaries (the “J. Crew Swap”). Since these newly created restricted subsidiaries were not guarantors of J. Crew’s existing debt, a provision in the TLA allowed for the transfer of $250 million worth of IP assets from the non-guarantor restricted subsidiaries (i.e., J. Crew International) into unrestricted subsidiaries that were not bound by the terms or debt obligations of the TLA. J. Crew then offered to exchange the $500

Continue to Decline, FASHIONISTA (Mar. 28, 2018), archived at http://perma.cc/94K6-3T24 (discussing J. Crew’s declining sales and outlining plans to boost sales). See also Patrick Curtis, What Is A Leveraged Buyout (LBO)?, WALL STREET OASIS (Apr. 22, 2019), archived at https://perma.cc/S27Q-HZVU (detailing that a LBO is the purchase of a company using debt). Importantly, in LBOs, it is the acquired company—here J. Crew—that takes on the debt. Id.

3 See King & Spalding, Explanation of J. Crew “back-door” provision and proposal for how lenders might address this in their documentation, GLOBAL FINANCE PRACTICE GROUP (Feb. 24, 2017), archived at https://perma.cc/ZWN9-EQQA (summarizing how J. Crew was able to transfer assets under a term loan agreement). A provision in the term loan agreement allowed for investments of any amount by a non-guarantor restricted subsidiary in an unrestricted subsidiary “to the extent financed with the proceeds received” from certain initial investments. Id. Unrestricted subsidiaries are business entities created by a parent company that are not bound by the terms of the term loan agreement. Id. See also Troy Segal, Term Loan Definition, INVESTOPEDIA (Aug. 14, 2019), archived at https://perma.cc/V8NL-YFTL (defining a term loan as “a loan from a bank for a specific amount that has a specified repayment schedule”).

4 See Complaint, supra note 2, at *5–6 (outlining the IP transfer to the unrestricted subsidiaries). See also King & Spalding, supra note 3 (describing a two-step transfer of IP assets).

5 See Complaint, supra note 2, at *26 (detailing the specificities of section 10.01(f) of the Term Loan Agreement). “[N]o amendment, waiver or consent [to the Term Loan Agreement] shall: . . . other than in a transaction permitted under section 7.04 or section 7.05, release all or substantially all of the aggregate value of the Guaranty, without the written consent of each Lender.” Id. See also King & Spalding, supra note 3 (asserting that unrestricted subsidiaries are not bound by terms of the credit facility and free to incur additional debt); see also Michael Friedman et al., What You Need to Know about “Unrestricted Subsidiaries”, CHAPMAN AND CUTLER LLP (Feb. 14, 2017), archived at https://perma.cc/963P-RYEB (defining terms found in typical financing agreements). Covenants in a financing agreement usually apply to the company and its restricted subsidiaries in contrast to unrestricted subsidiaries which
million outstanding debt of unsecured noteholders of its indirect parent company, Chinos Holdings, Inc., that were set to mature in 2019 with new notes issued by the unrestricted subsidiaries secured by the $250 million in IP assets.6 The J. Crew Swap had been voted against by a minority group of the senior secured lenders under the TLA (“Dissenting Lenders”). In a dispute between J. Crew and the Dissenting Lenders, the Supreme Court of New York agreed with J. Crew that the transfer was permissible under the TLA, and denied the Dissenting Lenders’ request for a temporary restraining order barring the transaction.7 In order for the Dissenting Lenders to establish a legal basis on which to seek redress, they must prove the threshold issue: that their consent was required for the J. Crew Swap to be effectuated.8 Whether the consent of the Dissenting Lenders was required depends are not bound by the financing agreement’s covenants and restrictions. See Friedman et al., supra.

6 See Complaint, supra note 2, at *22 (outlining the exchange offering and explaining property once owned by borrowers or guarantors of the Term Loan Agreement is to be used to settle debts of an indirect parent of J. Crew). See also Christine Dreyer McCay et al., J. Crew Group, Inc.: Use of Credit Facility Baskets Eviscerates Value of Term Loan Collateral, JDSUPRA (Oct. 5, 2017), archived at https://perma.cc/6VYE-ESXJ (explaining the exchange offer to note holders of J. Crew’s parent company by the unrestricted subsidiaries using the IP assets as collateral to secure the newly issued bonds); see also JONATHAN P. FRIEDLAND ET AL., EVOLUTION, PRACTICE MANUAL TO STRATEGIC ALTERNATIVES FOR AND AGAINST DISTRESSED BUSINESSES, § 5.2 (2d ed. Supp. 2000) (describing how companies suffering from debt after the LBO boom of the 1980s are using the concept of the bankruptcy prepack to convince creditors to accept consensual, out-of-court restructurings via exchange offer).

7 See Eaton Vance Mgmt. v. Wilmington Sav. Fund Soc’y, No. 654397, 2018 WL 1947405, at *22 (N.Y. Sup. Ct. Apr. 25, 2018) (granting the defendants motion to dismiss); see also Jessica DiNapoli, Judge shoots down challenge to J. Crew debt deal, REUTERS (June 28, 2017), archived at https://perma.cc/VE2U-2AGR (summarizing the judge’s decision to deny lenders’ request to halt the deal because they failed to show they would have success litigating it moving forward).

8 See Eaton Vance Mgmt. v. Wilmington Sav. Fund Soc’y, 171 A.D.3d 626, 626 (N.Y. App. Div. 2019) (holding the motion court dismissal of all but the breach of contract claims). The breach of contract claim alleging that transfer of “all or substantially all” of the TLA collateral required unanimous consent is a specifically delineated exception to a no-action clause. Id. See also Eaton Vance, 2018 WL 1947405, at *6–7 (recognizing that if the lenders prove that the transfers were for “all or substantially all” of J. Crew’s assets, the amendment “would have been violative of the 2014 Agreement” and the lenders “would be able to seek redress for this breach”).
whether the IP assets that were transferred constituted “all or substantially all” of the company’s assets.9

J. Crew is not the first company to attempt such a deal.10 One well-known instance of IP-secured financing is Thomas Edison’s use of his patent for the incandescent electric light bulb as collateral to start his company, General Electric.11 The ability of a company to transfer assets into subsidiaries is more or less ubiquitous in leveraged finance, and the J. Crew Swap may serve as a blueprint for other struggling retailers.12 In today’s retail environment where consumer preference

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10 See Adam Summers & Corey Fersel, Another Page in the Issuer-Bondholder Playbook, LAW360 (Dec. 11, 2017), archived at https://perma.cc/Z2SS-UD7T (elucidating claims by creditors of Algeco Global against U.K. private equity sponsor and ultimate settlement between creditors and sponsor); Michael Friedman et al., Companies Are Using Covenants to Restructure Their Capital Structure and Prime Existing Debt, CHAPMAN AND CUTLER LLP (Feb. 9, 2017) (articulating the asset transfer of iHeart Communications Inc. and resulting lawsuit).
11 See Emma Bienias & Candice Cornelius, Financing Alternatives for Companies Using Intellectual Property as Collateral, STOUT (Sept. 1, 2014), archived at https://perma.cc/X9DL-U5FL (discussing the relative rarity of IP as collateral historically and noting Thomas Edison’s use of his patent on the light bulb as collateral to secure financing to start GE).
12 See Friedman et al., supra note 10 (delineating that “[c]ompanies may use unrestricted subsidiaries in order to transfer a valuable asset outside of the purview of the financing agreement’s covenants”); Jonathan Schwarzberg, Investors tighten loan documents with J Crew blocker, REUTERS (May 3, 2018), archived at https://perma.cc/SL5T-PPMU (noting the common practice of transferring assets into new subsidiaries in leveraged loans); Lauren Silvia Laughlin, J. Crew Debt Maneuver Can Be a Model for Other Troubled Retailers, N.Y. TIMES (June 14, 2017), archived at https://perma.cc/J9SA-VAVD (asserting J. Crew debt swap can be a model for other troubled retailers); Craig Mellow, The Incredible Shrinking Bond Covenant, INSTITUTIONAL INV. (Nov. 17, 2017), archived at https://perma.cc/HK4E-L4RN (stating that highly leveraged retailers are likely to seek options to deleverage their balance sheets making the possibility of more J. Crew like swaps likely). Debt-laden retailers, especially those owned by private equity firms, facing the shift of the retail sector away from brick-and-mortar stores to internet-based retail are most likely to attempt to do so. See Mellow, supra. See also Jonathan Schwarzberg, Tensions rise as private equity-backed companies push limits, REUTERS (June 15, 2018), archived at https://perma.cc/M2F6-4EGZ (focusing on current instances of investors taking the fight against an assault on leveraged loan documentation to the courts as more private equity-backed companies seek flexibility that could lead to raising new debt); Eric S. Chafetz, Panacea or a short-term rescue?, INTELL. PROP. MAG., 51 (Mar. 2017) (naming Sears as one of the first retailers to monetize its IP assets by transferring them to an unrestricted subsidiary); Bienias & Cornelius, supra note 11 (maintaining that the Sears subsidiary charged Sears royalty fees to license those brands and use the royalties to
has moved away from brick-and-mortar to online commerce, a number of debt-burdened retailers are seeking alternative methods to traditional financing in order to improve liquidity, reduce overall debt, and stay afloat.\footnote{13}{See Adam C. Rogoff et al., Fashion Forward Financing: Looking to Banks and IP for the Next Trend, 258 N.Y. L. J. 59 (2017) (“To withstand today’s retail environment, some retailers need to evaluate an operational and/or financial restructuring, review and adjust their business models, and to improve liquidity, deleverage their balance sheets to reduce overall debt.”). See also Ben Unglesbee, Retail’s largest private equity buyouts and how they’ve panned out, RETAIL DIVE (Nov. 9, 2018), archived at https://perma.cc/6NUE-U7DC (compiling a list of private equity acquisitions over the last fifteen years in the retail industry and noting how a third of those companies have gone bankrupt); Mellow, supra note 12 (“In today’s seller’s market, borrowers are watering these contracts down with impunity even as interest rate spreads compress.”).}

Traditional financing agreements generally involve the use of a company’s tangible assets (i.e., machinery, equipment, inventory, etc.) as collateral to secure loans.\footnote{14}{See Jeffrey Sweeney, Banking on IP: An Insider’s Perspective, ABL ADVISOR (Sept. 19, 2017), archived at https://perma.cc/ARQ7-FMQS (opining that traditional asset-based lenders look to asset classes such as machinery and equipment, accounts receivable, and inventory to form the basis of their lending); see also Nathan Bomey, Sears brand name deteriorates in value as sales suffer, USA TODAY (April 23, 2018), archived at https://perma.cc/9WDC-SD3K (suggesting that Sears could potentially avoid bankruptcy by liquidating its brand name and selling it to another retailer).}

Moving away from this traditional form of security, companies are looking to their IP assets as a source of untapped value for purposes of refinancing.\footnote{15}{See Rogoff et al., supra note 13.}

Likewise, retailers that are going out of business often sell off their IP assets, such as brand names and logos, in auctions to the highest bidders.\footnote{16}{See Tom Hals, Toys ‘R’ Us stores may be closing, but name will live on, REUTERS (Mar. 19, 2018), archived at https://perma.cc/8HX6-P598 (stating retailers sell their brand names and other intangible assets in traditional bankruptcy proceedings in order to generate cash to pay off creditors).} A struggling retailer is thus able to generate cash to repay its creditors, while competitors are able to buy these valuable brand names and

pay the principal and interest on those bonds). In 2006, Sears transferred certain IP assets including some of its biggest brand names—Kenmore, Craftsman, and Diehard—into unrestricted subsidiaries which then licensed the use of the brands back to Sears using the royalty payments to cover interest payments on outstanding bonds. See Bienias & Cornelius, supra note 11. Sears’s monetization differs from other IP monetization transactions. See Chafetz, supra. Sears’s monetization did not involve preexisting royalty payments or cash being paid contemporaneously to purchase bonds and instead had the effect of completely isolating the IP from Sears’ existing lenders. \textit{Id.}
potentially profit from their goodwill without physical store fronts.\textsuperscript{17} The valuation of IP assets—trademarks in particular—is critical, but may it not fit within the current legal structure.\textsuperscript{18} This Author believes that the dispute over the J. Crew Swap presents an overarching question that complicates the issue of valuation even further: do brands themselves generate value independent from the company’s IP assets?

This Note analyzes the value of IP assets in overleveraged companies, focusing on the value of trademarks and brands. Part II provides an overview of trademark law from their historical purpose of trademarks as a single-source identifier to their modern brand function as a source of product differentiation.\textsuperscript{19} Part II also explores the current legal framework in determining whether an asset disposition involves “all or substantially all” of a company’s assets and the corresponding IP valuation methods.\textsuperscript{20} Part III outlines the events that led to the J. Crew Swap and the resulting concerns for creditors.\textsuperscript{21} Part IV postulates that the value of a brand name resulting from its IP assets is the driving force behind a company’s value.\textsuperscript{22} Lastly, Part V concludes that trademarks are likely the main source of value for many companies today.\textsuperscript{23}

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\textsuperscript{17} See id. (stipulating the value of the brand name in traditional bankruptcy proceedings in helping to repay customers and how brands can live on via loyal customers); Robert N. Klieger, \textit{Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection}, 58 U. PIT. L. REV. 789, 790–91 (1997) (explaining how trademark infringement allows a junior user to profit off of the goodwill created by the mark owner).
\textsuperscript{18} See Elvir Causevic & Ian D. McClure, \textit{Effectively Discharging Fiduciary Duties in IP-Rick M&A Transactions}, 14 BERKLEY BUS. L. J. 87, 96 (2017) (stressing that determining the financial value of non-core IP is a complex endeavor that is highly context dependent). Assessing the financial value of company’s IP is a complicated task and involves the interplay of three core elements: legal, technical, and financial analysis. \textit{Id.} at 111.
\textsuperscript{19} See infra Part II.
\textsuperscript{20} See infra Part II.
\textsuperscript{21} See infra Part III.
\textsuperscript{22} See infra Part IV.
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II. History

A. Intellectual Property Defined

The term intellectual property refers to the intangible creations of the mind to which the law affords protection. Pursuant to the U.S. Constitution, authors and inventors are provided the exclusive right to their own creations and discoveries in order to “promote the progress of science and useful arts.” Granting individuals the exclusive right to use their own intellectual creations aims to secure a fair return for the inventor’s creativity and labor, and serves as an incentive for further creation. This policy of incentivizing creation is at the heart of IP law’s purpose.

24 See STEVAN PORTER & MICHELLE RAKIEC, 1-1 IP STRATEGY, VALUATION, AND DAMAGES § 1.02 (2016) (clarifying IP as legal intangibles that result from intellectual creative efforts which are afforded legal rights and protections). IP can generally be divided into four broad categories: copyrights, trademarks, patents, and trade secrets. Id. See also WESTON ANSON, THE INTANGIBLE ASSETS HANDBOOK: MAXIMIZING VALUE FROM INTANGIBLE ASSETS (2007) (defining types of IP and highlighting that IP issues “are even more important in a merger, acquisition, corporate reorganization, or bankruptcy environment”); see also Outline of the Legal and Regulatory Framework for Intellectual Property in the United States of America, WIPO LEX (Feb. 25, 2019), archived at https://perma.cc/B2Z6-5HY5 (outlining the three different types of patents: utility, design, and plant).

25 See U.S. Const. art. I, § 8, cl. 8. See also PORTER & RAKIEC, supra note 24 (explaining the historical significance of patent and copyright laws as incentives to promote arts and sciences). Copyright law protects originality while patent law protects invention. Id. Trademark and trade secret law concern the efficient operation of the marketplace. Id. See Qualitex Co. v. Jacobson Prod. Co., 514 U.S. 159, 162 (1995) (noting how trademark law protects consumers by assuring them of what they are getting). Copyrights are those rights conferred on authors of “original works” and unlike patents, which must be applied for, the rights accrue as soon as the work is created and “fixed in a tangible form of expression.” PORTER & RAKIEC, supra note 24. Trademark and trade secret protection can last indefinitely, subject to certain exceptions, while copyrights and patents last for a fixed duration. Id.

26 See La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc., 495 F.2d 1265, 1271 (2d Cir. 1974) (establishing that the purpose of providing an enforceable right to exclude others is to incentivize innovation).

27 See Mazer v. Stein, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”).

28 See STEVAN PORTER & MICHELLE RAKIEC, 1-1 IP STRATEGY, VALUATION, AND DAMAGES § 1.02 (2016) (clarifying IP as legal intangibles that result from intellectual creative efforts which are afforded legal rights and protections). IP can generally be divided into four broad categories: copyrights, trademarks, patents, and trade secrets. Id. See also WESTON ANSON, THE INTANGIBLE ASSETS HANDBOOK: MAXIMIZING VALUE FROM INTANGIBLE ASSETS (2007) (defining types of IP and highlighting that IP issues “are even more important in a merger, acquisition, corporate reorganization, or bankruptcy environment”); see also Outline of the Legal and Regulatory Framework for Intellectual Property in the United States of America, WIPO LEX (Feb. 25, 2019), archived at https://perma.cc/B2Z6-5HY5 (outlining the three different types of patents: utility, design, and plant).
B. Trademarks

Trademarks are used to distinguish a company’s goods or services from competitors’ by associating the company’s products or services with a unique identifier.28 Trademarks are defined by the United States Patent and Trademark Office (“USPTO”) as those unique identifiers, including words, names, symbols, or devices that are used in connection with goods or services to indicate their source.29 Under U.S. trademark law, a mark is legally forfeited after it ceases to be used to identify the origin of products or services.30 A mark that becomes too generic and thus fails to function as a single-source identifier is legally forfeited.31 Yet, while a trademark may “die” once it is no longer in commercial use or fails to function as a single-source identifier, the associated trademark may continue to be recognized in conjunction with the underlying asset for years to come.32

28 See PORTER & RAKIEC, supra note 24 (providing examples of unique identifiers such as “[t]he ‘golden arches’; ‘swoosh’; the Coke bottle shape, ‘Just do it’; ‘Viagra’; and [a]ll the news that’s fit to print.”).
29 See General information concerning patents, USPTO (Oct. 2015), archived at https://perma.cc/ZW98-JLSV (defining a trademark as “a word, name, symbol, or device that is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others”). Service marks are the equivalent, except that they are used to distinguish a service rather than a product. Id. However, the terms are often referred to as “trademarks” or “marks” and can be used interchangeably. Id. Trade dress covers the “look and feel” of a company’s product or packaging. See PORTER & RAKIEC, supra note 24. Trade secrets consist of information that generally is used in business and must provide an economic advantage over competitors who do not know it. See Trade Secret Policy, USPTO (Dec. 5, 2017), archived at https://perma.cc/UBV6-X6Z7. A trade secret can be any secret formula, pattern, compilation, program, device, method, technique process, or other information. Id.
31 See Joseph C. Gioconda, Measuring the Value of a “Zombie” Brand: A Survey-Based Model, 58 U.N.H.L. 173, 182 (2015) (describing “genericide” as the gradual whittling away of the ability of a mark to function as a single-source identifier resulting in forfeiture). Trademarks are “born” when they are first put to commercial use and “die” once they are abandoned or are no longer used commercially. Id. at 177–78.
32 See Desai, supra note 30, at 983 (stating that brands are regulated by trademark law). See also Jake Linford, Article: Valuing Residual Goodwill After Trademark Forfeiture, 93 NOTRE DAME L. REV. 811, 812–13 (2017) (providing that after Coca-Cola discontinued the sale of the drink ‘Surge,’ fans of the drink campaigned to bring it back). Coca-Cola marketed and sold a drink under the trademark ‘Surge’ from
continued recognition suggests that trademark law’s protection of marks as a single-source identifier fails to capture its value in its entirety.33

The goal of trademark law is not to prevent others from making or selling the same goods or offering the same services as the trademark owner, but to prevent others from using a mark that is confusingly similar to the trademark owner’s to sell their own goods or services.34 When consumers associate a word or symbol with a certain company, they are able to distinguish goods sold under that word or symbol from goods sold by other companies.35 To protect this association, the law provides the trademark owner with an enforceable right to exclude others from the use of the same or similar identifying mark.36 By providing trademark owners with the exclusive right to

1996 to 2003, bringing it back twelve years later in 2015 after fans bought billboards and campaigned on social media for its return. Id.
33 See Desai, supra note 30, at 1011 (noting how brands and goodwill are inextricably linked and you cannot own one without the other); Scott Weingust et al., Tricks of the Trade[mark]: An Introduction to Trademark Valuation, STOUT (Apr. 24, 2019), archived at https://perma.cc/Z248-FRPX (positing that although a trademark is only one component of a company’s brand, it is typically the most important component that implicates brand value); Gioconda, supra note 31, at 181 (asserting that even after a brand has not been used in commerce for years it may still have continued brand recognition).
34 See PORTER & RAKIEC, supra note 24 (establishing that trademark rights may be used to prevent others from using a confusingly similar mark but not from producing a similar item or service under a different mark); Lanham Act, 15 U.S.C. §§ 1114, 1125 (granting the owner of rights to a trademark the right to bring a case against subsequent parties for trademark infringement). See also Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 780 (1992) (Stevens, J., concurring) (stating that under the Lanham Act, the agreed upon test is the likelihood of confusion, or whether the public is likely to be deceived or confused by the similarity in trademarks); Polaroid Corp. v. Polarad Elect. Corp., 287 F.2d 492 (2d Cir. 1961) (outlining factors courts consider in deciding whether consumers are likely to be confused including: (1) the strength of the mark; (2) the proximity of the goods; (3) the similarity of the marks; (4) evidence of actual confusion; (5) the similarity of marketing channels used; (6) the degree of caution exercised by the typical purchaser; (7) the defendant’s intent).
35 See Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916) (defining the primary function of a trademark is “to identify the origin or ownership of the goods to which it is affixed”).
36 See La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc., 495 F.2d 1265, 1271 (2d Cir. 1974) (establishing that the purpose of trademark law is to provide the owner of the mark with an enforceable right to exclude others from using the same mark); see also Wendy J. Gordon, An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory, 41 STAN. L. REV. 1343, 1352 (1989) (relating copyright law and the common law of property).
their source-identifying mark, consumers are ensured that an item sold under a particular mark is produced by the same source as other items bearing that same mark that the consumer has liked or disliked in the past. Moreover, by preventing sellers from misappropriating marks that they do not own, trademark law protects consumers from mistakenly believing that a product or service is coming from a source that they are familiar with, when it in fact is not.

Trademark law protects the valuable information communicated to consumers through a mark that enables them to easily recognize and purchase the exact goods that they are seeking. It guards the mental associations that consumers form between a particular product or service and the trademark used to identify it in the marketplace. In turn, this protection assures that the trademark owner will benefit from the reputation-related rewards associated with a desirable product or service, often referred to as a company’s goodwill. The function of a trademark or a brand name is in the trademark owner’s exclusive right to use it because for a trademark to

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38 See Klieger, supra note 17 (demonstrating how early trademark law protected consumers from being duped by producers); see also Scarves by Vera, Inc. v. Todo Imports, Ltd., 544 F.2d 1167, 1173 (2d Cir. 1976) (holding that a junior user of a trademark should be enjoined from using a similar trademark for non-competing products where consumers are likely to confuse the product’s source of origin).
39 See Desai, supra note 30, at 984 (noting how trademark law’s focus on economic efficiency establishes the mark as a sign of “consistent source and quality”); see also Klieger, supra note 17, at 792 (noting that trademark law was initially intended to protect the consumer from being duped by an imposter).
40 See Klieger, supra note 17, at 790–91 (stating that the change in trademark law to protect brand identity, and not as a single-source identifier, came about with the standardization of products as a method of differentiation); see also Qualitex, 514 U.S. at 162–63 (explaining how trademark law protects the mental association consumers form from a product through their identifying marks); see also Shredded Wheat Co. v. Humphrey Cornell Co., 250 F. 960, 962–63 (2d Cir. 1918) (explaining how advertising aims to persuade a consumer that a product will fulfill emotional, social, and other kinds of human needs).
41 See Qualitex, 514 U.S. at 163–64 (stressing that preventing competitors from using a producer’s mark protects consumers, allowing them to buy brands they like while allowing producers to reap the benefits from creating a product consumers desire); see also J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:4 (5th ed. 2018) (explaining that trademark owners are incentivized to maintain quality goods because doing so increases the likelihood of continued patronage and correspondingly increased profits as consumers are willing to pay more for quality assurance).
have value it must solely identify the source from which the goodwill arose.42

C. Goodwill

Inextricably tied to trademarks is a company’s goodwill.43 Goodwill is defined as a “business’s reputation, patronage, and other intangible assets that are considered when appraising the business, especially for purchase; the ability to earn income in excess of the income that would be expected from the business viewed as a mere collection of assets.”44 Trademark law prohibits the sale or assignment of a trademark without the goodwill it symbolizes by holding such an

42 See William M. Landes & Richard A. Posner, Trademark Law: An Economic Perspective, 30 J. L. & ECON. 265, 274–75 (1987) (explaining that if others were allowed to use the same brand it would negate the original trademark’s identifying function, thereby eliminating its value as a brand); see also Christian Louboutin S.A. v. Yves Saint Laurent America Holdings, Inc., 696 F.3d 206, 215 (2d Cir. 2012) (reiterating that the purpose of the Lanham Act is to “secure the public’s interest in protection against deceit as to the sources of its purchases, [and] the businessman’s right to enjoy business earned through investment in the good will and reputation attached to a trade name”).
43 See Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) (noting that “a trademark cannot be sold or assigned apart from the goodwill it symbolizes”); see also Todd Jacobsen, Trademarks and Goodwill-Relationships and Valuation, J. CONTEMP. LEGAL ISSUES 193, 195 (2001) (concluding that the sum value of trademarks is equal to the goodwill of the company).

Consider the definition of brand—an intangible asset that depends on an association made by consumers—and its more precise form, an asset that reflects customers’ implicit valuation of the revenue stream that accrues to a firm from its brand name(s). Now consider that investments in brand are usually measured as promotion expenditures, and that brand equity measured using standard growth accounting techniques reflects the cumulated value of those investments. A disconnect is then obvious: all customer-facing aspects of a firm’s performance have an impact on brand equity valuation (product quality, product cost, after-sales service, etc.), not just its investments in brands.

Id. (citing Carol A. Corrado & Janet X. Hao, Brands as Productive Assets: Concepts, Measurements, and Global Trends, WIPO ECON. RES. WORKING PAPERS 13 (2014)).
assignment null and void.45 Allowing the assignment or licensing of a trademark without the associated goodwill would permit a company to profit from the accompanying reputation-related rewards of built-up goodwill without incurring the cost associated with building goodwill.46 It is a trademark, therefore, that functions as the communicative identifying symbol of a company’s goodwill.47 The association between trademarks and goodwill led to the expansion of trademark law from protecting trademarks as a single-source identifier to protecting the use of trademarks by others that may dilute a mark’s goodwill even when there is no likelihood of confusion between products.48 The expansion of trademark law from a mechanism for

45 See 15 U.S.C. §1060 (2019) (stating that the sale or assignment of a trademark without goodwill is invalid). See Mister Donut of Am., Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969) (“The law is well settled that there are no rights in a trademark alone.”); see also Central Garden & Pet Co. v. Doskocil Mfg. Co., Inc., 108 U.S.P.Q.2d 1134, 1147 (T.T.A.B. 2013) (stating that “any transfer of a trademark must include the goodwill associated with the mark, because without goodwill, there is no trademark to transfer”). But see generally Lisa H. Johnston, Drifting Toward Trademark Rights in Gross, 85 TRADEMARK REP. 19, 19 (1995) (illustrating through four examples how trademark protection has drifted toward allowing trademark rights in gross). The four examples are:

(1) trademark licensing, with particular regard to promotional trademark licensing, (2) protection for trade dress absent a showing of secondary meaning, (3) protections for trademarks with secondary meaning in the making, and (4) dilution protection accorded by state statutes.

Id.

46 See Newark Morning Ledger Co. v. United States, 507 U.S. 546, 566 (1993) (defining the value of goodwill as derived from the expectation that customers will continue their patronage); Gioconda, supra note 31 (explaining why companies would prefer to make use of an abandoned mark over starting from scratch); In re Tudor Motor Lodge Associates Ltd. Partnership, 102 B.R. 936, 955 (D. N.J. 1989) (discussing the benefits of trademark usages to a franchisee including the recognized name in the industry and goodwill).

47 See Patterson Labs., Inc. v. Roman Cleanser Co., 802 F.2d 207, 208 (6th Cir. 1986) (stating that the goodwill requirement was enacted because “Congress did not intend to establish an open market in trademarks that are not associated with any particular goods, such as exists in some other countries”); J. THOMAS McCARTHY, McCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:19 (5th ed. 2019) (postulating that a trademark may be more than a symbol of goodwill but may itself be an instrument for creating goodwill).

protecting consumers and incentivizing producers to create high-quality products to a vehicle for protecting the value of a company’s accumulated goodwill has led to trademarks as a corporate vehicle to monetize through branding.49

D. Trademarks as Brands

While trademark law treats trademarks and brands as synonymous, the current law fails to grasp the full significance of a brand as an independent source of value.50 Modern brands are the result of the mental and emotional associations found in a company’s goodwill built over an extended period of time through a process that implicates both the protections afforded by IP laws and business considerations such as marketing, management, and location.51 In much of the same way that trademark law developed to protect consumers’ preference for one producer over another, consumers

trademark law’s expansion to protect non-confusing, non-competing uses of trademarks as protecting reputational goodwill).

49 See 15 U.S.C. § 1127 (2019) (granting protection to “famous” marks against dilution regardless of competition, confusion, mistake, or deception); see also Playboy Enter., Inc. v. Chuckleberry Publ’g, Inc., 486 F. Supp. 414, 423 (S.D.N.Y. 1980) (endorsing Playboy’s decision to enforce its right to exclude others from the use of marks with the ‘play’ prefix in order to maintain Playboy’s mark’s commercial value). See Chon, supra note 44, at 300 (explaining how trademark law transitioned from a narrow tort-based theory of injury to the mark to a broader theory protecting trademark goodwill). There is collective recognition of trademark goodwill as the positive associations of the company that sells the brand. See id. at 300–01.

50 See Desai, supra note 30, at 983 (asserting brands are regulated by trademark law); see also PORTER & RAKIEC, supra note 24 (describing a brand as the sum total of trademarks, service marks, and trade dress collectively). See Chon, supra note 44, at 299 (explaining trademark goodwill valuation under various sources of law). Trademark goodwill is treated as having inherent value in transaction areas of law such as bankruptcy, tax, and mergers and acquisitions. Id. at 299. In mergers and acquisitions, trademark goodwill is treated as the excess of a company’s value above liquidation value, comparable sales, or other valuation measures. Id.

51 See Klieger, supra note 17 (explaining how products after the industrial revolution are differentiated by brand person and not quality); see also Deven R. Desai & Spencer Waller, Brands, Competition, and the Law, 2010 B.Y.U. L. REV. 1427, 1427 (2010) (asserting brands allow companies to communicate directly with consumers such that consumers are no longer buying the products but the brands themselves); see also Marc de Swaan Arons, How Brands Were Born: A Brief History of Modern Marketing, THE ATLANTIC (Oct. 3, 2011), archived at https://perma.cc/4NMC-AC9B (arguing that the emotional value built up over time through goodwill as reflected in brands, created a buffer between two otherwise functionally equivalent products and allowed the company to charge a higher price).
become loyal to brands that they like or dislike and rely on those judgements in making decisions on what service to use or product to buy.\textsuperscript{52} This is exactly what trademark law aims to protect.\textsuperscript{53}

The evolution of trademark law from the historical consumer-protection rationale to the more modern expansion of protecting trademarks as symbols of goodwill reflected through brands better aligns with the concept of brand strength and the emotional connection associated with today’s brands.\textsuperscript{54} The standardization of production through emerging technologies, as well as the ubiquitous use of the internet in everyday life, have flooded the market with new products and information.\textsuperscript{55} This has made brand recognition crucial in an

\textsuperscript{52}See George Rafeedie, \textit{How to Revamp Your Brand Without Losing (and Confusing) Customers}, NBC CHICAGO 5 (June 7, 2013), archived at https://perma.cc/QWA4-DUSU (discussing how JCPenny lost and confused core consumers after changing its logo, implementing new sales strategies, and hiring a new spokesperson); \textit{see also} \textit{How To Refresh Your Brand Without Losing Loyal Customers}, FORBES (Nov. 13, 2018), archived at https://perma.cc/XCA8-RAQY (stating that changing your brand can risk losing old customers who don’t like change).

\textsuperscript{53}See Desai & Waller, supra note 51, at 1429 (asserting that trademark law has evolved to protect brands).

\textsuperscript{54}See Desai, supra note 30 (focusing on the goodwill that a mark symbolizes, protecting that goodwill as the seller’s property, and stating that brands are regulated by trademark law). \textit{See also} Chon, supra note 44, at 291–92 (explaining brands as a “two-sided” platform allowing communication between brand consumers and brand owners). The widespread use of social media has allowed even disinterested consumers to comment and inject emotions on brands. \textit{Id.} Anti-dilution protection under trademark law analogizes goodwill associated with a mark to property in and of itself. \textit{Id.} at 301. \textit{See also} Klieger, supra note 17, at 790–91 (explaining how large-scale production and distribution elevated the status of trademarks).

\textsuperscript{55}See Desai & Waller, supra note 51, at 1437 (asserting that unlike in the 1900s when manufacturing of high quality goods was largely dominated by a few national manufacturers, today’s national retailers have the resources to provide similar high quality products under their own names); Arons, supra note 51 (suggesting the concept of branding grew out of the standardization of products); Pamela N. Danziger, \textit{Growth In Store Brands And Private Label: It’s Not About Price But Experience}, FORBES (July 28, 2017), archived at https://perma.cc/KM95-A7BY (asserting that the increase in quality goods from private-label store brands has significantly disrupted the mark of branded products); Elizabeth Segran, \textit{Sunday Riley’s fake review scandal hurts all beauty brands—and all consumers}, FAST COMPANY (Oct. 24, 2019), archived at https://perma.cc/Y3KV-682T (explaining the importance of online customer reviews for beauty brands where the difficulty in proving the effectiveness of a product’s purported benefits for beauty brands leads to the reliance on customer reviews when shopping online for a new product).
increasingly competitive global markets. The rise of e-commerce has lowered transaction costs involved with disseminating information through marketing and selling products, which in turn lowers the barrier to entry.

Companies engage in wide-spread advertising campaigns to promote their brand to a recognizable household name, spending massive amounts to protect the aura of goodwill that they have amassed around their brand. Demonstrating the importance of internet presence in the recent Toys ‘R’ Us bankruptcy auction of its IP assets, during which numerous domain names bearing a resemblance to the name ‘Toys ‘R’ Us’ were revealed to have been purchased to prevent third party uses that could potentially diminish the value of the Toys ‘R’ Us brand. The right to exclude others from

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56 See Arons, supra note 51 (positing that goods today are all of similar quality but that it is brands that make one product stand out from the rest); Desai & Waller, supra note 51, at 1429 (explaining how the evolution of trademark law to protect non-competing products led to the protection of brands under trademark law).

57 See Dan L. Burk, Trademark Doctrines for Global Electronic Commerce, 49 S.C. L. REV. 695, 702–03 (1998) (arguing trademarks are important for e-commerce because a consumer is more likely to rely on brands they trust since they cannot inspect a product until it arrives); Desai & Waller, supra note 51, at 1428–29 (asserting the use of trademarks as shorthand indicators of quality makes information less expensive to consumers resulting in a greater demand and better informed consumer which in turn creates a more competitive marketplace). See also Multi Time Machine, Inc. v. Amazon.com, Inc., 804 F.3d 930, 932 (9th Cir. 2015) (affirming the district court’s grant of summary judgment for Amazon that displaying clearly labeled product’s from competitors of Multi Time Machine (“MTM”) in response to a search for MTM, did not infringe MTM’s trademark).

58 Deven R. Desai & Sandra L. Rierson, Confronting the Genericism Conundrum, 28 CARDOZO L. REV. 1789, 1790 (Feb. 2007) (explaining a company’s use of marketing to establish brand dominance so that their brand comes to mind when a consumer is considering a particular type of good and that this is achieved through the use of trademarks); Lexington Mgmt. Corp. v. Lexington Capital Partners, 10 F. Supp. 2d 271, 280–81 (S.D.N.Y. 1998) (expounding on the company’s advertising efforts as support for finding that the ‘Lexington’ brand was strong); Zareer Pavri, Where The Value In A Trademark Lies, CA MAGAZINE (Feb. 1987), archived at https://perma.cc/U8XZ-75TL (hypothesizing that the average amount a company spends to research, develop and market a new product is about $50 million).

59 See Richard Gottlieb, What the #@*!!! Is the Toys R Us Brand Worth Now?, GLOBAL TOY NEWS (May 23, 2018), archived at https://perma.cc/D5EH-KNYE (describing how Toys ‘R’ Us purchased domain names such as Kinkytoysrus.com, Sextoysrus.com and Toysrussucks.com to prevent others from using variations of the Toys ‘R’ Us brand in order to sell things like sex toys).
the use of similar names under trademark law allowed Toys ‘R’ Us to protect the goodwill they had accumulated as a kid’s toy company from being diluted by unsavory uses that could have weakened their brand.60 In today’s retail environment where products themselves are no longer the differentiator, brands have filled this role to the point where consumers are no longer buying products, but rather the brands themselves.61 The important implications in cases such as Toys “R” Us, which retained its IP assets in hopes of reviving the brand, are whether IP alone will be sufficient to give the brand a second life and what that means for IP valuation as an asset in and of itself.62

E. Valuation of Intellectual Property

In many cases, the value of a company’s IP assets can far exceed that of its tangible assets.63 The problem with intangible assets,
such as trademarks, is that much of their value is contextual making putting a price tag on them speculative. In the corporate context, IP can be defined as a company’s intangible assets, or assets that cannot be seen, touched, or physically measured, that are created through time and effort. This can further be refined into subgroups of IP: legal IP and competitive IP. Legal IP includes a company’s trademarks, copyrights, patents, and contracts. Competitive IP, on the other hand, includes such things as proprietary knowledge, collaboration activities, leverage activities, marketing, ideas, and unique product features.

IP assets tend to fluctuate in conjunction with the strength of the underlying corporation, making the quantitative nature difficult to ascertain. While much of an IP asset’s value is derived from its companies comprising the S&P 500 index are estimated to account for over eighty percent of the total value of the S&P 500 index, while tangible assets represent only the remaining twenty percent).

64 See Robert Brady et al., Determining and Preserving the Assets of Dot-Coms, 28 Del. J. Corp. L. 185, 185-86 (2003) (underscoring the historical context of difficulties in valuating intangible assets); Chris Donegan, Industry report - IP finance: the asset class that fell to earth, IAM (May 20, 2015), archived at https://perma.cc/HG4A-4BS6 (discussing hesitation to lend on IP assets where value is derived from continued operation of the company); see also Sweeney, supra note 14 (noting the significantly larger amount of a general IP business loan versus an equipment loan due to the technical difficulty of understanding the IP asset and its value); A Guide to IP In Insolvency, METIS PARTNERS (Jan. 21, 2019), archived at https://perma.cc/9SEJ-3Z53 (positing that IP assets exist in every insolvent company and that the IP assets often have value). But see Roger G. Schwartz & Shelly C. Chapman, Does one size fit all?, Nat’l L.J. (2001) (explaining how IP assets usually have very limited value outside of a company because of the specificity of the IP to the company).

65 See Darin Neumyer, Of Using Intellectual Property and Intangible Assets as Collateral, COMMERCIAL FIN. ASS’N: THE SECURED LENDER (Jan. 2008), archived at https://perma.cc/V8KG-NWS2 (defining IP as intangible assets created through time and/or effort); see also Rosalyn Gladwin, Protecting your intellectual property as a retailer, RetailWorld (May 25, 2015), archived at https://perma.cc/4UQC-LABQ (defining IP as “legally protected knowledge, intended to give its creators incentive to innovate by providing the ability to monopolize and make money from those unique creations”).

66 See Neumyer, supra 65 (deciphering IP into two subgroups).

67 See id. (defining legal IP).

68 See id. (defining competitive IP).

69 See Donegan, supra note 64 (asserting that IP is a 100% risk-weighted asset and that the “market price or strategic market value of intellectual property at any particular moment in time is a multiplier for traditional net present value or replacement value techniques”).
inherent uniqueness, the presence of complementary assets of an enterprise may subject the IP to synergies that enhance its value in the context of that environment or conversely diminish its value when removed from the corresponding environment in which it is created.\footnote{70} In terms of trademarks, it is widely recognized that a trademark’s value is derived from the goodwill associated with the underlying company suggesting a trademark’s value is inextricably tied to the value of the environment in which it is created.\footnote{71} In the four years leading up to Sears’s Chapter 11 filing, the company was forced to devalue the book value of its intangible assets including its brands, internet domain names, and customer goodwill.\footnote{72} It seems counterintuitive then that in the face of a failing corporation, a corporation’s IP rights relating to their brand would be worth much of anything, but the ability of a company’s brand to long survive its underlying asset suggest otherwise.\footnote{73} If Amazon ceased to be called “Amazon” but remained a viable platform unchanged from the Amazon we know today, would consumers still use it, or would the mental and emotional connection that consumers have to the name “Amazon” cause them to hesitate to

\footnote{70} See Steven Porter & Michelle Rakiec, 1-3 IP STRATEGY, VALUATION, AND DAMAGES, § 3.03 (2016) (emphasizing the interplay between the environment in which an IP asset is created and the value of the IP asset itself is contextual); see also Nguyen, supra note 63, at 1304–07 (demonstrating that a domain name becomes a businesses’ storefront and without trademark law protection of the domain name, the business may cease to exist).

\footnote{71} See Checkpoint Sys. v. Check Point Software Tech., Inc., 269 F.3d 270, 295 (3d Cir. 2001) (stating that trademark value comes from goodwill associated with underlying company which is why trademark infringers often try to create confusion thereby getting free ride on goodwill of established trademarks); see also UPS of Am., Inc. v. Net, Inc., 185 F. Supp. 2d 274, 276 (E.D.N.Y. 2002) (stating that trademarks represent businesses and their goodwill which is why they are valuable); Victoria’s Cyber Secret v. Secret Catalogue, Inc., 161 F. Supp. 2d 1339, 1343 (S.D. Fla. 2001) (establishing Victoria’s Secret trademark as becoming well-known based on the goodwill of the company).

\footnote{72} See Jan Wolfe, Sears’ plan to sell brands no salve for financial woes, REUTERS (Mar. 23, 2017), archived at https://perma.cc/8JGF-MLX9 (remarking how Sears “lowered the book value of its intangible assets, which include the brands and other items like internet domain names and customer goodwill, from around $4.5 billion in 2011 to $1.8 billion in January”).

\footnote{73} See Gioconda, supra note 31, at 175 (asserting that brand names can enjoy recognition despite not having been in commerce for years). Several brand name trademarks including the beer ‘Pabst Blue Ribbon’ and ‘Sharper Image’ stores have been revived after legal forfeiture. Id. at 177.
trust a brand name they do not know?\textsuperscript{74} In a consumer society advanced by the rise of mass production in the twentieth century, trademarks function to identify a company’s brand, serving as a method of income generation through the exploitation of consumer emotions tied to their perceived value in the marketplace.\textsuperscript{75} This association gives a brand a life of its own rather than being seen solely as a way of differentiating between otherwise similar products.\textsuperscript{76} The fact that brands can extend far beyond the product they initially served to represent and survive the demise of the corporations that created them is evidence of the value of a brand in and of itself. This interplay between a given IP asset and its context within a corporation or enterprise is one aspect that complicates the process of valuing intangible assets.\textsuperscript{77}

\textsuperscript{74} See Taylor Burke, \textit{The Pros and Cons of Rebranding: Is It Worth It?}, COMMON PLACES INTERACTIVE (Mar. 20, 2019), archived at https://perma.cc/PQ6M-AANH (outlining the advantages and disadvantages of rebranding and explaining how change is scary because no one knows what the end result will be including customers). Rebranding can help attract new customers and allow a company to keep up with cultural changes but risk losing existing customers who fear it means a change in company values. \textit{Id.} Téa Silvestre Godfrey, \textit{Revamp vs. Rebrand? 10 Considerations for Your Business Website}, STORY BISTRO (Feb. 1, 2020) archived at https://perma.cc/LP5Q-BQXV (explaining how the author used rebranding and brand name changes to distance herself from her previous brands).

\textsuperscript{75} See Biana Borukhovich, \textit{What is the Real Value Behind Your Trademark?}, THE FASHION LAW (Sept. 20, 2016), archived at https://perma.cc/DVN9-WPKL (positing that consumers automatically connect brand names, i.e. trademarks, to the distinct goods they produce, increasing the value of a recognizable trademark). \textit{See generally}, Christian Louboutin S.A. v. Yves Saint Laurent Am. Holdings, Inc., 696 F.3d 206, 212 (2d Cir. 2012) (noting that red outsoles have become associated with the Louboutin brand and granting limited protection from use by others); Scarves by Vera, Inc. v. Todo Imps., Ltd., 544 F.2d 1167, 1171 (2d Cir. 1975) (highlighting the effect that a brand name can have on product sales).

\textsuperscript{76} See Chon, \textit{supra} note 44, at 291 (suggesting that the ability to convey emotions and images to consumers gives a brand an inherent value that is independent from the underlying assets from which they represent). Today’s market emphasizes the “emotional and psychological aspects of a brand for marketing purposes, to the detriment of communicating a branded product’s objectively verifiable qualities.” \textit{Id.} at 302.

\textsuperscript{77} See Donegan, \textit{supra} note 64 (asserting that IP is hard to value and, moreover, the most significant value driver for any IP is contextual); Causevic & McClure, \textit{supra} note 18, at 111 (concluding that determining financial value of non-core IP is a complex endeavor that is highly context dependent).
F. Current Legal Framework of “All or Substantially All”

The “all or substantially all” analysis used by courts today states that a corporation cannot sell all or any part of its property that is integral to the corporation’s business, because to do so results in a practical dissolution. Accordingly, when an asset is transferred or disposed of, the question is whether the asset compromised such an integral part of the corporation’s business as to render continued operations of the corporation futile upon the disposition. To determine whether continued operations have been rendered futile absent the disposed of asset, it is important to consider both the quantitative and qualitative natures of such assets.

Commensurate to the quantitative analysis of IP, there are three generally accepted methods of valuation: cost-based valuation, market-based valuation, and income-based valuation. The cost-based valuation looks to how much it cost to create the asset historically and how much it would cost to recreate it given current rates. Market-based valuation looks at comparable market

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78 See U.S. Bank Nat’l Ass’n ex rel. Holders of Seven & One Half Percent Senior Convertible Notes v. Angeion Corp., 615 N.W.2d 425, 432–33 (Minn. Ct. App. 2000) (noting how the goal of the “all or substantially all” analysis is to prevent a company from disposing of such assets as to constitute a practical dissolution); see also Lawrence A. Cunningham, Sharing Accounting’s Burden: Business Lawyers In Enron’s Dark Shadows, 57 BUS. LAW. 1421, 1431 (2002) (articulating that the standard approach in analyzing “all or substantially all” is to consider the qualitative and quantitative nature of the assets).
79 See U.S. Bank, 615 N.W.2d at 430 (stating the point in preventing a corporation from disposing of “all or substantially all” of its assets is continuity of life).
80 See Edbar Corp. v. Sementilli, 784 N.Y.S.2d 920, 920 (2004) (holding that an asset disposition that fundamentally alters the purpose and existence of a corporation or otherwise leaves the corporation unable to conduct business is a disposition of all or substantially all of the corporation’s assets).
81 See Brady et al., supra note 64, at 221 (noting how there are three general industry-recognized categories of economic analysis: the cost approach, the market or sales comparison approach, and the income or discounted cash flow approach); see also Kelvin King, The Value of Intellectual Property, Intangible Assets and Goodwill, WIPO (Apr. 4, 2020), archived at https://perma.cc/SJ2L-MWVT (describing the various methods of valuation).
82 See Assignments, Licensing, and Valuation of Trademarks, INT’L TRADEMARK ASS’N (Mar. 2019), archived at https://perma.cc/B7RJ-7F89 (explaining the cost-based approach as assigning a value based on cost of creating a trademark with the same market power).
transactions. Income-based looks to the stream of income attributable to the IP assets based on historic earnings and expected future earnings. The corresponding qualitative valuation, on the other hand, considers the IP assets as an extension of the corporation including their strategic impact, brand loyalty, and impact on the company’s revenue and future growth. The qualitative approach may also serve to determine the value of non-core IP assets such as the legal strength of the IP assets.

While there is little case law interpreting “all or substantially all” in the context of an indenture for debt securities, and even less regarding intracompny transfers to wholly-owned subsidiaries, there is substantial authority in the context of shareholder protection statutes.

83 See id. (exploring the market-based approach considering transactions involving similar assets).
84 See id. (considering the income-based approach as assigning a value based on expected future earnings).
85 See Allen Gove & Richard Wilke, The hidden value of brand in a merger, LIPPINCOTT (Mar. 19, 2016), archived at https://perma.cc/7XZ2-5XBU (“Strong brands can go off course, suffer a blow or simply fall apart. When a brand weakens, the ramifications for the underlying business will be all too easy to gauge in lost market cap, profits, revenue and future sales. You never know how good you’ve had it until it’s gone.”); Christophe Heer & Daryna Kutsyna, Determining the Value of Your Intellectual Property, HEER LAW (Aug. 13, 2018), archived at https://perma.cc/KJ26-ZWWK (describing the purpose of qualitative methods as largely non-monetary in nature, often used for internal and/or strategic purposes to understand the profitability of an IP portfolio and evaluating opportunities and risks).
86 See King, supra note 81 ( assesing a brand in light of factors such as leadership, stability, market share, internationality, trend of profitability, marketing and advertising support and protection); see, e.g., Water Pik, Inc. v. Med-Systems, Inc., 726 F.3d 1136, 1151 (10th Cir. 2013) (“Strength has two aspects: conceptual strength, or the mark’s place on the spectrum of distinctiveness, and commercial strength, or its level of recognition in the marketplace.”); Maker’s Mark Distillery, Inc. v. Diageo N. Am., Inc., 679 F.3d 410, 419 (6th Cir. 2012) (citing Homeowners Grp. v. Home Mktg. Specialists, Inc., 931 F.2d 1100, 1107 (6th Cir. 1991)) (“A mark is strong if it is highly distinctive, i.e., if the public readily accepts it as the hallmark of a particular source; it can become so because it is unique, because it has been the subject of wide and intensive advertisement, or because of a combination of both.”); Peoples Fed. Savings Bank v. People’s United Bank, 672 F.3d 1, 16 (1st Cir. 2012) (“[I]n assessing the strength of the plaintiff’s mark, the district court may analyze both its conceptual and commercial strength.”); Gray v. Meijer, Inc., 295 F.3d 641, 647 (6th Cir. 2002) (“Strength of a plaintiff’s trade dress depends upon the interplay of two elements, the uniqueness of the trade dress and the investment in imbuing a trade dress with secondary meaning.”); Checkpoint Sys. v. Check Point Software Techs., Inc., 269 F.3d 270, 282 (3d Cir. 2001) (“The strength of a mark is determined by (1) the distinctiveness or conceptual strength of the mark and (2) its commercial strength or marketplace recognition.”).
from which the “all or substantially all” analysis is derived.\textsuperscript{87} Two doctrinal analyses have developed to determine whether a transfer involves “all or substantially all” of a borrower’s assets.\textsuperscript{88} The advanced paradigm evaluates the consequences of a transfer from both a quantitative and qualitative perspective.\textsuperscript{89}

The quantitative analysis focuses on the quantifiable vitality of the assets to be removed in terms of value measures and operating metrics and whether after the disposition, the corporation will retain economic continuity through other significant assets.\textsuperscript{90} The quantitative approach considers whether the disposition has deprived the corporation of its primary income producing assets or of assets otherwise necessary to carry on operations by looking at (1) the revenue generated by the asset transfer compared to the enterprise as a whole; (2) the potential future cash-flow of the asset as compared to the total enterprise; (3) the amount of earnings before interest, tax, depreciation, and amortization (“EBITDA”) contributed by the asset; and (4) the asset’s percentage of the total book value.\textsuperscript{91} Other

\textsuperscript{87} See Del. Code Ann. tit. 8, § 271 (West 2010). Section 271 of the Delaware General Laws requires a majority shareholder vote of approval before a corporation may “sell lease or exchange all or substantially all of its property and assets.” Id. See also U.S. Bank Nat’l Ass’n ex rel. Holders of Seven & One Half Percent Senior Convertible Notes v. Angeion Corp., 615 N.W.2d 425, 431-32 (Minn. Ct. App. 2000) (noting the lack of precedent in evaluating whether a disposition amounts to “all or substantially all” of a corporation’s assets under an indenture provision).

\textsuperscript{88} See Kenneth Pasquale & Isaac Sasson, What Constitutes a Transfer of “All or Substantially All” of a Borrower’s Assets for Purposes of Indentures and Credit Agreements? LAW.COM (June 8, 2018), archived at https://perma.cc/K8HE-CH59 (noting courts have established two doctrines to determine whether a transfer constitutes “all or substantially all” of a borrower’s assets).

\textsuperscript{89} See Angeion Corp., 615 N.W.2d at 431–32 (stating that under New York law, courts look to both the qualitative and quantitative nature of the asset transfer to evaluate whether a disposition of a corporation’s assets involves “all or substantially all” of the corporation’s assets); Pasquale & Sasson, supra note 88 (explaining how most, but not all, courts evaluate “all or substantially all” transfers both from a quantitative and qualitative perspective).

\textsuperscript{90} See Hollinger, Inc. v. Hollinger Int’l, Inc., 858 A.2d 342, 380 (Del. Ch. 2004) (assessing whether assets are “quantitatively vital to the operation of the corporation”).

\textsuperscript{91} See Pasquale & Sasson, supra note 88 (listing the factors considered in the quantitative vitality approach); see also Hollinger, 858 A.2d at 380 (holding if quantitatively vital portions of the unsold businesses constituted substantial, viable, ongoing components of the corporation, then the sale was not subject to shareholder vote under Delaware law because the sale did not constitute “substantially all” of the corporation’s assets); B.S.F. Co. v. Philadelphia Nat’l Bank, 204 A.2d 746, 750 (Del.
decisions have framed the question of whether a disposition of assets constituted “all or substantially all” by asking whether the transaction effectively mandated liquidation. The qualitative analysis focuses on the transfer’s effect on the corporation in its totality and whether the transaction “strike[s] at the heart of the corporate existence.” In determining whether a transfer “strike[s] at the heart of the corporate existence” courts consider whether it (1) changed the nature or character of the business, (2) primarily involved the business’ operating assets as opposed to liquid assets, and (3) was not in the normal and regular course of the entity’s business.

1964) (holding that disposition of a company’s only substantial income producing assets was a disposition of “substantially all” assets under a successor obligor provision).

92 See Resnick v. Karmax Camp Corp., 540 N.Y.S.2d 503, 504 (N.Y. App. Div. 1989) (finding that an internal restructuring did not constitute “substantially all” assets under a successor obligor provision because the transactions did not result in liquidation since the company retained ownership of the assets); see also Story v. Kennecott Copper Corp., 394 N.Y.S.2d 353, 354 (N.Y. Spec. Term. 1977) (noting that the company retained the value and thus was not the equivalent to mandated liquidation).

93 See Gimbel v. Signal Cos., 316 A.2d 599, 606 (Del. Ch. 1974) (stating in the shareholder context, that a transaction must “strike at the heart of the corporate existence and purpose” to require shareholder approval).

94 See id. (holding that shareholder approval is required where the fundamental business of the company would be changed or destroyed by the asset disposition); see also Causevic & McClure, supra note 18, at 96 (explaining that evaluation of IP for strategic alternatives analysis in the M&A context—outside of litigation—requires attorneys, technical experts with experience in the particular technology being litigated, and damages experts with experience in financial patent valuation, performed on the entire IP portfolio containing core and non-core IP). Non-core IP is IP that is not directly related to the company’s central business and typically includes:

1. Excess over what is required to provide protection and coverage of core businesses (Microsoft buying AOL’s patents, Unwired Planet leveraging Ericsson’s patents, Mosaid leveraging Nokia’s patents, NEC acquiring InterDigital’s patents); (2) Prior R&D efforts that resulted in valuable inventions, but have not been productized (S3, portion of Kodak, portion of Nortel); and (3) Prior acquisitions that brought with them material IP that is not used in the current core businesses (HP’s prior acquisition of Palm, Microsoft’s prior acquisition of AOL patents a portion of which was then resold to Facebook, AOL’s prior acquisition of Netscape and ICQ).

Causevic & McClure, supra note 18, at 97.
In *United States Bank National Ass’n v. Angeion Corp.*, a case based on the sale and license of patents covered by an indenture clause, the court considered whether Angeion conveyed, transferred, or leased all or substantially all of its assets in violation of a change of control provision in its indenture agreement with U.S. Bank. The court analogized the transfer to the metaphorical bundle of sticks of property law, explaining the transfer of property rights as a two-step process; first extinguishing a right in the transferor, and then creating a similar interest in the transferee. Angeion granted a third party non-exclusive licenses to use Angeion’s patented material, transferring one of the dividable rights in its bundle of patent rights. The extensive non-exclusive licensing scheme allowed Angeion to cross-license its patents until it retained no practical ability to exclude competitors, which made it no less within the meaning of the indenture than the outright sale of the patents.

In *B.S.F. Co. v. Philadelphia National Bank*, the court held that the sale of subsidiary stock representing 75% of the corporation’s assets constituted “all or substantially all” where the subsidiary

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95 See *U.S. Bank Nat’l Ass’n ex rel. Holders of Seven & One Half Percent Senior Convertible Notes v. Angeion Corp.*, 615 N.W.2d 425, 429 (Minn. Ct. App. 2000) (stating that the indenture agreement obligates Angeion to make a repurchase offer on the notes upon the occurrence of a “designated event”). The indenture agreement contained provisions preventing the disposition of “all or substantially all” of the company’s assets and the court noted only two published cases interpreting “all or substantially all” were published in the context of an indenture. *Id.* at 431.

96 See *id.* at 431 (establishing the transfer of property rights may include the right to possess, use, or exclude). U.S. Bank alleged that the patent sale, two workforce reductions, patent litigation settlement and licensing, and withdrawal from a joint venture collectively constituted a conveyance, transfer or lease of all or substantially all assets. *Id.* at 430. The court noted that while “the two workforce reductions and the joint-venture withdrawal may demonstrate a shift in Angeion’s business plan, these three actions indisputably do not convey, transfer, or lease assets.” *Id.*

97 See *id.* at 431 (explaining the transfer of property rights to use or exclude between Angeion and CPI). The transfer of the non-exclusive licensing rights to use the patented material meant Angeion could not exclude CPI from using its patents and CPI had the right to use the patents without being sued for infringement. *Id.* According to the court, this at minimum raised an issue of material fact whether Angeion transferred assets within the meaning of the indenture. *Id.*

98 See *id.* (stating Angeion’s proposed application of the indenture language would render the indenture language meaningless where their primary asset is IP). The court remanded the case to the district court for further discovery finding the information presented too limited to analyze the quantitative and qualitative nature of transferred assets to issue summary judgement on whether the sale and lease agreements constituted “all or substantially all” of Angeion’s assets. *Id.* at 433.
disposed of was the corporation’s only substantial income-producing asset.\textsuperscript{99} The notes held by Philadelphia National Bank were unsecured debt of B.S.F. Co., the indenture’s provisions being the only security afforded to Philadelphia National Bank’s investment.\textsuperscript{100} Accordingly, the court held that Philadelphia National Bank had a reasonable expectation that the primary asset supporting the indenture would not be disposed of.\textsuperscript{101} The court in \textit{Sharon Steel Corp. v. Chase Manhattan Bank}, interpreting a successor-obligor clause, held that the piecemeal disposition of assets culminating in a final sale of certain assets representing 38\% of the company’s operating revenue, 13\% of its operating profits, and 51\% of the net book value of all of the company’s assets, “in no sense” amounted to “all or substantially all” of the company’s assets.\textsuperscript{102}

In \textit{Roseton OL v. Dynegy Holdings}, the court held that the transfer of assets to unrestricted subsidiaries did not constitute “substantially all” of the company’s assets because the subsidiaries were wholly-owned and thus the assets were still available to the parent corporation.\textsuperscript{103} Subsidiaries of Dynegy sold power generating facilities and subsequently leased the facilities back to the parent-holding company that held an equity interest in these subsidiaries.\textsuperscript{104}

\textsuperscript{99} \textit{See B.S.F. Co. v. Philadelphia Nat’l Bank}, 204 A.2d 746, 750 (Del. Sup. Ct. 1964) (holding that a sale amounted to “all or substantially all” of a corporation’s assets where the assets constituted 75\% of the total assets and was the companies only substantial income-producing asset). At the time American Hardware was sold by B.S.F., American Hardware constituted almost 100\% of B.S.F.’s income. \textit{Id}. Accord \textit{U.S. Bank Nat’l Ass’n ex rel. Holders of Seven & One Half Percent Senior Convertible Notes v. Angeion Corp.}, 615 N.W.2d at 432–33 (explaining the same and noting the court in \textit{B.S.F. Co.} emphasized the qualitative nature of the sale and intention of the noteholders in protecting the assets securing the notes).

\textsuperscript{100} \textit{See B.S.F. Co.}, 204 A.2d at 750 (noting that because the notes held by Philadelphia National Bank were unsecured the only protection the noteholders had were the indenture’s provisions preventing the disposition of assets).

\textsuperscript{101} \textit{See Angeion Corp.}, 615 N.W.2d at 432 (stressing that the court in \textit{B.S.F. Co.} emphasized the qualitative nature of the sale and the intention of the debenture to protect the assets securing the unsecured notes).

\textsuperscript{102} 691 F.2d 1039, 1051 (2d Cir. 1982).


\textsuperscript{104} \textit{See Roseton}, 2011 WL 3275965, at *11 (explaining the nature of the parent-holding company ownership rights following the sale).
The court found that the sale did not constitute a sale of “all or substantially all” of the corporation’s assets because the holding company did not directly own any of the power-generating facilities to begin with, nor was the value being transferred away from the Dynegy corporate family.\(^{105}\) In contrast, the court in \textit{Winston v. Mandor}\(^{106}\) declined to dismiss the plaintiffs’ claims that a corporation’s sale of its only income producing asset constituting 60% of the corporation’s net assets is a sale of “all or substantially all” of its assets requiring shareholder approval even when between related companies.\(^{107}\) Concord was a wholly-owned subsidiary of Mandors, and Mandors owned controlling interest in Milestone making the transfer a transfer from a wholly-owned subsidiary of Mandors to a related company and its subsidiary in exchange for newly issued stock.\(^{108}\) Qualitatively, the plaintiffs alleged that Milestone, once the owner of tangible real property, was now primarily in the business of holding real estate related securities and mortgages.\(^{109}\) Quantitatively, they alleged that the sixteen properties Milestone had owned constituted 60% of its net assets and its only income producing asset for a period of six months.\(^{110}\) Declining to resolve the issue on a motion to dismiss, the court stated the interpretation of “all or substantially all” in a shareholder certificate was to be viewed in terms of the overall effect on the corporation.\(^{111}\)

\(^{105}\) See id. (demonstrating that the holding company will own the same interest after the transfer of value to the bankruptcy remote facilities as it did before).


\(^{107}\) See id. at 843 (determining that the asset transfers between related parties amounted to a sale of “substantially all” the corporation’s assets despite the transferred assets only accounting for 60% in total). The series of transactions included: (1) a sale of assets from Concord to Milestone for newly issued shares of Milestone common stock and a cash payment, (2) an amalgam of sixteen Milestone-owned properties to a subsidiary dubbed “UPI” in return for newly issued UPI stock, and (3) a distribution of a dividend in newly issued UPI stock to Milestone’s common stockholders. \textit{Id.} at 837.

\(^{108}\) See id. (describing the relationship between the entities involved in the asset disposition).

\(^{109}\) See id. at 843 (restating plaintiffs’ argument that qualitatively the sale changed the nature of Milestone’s business operations).

\(^{110}\) See id. (considering plaintiffs’ quantitative allegations that the sale constituted 60% of Milestone’s net assets). Defendants countered these allegations by asserting that the nature of the corporation’s business remained unchanged and that “Milestone remains engaged in various real estate related activities.” \textit{Id.}

\(^{111}\) See \textit{Winston}, 710 A.2d at 843 (looking to cases interpreting “all or substantially all” under the Delaware shareholder statute and finding it required an analysis of
The impact of these cases considering whether assets comprise “all or substantially all” highlight that a transfer or disposition of assets may only constitute a small portion of a corporation’s total assets quantitatively but that its qualitative impact may be such as to “strike at the heart of the corporation’s existence.” Considering both the qualitative and quantitative nature of the assets is an important step in determining whether they are integral to a corporation’s continued existence.

III. Facts

The brick-and-mortar meltdown is being fueled, in part, by LBOs that occurred during the boom period leading up to the financial crisis of 2008, or in the following years when money was cheap. To survive a typical reorganization, the key for struggling companies is to

both the qualitative and quantitative nature of the transaction to determine the overall effect).

112 See id. (denying defendant’s motion to dismiss plaintiff’s claims that “all or substantially all” of a corporation’s assets were disposed of where the assets represented 60% of the corporations net assets but changed the very nature of the corporation); Resnick v. Karmax Camp Corp., 540 N.Y.S.2d 503, 504 (N.Y. App. Div. 1989) (discussing how the purpose of the qualitative analysis is whether an asset disposition strikes at the very heart of the corporation’s existence); U.S. Bank Nat’l Ass’n ex rel. Holders of Seven & One Half Percent Senior Convertible Notes v. Angeion Corp., 615 N.W.2d 425, 433 (Minn. Ct. App. 2000) (emphasizing the importance of considering both the quantitative and qualitative nature of an asset disposition).

113 See PORTER & RAKIEC, supra note 70 (underscoring the significance of the qualitative and quantitative nature of IP assets and that each IP asset’s uniqueness is largely responsible for its commercial and strategic value). IP valuation requires a unique set of consideration due not only to its uniqueness but also to the distinctive interplay between a given IP asset and its organization of enterprise context. Id.

114 See Wolf Richter, Brick & Mortar Retail Meltdown Fueled by Asset Stripping. Details Emerge in Bankruptcy Courts, WOLF STREET (July 31, 2017), archived at https://perma.cc/EMN9-9GYD (opining that every retail chain caught up in the brick-and-mortar meltdown was acquired in a LBO by a private equity firm either during the LBO boom before the financial crisis or in the years after of ultra-cheap money); see also Michael Greubel, Private Equity Firms and the Sinking U.S. Retail Industry, FORDHAM LAW SCHOOL (Nov. 1, 2017), archived at https://perma.cc/LK6K-9AXS (explaining the roll private equity firms are playing in the retail financial crisis); see also Eric Platt and Anna Nicolaou, US retail’s turbulent relationship with private equity, FINANCIAL TIMES (Dec. 29, 2017), archived at https://perma.cc/EYM4-FEJQ (asserting more than half of the largest leveraged retail buyouts completed since 2007 have either defaulted, gone bankrupt or are in distress, according to a Financial Times analysis).
have a profitable base of core assets available. The problem for a struggling company like J. Crew is that their profitable core assets are already tied up as collateral under their TLA, leaving inadequate reserves to pay debt obligations soon due to be paid.

In trying to nullify the J. Crew Swap, the Dissenting Lenders argued that J. Crew’s branding, associated IP, and associated goodwill constitutes the company’s most value-driving asset class. Consequently, transferring the trademark collateral and related IP assets was an attempt by J. Crew Group to transfer all of the value of the J. Crew Group’s brands from the lenders under the TLA to unsecured creditors of an upstream affiliate in order to refinance the parent-affiliate’s debt obligations. Pursuant to the IP transfer, the J. Crew defendants proposed a licensing arrangement under which the unrestricted subsidiaries would license back the use of the trademarks that once constituted a portion of their collateral package under the TLA to the term loan lenders subject to an annual license fee of $59 million. The licensing agreement further included a provision that in the event of default by the licensee, the licensee’s rights to use and exploit the transferred trademark collateral terminated, giving the unrestricted subsidiaries the exclusive right to the trademark collateral.

115 See Brady et al., supra note 64 (opining that the key for a struggling company looking to reorganize under Chapter 11 of the Bankruptcy Code is to have a profitable base of core assets available to restructure the business).

116 See id. (noting that determining whether a corporation has sold “all or substantially” all of its assets will be viewed on a case by case basis); see also Donegan, supra note 64 (discussing hesitation to lend on IP assets where value is derived from continued operation of the company); see also Jeffrey Sweeney, supra note 14 (noting the significantly larger amount of a general IP business loan versus an equipment loan due to the technical difficulty of understanding the IP asset and its value); see also A Guide to IP In Insolvency, METIS PARTNERS, archived at https://perma.cc/9SEJ-3Z53 (positing that IP assets exist in every insolvent company and that the IP assets often have value).

117 See Complaint, supra note 2, at *39.

118 See id. (asserting that the transfer of the trademark and other IP served to transfer 100% of the value of the collateral of the term loan agreement to pay obligations owed by the parent-affiliate).

119 See Complaint, supra note 2, at *84 (outlining the terms of the IP licensing agreement between the unrestricted subsidiaries and J. Crew International).

120 See id. at *82–90 (explaining the default termination provision of the IP license which would terminate the agreement upon default of payment to the note holders of the unrestricted subsidiaries).
The Dissenting Lenders also opposed the valuation of the collateral IP.\textsuperscript{121} They pointed out that the initial valuation of the trademark collateral at $347 million considered the trademark collateral in its entirety, and did not consider the value of the disposed trademark collateral, leaving J. Crew to determine the value as 72.04% of $347 million, or the $250 million that was transferred to the unrestricted subsidiary.\textsuperscript{122} The Dissenting Lenders further pointed to J. Crew Group’s negative book value since 2016, including a non-cash impairment of $129.8 million in 2017. \textsuperscript{123} The Dissenting Lenders assert there is no credible basis for J. Crew to claim that its assets are worth more than the value shown on the books, and that the 2017 non-cash impairment reduced the $250 million attributable to the disposed of trademark collateral by $85 million.\textsuperscript{124}

IV. Analysis

As discussed, the availability of redress for the Dissenting Lenders depends on the success of their claim that the IP transfer constituted “all or substantially all” of the collateral backing of the original term loan agreement.\textsuperscript{125} Thus, the valuation of the IP assets is critical and warrants a nuanced approach in which the IP assets are valued from an independent and contextual standpoint.\textsuperscript{126}

\textsuperscript{121} See id. at *60–63 (noting the valuation of the disposed of IP collateral did not accurately reflect the value).

\textsuperscript{122} See id. (detailing how the letter from independent auditor stating the value of the IP collateral on which J. Crew calculated the percentage of the disposed of collateral).

\textsuperscript{123} See id. at *61 (reflecting that J. Crew Group has been negative on a book-value basis since 2016 based on publicly filed financial statements).

\textsuperscript{124} See id. (noting the non-cash impairment charge reported in J. Crew Group’s 10-Q filed in 2017).

\textsuperscript{125} See Eaton Vance, 2018 WL 1947405, at *5–7 (recognizing that if the lenders prove that the transfers were for “all or substantially all” of J. Crew’s assets, the amendment “would have been violative of the 2014 Agreement” and the lenders “would be able to seek redress for this breach”). If the Dissenting Lenders fail to prove the threshold issue that the transferred IP assets constituted “all or substantially all” of the corporations assets and thus required their consent, they will have no other legal basis on which to seek redress due to the term loan agreement’s “no action” clause. Id. at *7.

\textsuperscript{126} See Causevic & McClure, supra note 18, at 100 (noting how IP may have no value independent of a corporation). See also Morse, supra note 116 (discussing the value left in the remaining 27.96% of the trademarks not transferred to the unrestricted subsidiary by J. Crew). The transfer included a licensing agreement that provided J. Crew would have no rights in their IP upon their failure to pay the license fee,
While the transfer of IP assets may initially create value and prolong the existence of a retailer, it may also have unintended consequences in the case of default.\textsuperscript{127} For example, while patents, copyrights, and trade secrets are included within the Bankruptcy Code’s definition of IP, trademarks are not.\textsuperscript{128} This implicates the protections given to licensees of certain types of IP rights that may not apply to holders of trademark licenses, creating risk for the licensee.\textsuperscript{129} In the present case with J. Crew, the transfer of IP assets and related licensing agreement creates an increased risk to the licensee company as the former owner of the licensed trademark, because the licensing agreement can be terminated upon default. This creates a material risk that J. Crew International’s interest in the disposed trademark collateral will be terminated, consequently giving the unrestricted subsidiaries the equivalent of 100\% ownership in the trademark collateral.\textsuperscript{130} In substance, but-for the transfer of the trademarks in the first place, the original term loan parties would not have to pay anything to use the trademarks.\textsuperscript{131} The J. Crew companies went from a position of owning the trademarks, and thus the right to use them, to a position of licensee running the risk of losing the right to use the trademark in the event of a default under the license agreement.\textsuperscript{132}

essentially rendering the remaining 27.96\% interest worthless. \textit{Id.} A third-party evaluator concluded that J. Crew’s trademarks had a value of $37 million making the $250 million transferred 72.04\%. \textit{Id.}

\textsuperscript{127} \textit{See} Chafetz, \textit{supra} note 12 (positing that short-term benefits of IP transfers may have unanticipated long-term consequences).

\textsuperscript{128} \textit{See} 11 U.S.C. § 101 (35A) (2020) (defining intellectual property as (1) trade secret; (2) invention, process, design or plant protected under title 35; (3) patent application; (4) plant variety; (5) work of authorship protected under title 17; or (6) mask work protected under chapter 9 of title 17, to the extent protected by applicable non-bankruptcy law).

\textsuperscript{129} \textit{See} Morse, \textit{supra} note 116 (establishing that there are a number of courts that have held that a licensee of trademarks do not have the right in a Chapter 11 to assume and/or assign the right to use licensed trademarks without the consent of the owner-licensor).

\textsuperscript{130} \textit{See id.} (emphasizing the 72.04\% undivided interest in the disposed IP collateral, combined with the remaining undivided 27.96\%, would amount to a 100\% ownership interest in the trademark collateral).

\textsuperscript{131} \textit{See id.} (opining that while technically correct, from a substantive perspective, this misses the point that but for the transfer of the trademarks in the first place, the Loan Parties would not have had to pay anything to use the trademarks, much less pay market rates, and would not have the additional risks noted above).

\textsuperscript{132} \textit{See} King, \textit{supra} note 81 (opining that overall risk affects valuation analysis, corporate valuation must reflect risk and most importantly risk assessment should reflect IP rights and intangible assets value); Morse, \textit{supra} note 116 (remarking that
More importantly, in this case a default would mean the licensee—the J. Crew parent corporation that retains the income and profits attributable to J. Crew—could not pay the noteholders of the unrestricted subsidiaries whose only assets consist of the IP assets transferred from the J. Crew parent corporation. However, similar to the circumstances in *Roseton*, the subsidiaries are wholly-owned subsidiaries of the parent corporation and therefore the assets may still be available to the corporate parent.¹³³

As apparent from the association between a trademark and a company’s goodwill, the market value of a company’s IP assets is affected by its current financial circumstance.¹³⁴ The Dissenting Lenders argued that J. Crew reported a significant non-cash impairment reported at $129.8 million in 2017 in conjunction with the negative book-value of the two prior years, resulting in a devaluation of the IP collateral and associated goodwill among other things.¹³⁵ Consumer preference for one brand over another suggests the inherit value in the mental association between brands and goodwill such that a corporation without a brand is left with little value.¹³⁶ Following the reasoning of the court in *B.S.F. Co.*, the sale or disposition of a corporation’s brand could amount to “all or substantially all” where the brand is the income producing asset.¹³⁷ In a highly competitive market where products themselves are no longer the differentiator in

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¹³³ See *Roseton OL, LLC v. Dynegy Holdings, Inc.*, No. 6689-VCP, 2011 WL 3275965, *at 49* (Del. Ch. July 29, 2011) (explaining how the transfer of value from one subsidiary to a bankruptcy remote subsidiary did not constitute “all or substantially all” where the value was not being transferred outside of the Dynegy corporate structure).

¹³⁴ See Bomey, *supra* note 14 (noting that Sears revealed in a disclosure required by U.S. accounting principles that is reduced the value of its brand name by another $50 million to $100 million).

¹³⁵ See Complaint, *supra* note 2, at *61–63* (reflecting how J. Crew Group has been negative on a book-value basis since 2016 based on publicly filed financial statements).

¹³⁶ See McCarthy, *supra* note 47 (commenting on goodwill).

¹³⁷ See *B.S.F. Co. v. Philadelphia Nat’l Bank*, 204 A.2d 746, 750 (Del. Sup. Ct. 1964); see also Desai, *supra* note 30, at 982 (stating brands are regulated by trademark law).
consumer preference, brands are the value driver.\textsuperscript{138} Brands are represented by trademarks and their associated goodwill from which the trademark, and correspondingly the brand, derives value that supports a company’s continued business.\textsuperscript{139} Goodwill represents consumer patronage, which is at the heart of any corporation because without consumers there is no business.\textsuperscript{140} Thus, the value of a brand, qualitatively, may be such as to strike at the heart of the corporation.\textsuperscript{141}

V. Conclusion

As more companies seek out-of-court restructurings in order to de-lever their debt-ridden balance sheets, the use of IP as collateral will certainly become more prominent. While the shift has certainly been away from brick-and-mortar, there have been a number of brands that started with an online presence only to later open a storefront such as Birchbox, Revolve, and Warby Parker. Thus, the problem is not merely in the brick-and-mortar storefront but in the individual brands themselves.

There is no mistaking that the IP rights of a company are inescapability related to its underlying company or product. Offer a high-quality service or product that consumers form an emotional connection to, and you will create a loyalty to the brand and not the service or product itself. J. Crew over the years has established itself as a “preppy” fashion retailer and has become a household name. The company has built up a great deal of goodwill and strong brand recognition, but these have likewise been harmed because of declining sales. For a company initially sold for billions in 2011, it seems staggering that it would only maintain an IP portfolio worth a mere $347 million. Yet, this is exactly what we saw in Kodak where a patent portfolio valued by Kodak at roughly $2.6 billion sold for a paltry $525

\textsuperscript{138} See Borukhovich, \textit{supra} note 75 (positing that consumers automatically connect brand names, i.e. trademarks, to the distinct goods they produce, and the more recognition trademarks have the more value they add).
\textsuperscript{140} See Burke, \textit{supra} note 74 (explaining how a company can be hurt by rebranding if they fail to attract new customers while losing existing ones).
\textsuperscript{141} See Klieger, \textit{supra} note 17, at 790–91 (describing how in early trademark law when only competing goods were prohibited from misappropriating a mark, a senior mark user would lose profits each time a consumer bought from the junior user of a mark). Trademarks function as a hold upon the minds of the public and the use by another injures this hold a mark has. \textit{Id}. 
million. The metrics used in the valuation of the IP collateral are still being litigated but it is conceivable, if not likely, that in absence of their brand name, the underlying J. Crew corporation will mean little.