NOTES

THE END TO AN ERA OF NEGLECT: THE NEED FOR EFFECTIVE PROTECTION OF TRADEMARK LICENSES

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I. INTRODUCTION

Imagine you are the CEO of a new company in Silicon Valley, California. The company recently developed a revolutionary laptop screen that is not only entirely scratch resistant, but also allows for 3-D viewing. The company just entered into a contract with Orange Computer to be the sole manufacturer of Orange’s newly advertised “Made in Silicon Valley” computer. Located among the terms of the contract is a license, which allows the company to use Orange’s applicable patent and trademarks. As a result, the company heavily invests in its new enterprise and begins to profit. A few months later, however, Orange recognizes massive losses since it did not account for higher business costs in Silicon Valley. This forces Orange to file for bankruptcy and reject the license, leaving your company unable to manufacture its product without infringing on Orange’s trademarks. This risks your company’s vitality and ultimate existence.

The scenario above illustrates an example of a modern business practice—trademark licensing—and its tension with bankruptcy law. In

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today’s "[n]ew [w]orld,"\textsuperscript{1} intellectual property ("IP") is an extremely important economic asset for many companies.\textsuperscript{2} An owner of IP has the ability to either (1) prevent others from using it or (2) authorize its use to a third party through licensing. The latter practice of licensing has grown significantly in the global economy, as it is a substantial source of revenue for many companies.\textsuperscript{3} Additionally, using IP to secure lending from a bank has become popular.\textsuperscript{4} Nevertheless, the value of IP licenses is limited due to risks created by economic hardships,\textsuperscript{5} with trademark licenses particularly vulnerable in cases of bankruptcy.\textsuperscript{6} In fact, since 1988, out of 1100 bankruptcy filings concerning IP, over 600 involve trademarks.\textsuperscript{7}

Section 365 of the Bankruptcy Code enables a debtor-licensor to reject an executory contract, thereby terminating the licensee's right to the licensed product.\textsuperscript{8} In 1985, the Fourth Circuit's decision in 	extit{Lubrizol Enterprises v. Richmond Metal Finishers} extended this provision to IP licenses, posing a significant risk for IP licensees.\textsuperscript{9} Recognizing that IP

\begin{enumerate}
\item Roger G. Schwartz & Shelley C. Chapman, \textit{Does One Size Fit All? As E-Commerce Businesses Falter, the Flexibility and Reach of the Bankruptcy Code is Challenged to Meet Varied Needs}, NAT'L L.J., Feb. 12, 2001 (explaining that assets owned by e-commerce businesses consist almost exclusively of intellectual property licensing); Fernando Torres, Trademark Values in Corporate Restructuring 4 (July 1, 2007) (unpublished manuscript), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1014741 ("According to various empirical studies, the overwhelming majority of the market value of the companies in the S&P500 index has to be attributed to intangibles, mainly trademarks and patents.").
\item Id. at 459–61 (explaining that the lack of market information, combined with the legal and economic risks limit the value of intellectual property).
\item David M. Jenkins, \textit{Licenses, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy}, 25 J. MARSHALL L. REV. 143, 143–44 (1991) ("The current complexity of bankruptcy law creates a formidable forest through which businesses with trademark licenses must carefully tread.").
\item According to research done by the author with assistance from Professor Jonathan Barnett.
\item Lubrizol Emers., Inc. v. Richmond Metal Finishers, Inc. (\textit{In re Richmond Metal Finishers}, Inc.), 756 F.2d 1043, 1044 (4th Cir. 1985) (affirming the rejection of an intellectual property license
\end{enumerate}
licensing plays a beneficial role in technological development, Congress enacted the Intellectual Property Bankruptcy Protection Act ("IPBPA") of 1987 to protect certain forms of IP from the detrimental effects of Lubrizol.10 The IPBPA, however, neglects a major form of IP from its protection—trademarks.11 The lack of trademark protection generates an imbalance and causes a concern for entities seeking to enter into license agreements.

The Seventh Circuit breathed new life into the call to protect trademark licenses in 2012. A first of its kind, Sunbeam Products, Inc. v. Chicago American Manufacturing, L.L.C. held that a trademark-licensee may continue exercising its rights even if the debtor-licensor rejects the license.12 This Note examines the doctrinal development leading to the Seventh Circuit’s decision in light of IPBPA legislative history, and it suggests that trademark should be a form of IP protected against the end-all provisions of § 365.

The treatment of IP within bankruptcy has been an uneasy battle. Under § 365 of the Bankruptcy Code, a debtor-licensor can reject an executory contract, thereby terminating the licensee’s rights to the licensed product.13 With respect to IP, this would mean any IP debtor-licensor could reject its license.14 In essence, a debtor’s rejection could crumble a nondebtor’s very existence if its company depended on the IP license. Fortunately, Congress intervened by enacting the IPBPA.15 Recognizing that IP licensing plays a beneficial role in the process of technological development and innovation,16 Congress amended § 365 to provide necessary protection to certain IP licensees. However, the definition of "intellectual property" in § 101(35A) contains an important omission—trademark.17

between Lubrizol and Richmond when Richmond filed for bankruptcy).


11. Id.


17. As amended, the new § 101(35A) of the Bankruptcy Code defines "Intellectual Property" for purposes of § 365 as:

(A) trade secret;
The lack of trademark protection can have devastating effects on any licensee—such as the corporation presented in the hypothetical posed above. Though the patent provision will be protected, the trademark license is still left vulnerable. This means your company will continue to use Orange’s patents but may not be able to use the trademarks. Such a result would harm your company because it cannot place the appropriate mark on the manufactured product. As such, Congress’s omission imperils both stand-alone trademark licenses and trademark licenses that are integrated with other IP licenses.

Twenty-seven years after the amendment, trademarks remain in a precarious situation with no formal statutory protection and no consistent judicial protection. Since then, a multitude of legal scholars, judges and practitioners have developed various theories to incorporate trademarks within the statutory protections of § 365(n) in order to prevent trademark licenses from being rejected by debtors. The rejection of a

(B) invention, process, design, or plant protected under title 35;
(C) patent application;
(D) plant variety;
(E) work of authorship protected under title 17; or
(F) mask work protected under chapter 9 of title 17.

See also SENATE REPORT, supra note 16, at 5 (“[T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors.”).

18. Laura Jelinek, Equity for Brand Equity: The Case for Protecting Trademark Licensees in License Bankruptcies, 40 AIPLA Q.J. 365, 382 (2012) (“As of today, Congress has taken no steps to develop a protection measure for trademark licensees in the licensor’s bankruptcy.”).

19. See Lubrizol, 756 F.2d at 1044 (affirming the rejection of a trademark license). See also Darren W. Saunders, Should the U.S. Bankruptcy Code Be Amended to Protect Trademark Licensees?, 94 TRADEMARK REP. 934, 939 (2004) (“[T]he judicial consensus is that the present application of the statute results in ‘harsh’ consequences for the trademark licensee and is inequitable.”).

20. See, e.g., Jelinek, supra note 18, at 405–06 (arguing that Congress should amend the Bankruptcy Code to provide protection for trademarks); Jenkins, supra note 6, at 165–66 (same); Jon Minear, Comment, Your Licensor Has a License to Kill, and It May Be Yours: Why the Ninth Circuit Should Resist Bankruptcy Law That Threatens Intellectual Property Licensing Rights, 31 SEATTLE U. L. REV. 107, 134–35 (2007) (same).


22. See, e.g., David Koha, The Meaning of Rejection in Intellectual Property Contracts and Beyond After Sunbeam, 21 NORTON J. BANKR. L. & PRAC. 743, 751 (2012) (arguing that amendment to § 365 of the Bankruptcy Code may be necessary); Saunders, supra note 19, at 939–40 (arguing for an amendment to § 365(n) to provide protection for licensees of trademarks, service marks and trade names); Jay Lawrence Westbrook, The Commission’s Recommendations Concerning the Treatment of Bankruptcy Contracts, 5 AM. BANKR. INST. L. REV. 463, 464–65 (1997) (“The [National Bankruptcy Review] Commission has recommended a fundamental change in terminology and in doctrine with respect to the estate’s decision to perform or breach a pre-bankruptcy contract under section 365(a).”).
license in bankruptcy renders the license null, preventing a nondebtor from continued use of the trademark and only allowing the nondebtor to recover damages as an unsecured creditor. Three viable solutions have been articulated to resolve the unfavorable consequences for a nondebtor: Judge Ambro of the Third Circuit argues for an equitable-grounds analysis in *In re Exide Technologies*, Judge Easterbrook of the Seventh Circuit argues for a contractual-reading-of-the-license analysis, and scholars advocate for amending §101(35A) to include trademarks within the definition of IP.

Although each solution independently allows for a minimal level of protection for trademark licenses, collectively, they fail to adequately balance the policy considerations between IP rights and bankruptcy. Where one theory succeeds in protecting trademark licenses, the same theory fails to adequately protect the bankrupt debtor. As a result, this Note argues that a fusion of Judge Easterbrook’s analysis with an amendment to §§ 101(35A) and 365(n) provides the most effective protection of IP rights, while simultaneously protecting the rights and policies of bankruptcy law.

Part II of this Note will provide general knowledge concerning IP licenses and their intersection with bankruptcy law, paying tribute to the seminal case giving rise to this issue: *Lubrizol*. Part III identifies legislative action to remedy the effects of *Lubrizol*. Next, Part IV discusses several policies concerning the protectability of trademark licenses within bankruptcy proceedings. Congressional hearings postponed discussing trademarks in order to study the issue more; this section provides the missing support. Then, Part V describes recent decisions that protect trademark licensing, thereby challenging the holding of *Lubrizol*. Finally, Part VI presents a solution balancing the competing interests and policies of bankruptcy law and IP law. Part VII concludes.

23. F.R. Murphy v. C & W Corp. (*In re F.R. Murphy*), 694 F.2d 172, 174 (8th Cir. 1982).
24. *In re Exide Techs.*, 607 F.3d at 967.
27. The fundamental policy of bankruptcy is to create a “fresh start” for the debtor. Cieri, Olack & Witalec, *supra* note 1, at 357.
II. EXECUTORY CONTRACTS, LUBRIZOL, AND THE FUTURE OF INTELLECTUAL PROPERTY WITHIN BANKRUPTCY

A. GENERAL TREATMENT OF INTELLECTUAL PROPERTY LICENSES IN BANKRUPTCY

Congress enacted the Bankruptcy Reform Act (or the “Bankruptcy Code”) in 1978 in order to create a unified framework regulating insolvencies in the United States. The core principles of the current Code are to provide a “fresh start” for debtors and to maximize the value of the debtor’s estate. In order to satisfy these goals, one of the Code’s provisions, § 365(a), regulates executory contracts. Section 365(a) enables a debtor-in-possession or a trustee to either “assume or reject any executory contract.” To assume a contract means to “bind[] the bankruptcy estate to the debtor’s prepetition performance obligation under the terms of the contract assumed.” Alternatively, to reject means “the debtor no longer can be compelled to perform the debtor’s unperformed remaining obligations under the contract.”

Interestingly, Congress failed to precisely define the term “executory contract” despite its use as a powerful tool for trustees and debtors-in-possession. However, courts have generally adopted Vern Countryman’s


32. Debtor-in-possession (“DIP”) is normally affiliated with Chapter 11 reorganization. DIP is defined as debtor who is in possession of its business while reorganization is under way, unless a trustee is qualified to serve in the case. 11 U.S.C. § 1101 (2012).

33. A trustee is a disinterested person who oversees the distribution of a debtor’s possessions. 11 U.S.C. § 701 (2012). The trustee’s principal duties are to “collect and reduce to money the property of the estate for which such trustee serves, and close such estate as expeditiously as is compatible with the best interests of parties in interest.” The trustee must “be accountable for all property received” and must “investigate the financial affairs of the debtor.” 11 U.S.C. § 704 (2012); S. REP. NO. 95-989, at 34 (1978), reprinted in 1978 U.S.C.C.A.N. 5787, 5820.


35. Minnear, supra note 20, at 117 (alteration in original) (quoting THOMAS M. WARD, INTELLECTUAL PROPERTY IN COMMERCIPLE § 4:1, at 344 (rev. ed. 2005)).


37. In fact, Congress intentionally omitted defining the term because “any succinct statutory language risks an unintended omission or inclusion.” U.S. BANKR. LAWS COMM’N, H.R. DOC. NO. 93-
Countryman defines an executory contract as "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that failure of either to complete performance would constitute a material breach excusing the performance of the other." 39

Countryman's definition is widely recognized and often applied. 40 Courts have consistently deemed franchise agreements, 41 dealer agreements, 42 and agency agreements 43 as executory. IP licenses are no different. 44 In fact, most courts hold an IP license to be an executory contract. 45 These licenses are considered executory because both parties

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43 See, e.g., In re Compass Van & Storage Corp., 65 B.R. 1007, 1010–12 (Bankr. E.D.N.Y. 1986) (concluding that agency contracts are not personal service contracts, and thereby subject to § 365(a) of the Bankruptcy Code).

44 Jelinek, supra note 18, at 374 & n.45 ("[T]here may be an implied undertaking by the licensor which brings all patent licenses within the ambit of an executory contract. . .[A]ll patentee-licensors are now substantially in the position of having warranted to their licensees the validity of their patents. Although the sanction for the breach of such warranty is only forfeiture of royalties rather than liability for damages, this continuing undertaking by the licensor is enough to justify the treatment of all unexpired patent licenses as executory contracts."

45 In re BuildNet, Inc., No. 01-82293 through 01-82299, 2002 Bankr. LEXIS 1851, at *8 (Bankr. M.D.N.C. 2002) ("As a general rule, most patent, trademark, technology and other intellectual property licenses are executory contracts."); In re Golden Books Family Entm't, Inc., 269 B.R. 311, 314 (Bankr. D. Del. 2001) (noting that courts generally find intellectual property licenses to be "executory" under the Countryman definition); Novon Int'l, Inc. v. Novamont S.p.A. (In re Novon Int'l, Inc.), No. 98-CV-0677(E), 96-BK-15463B, 2000 U.S. Dist. LEXIS 5169, at *12 (W.D.N.Y. Mar. 31, 2000) ("Generally speaking, a license agreement is an executory contract as such is contemplated in the Bankruptcy Code."). But see Jelinek, supra note 18, at 374 ("There are, however, exceptions: sometimes a 'license' turns out to be more like an assignment of property, and the obligation of the licensee is discharged by a lump-sum payment rather than ongoing royalty payments.").
generally have ongoing obligations—for example, the licensor must maintain and defend the right while the licensee must continue to pay royalties.  

When a trustee—or a debtor-in-possession—believes that continued obligations would be disadvantageous to the estate, she will elect to reject the contract which, with court approval, will relieve the estate of those duties. In effect, rejection is similar to breach of contract, where the injured party is limited only to asserting a claim for damages. Courts traditionally use the “business judgment rule,” which gives great deference to the debtor-in-possession. The debtor is “liable only if his decision is tainted by fraud, illegality, self-dealing, or is uninformed.” This places an unfair burden on the nondebtor because a debtor can unilaterally reject a license, in which case the nondebtor can no longer take advantage of the bargained for contract. Given their nature, IP licenses are subject to the same demise as other executory contracts, and nondebtors are equally vulnerable to § 365(a)’s devastating consequences. As such, the powerful rights debtors possess seem to threaten the fate of IP for licensees within bankruptcy.

B. LUBRIZOL AND ITS “CHILLING EFFECT” ON IP LICENSES

In 1985, the Fourth Circuit issued an infamous opinion illustrating the imbalance of the “business judgment rule” and its effects on the future of technological innovation. The case, Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., concerned a license that granted Lubrizol the right to use Richmond’s patented coating process technology. In exchange for royalties, cancellation of a preexisting debt, and submitting monthly accounting reports by Lubrizol, Richmond was required to defend any

46. See Minear, supra note 20, at 117, for an overview of intellectual property licenses and their benefits to each party.
47. 11 U.S.C. § 365(a).
48. F.R. Murphy v. C & W Corp. (In re F.R. Murphy), 694 F.2d 172, 174 (8th Cir. 1982).
49. Courts generally use the lenient “business judgment rule” when determining whether to approve a trustee’s rejection of an executory contract. Robertson v. Pierce (In re Chi-Feng Huang), 23 B.R. 798, 800 (B.A.P. 9th Cir. 1982) (“Virtually all recent Bankruptcy Court decisions follow [the business judgment] rule.”). But see In re Petur U.S.A. Instrument Co., 35 B.R. 561, 564 (Bankr. W.D. Wash. 1983) (disallowing a rejection because the consequences would be the “ruination of an otherwise profitable, successful and ongoing business.”).
51. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.), 756 F.2d 1043 (4th Cir. 1985).
52. Id. at 1045.
infringement suit and indemnify Lubrizol for any warranty claims. Then, in 1983, Richmond filed for Chapter 11 bankruptcy as a debtor-in-possession and moved to reject the license with Lubrizol. The bankruptcy court granted the motion, and the case eventually made its way to the Fourth Circuit after the district court reversed the findings of the bankruptcy court.

Affirming the bankruptcy court’s opinion, the Fourth Circuit determined that the license was executory since there were continued obligations due by both parties. As a result, the court deferred to and accepted the business judgment of the bankrupt estate when affirming the motion to reject the lease. This meant Lubrizol was unable to retain its rights under the license, “even if that remedy would ordinarily be available upon breach of this type of contract.” Though the court noted that specific performance is often available as a remedy in breach of contract cases, it stated that “the legislative history of § 365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the nonbankrupt party.” In essence, the lack of legislative history, coupled with the court’s deferral to the lenient business judgment rule, “create[d] a presumption in favor of rejection.”

From a policy perspective, the court was wary that rejection in similar cases would cast doubt on the future of licensing. In fact, the Fourth Circuit knew this decision would have a “chilling effect” on parties wishing to contract with others that are not financially stable, but it refused to alter its holding. Instead, it left the responsibility for doing so to Congress. Thus, the court’s decision firmly established two principles concerning

53. Id.
54. 11 U.S.C. § 1107(a) (2012) provides a debtor-in-possession all the rights and powers to perform the same functions and duties of a trustee in a Chapter 11 case.
56. Id. at 526.
58. Lubrizol, 756 F.2d at 1045–46.
59. Id. at 1046–47.
60. Id. at 1048.
61. Id. (“Allowing specific performance would . . . undercut the core purpose of rejection under § 365(a), and that consequence cannot therefore be read into congressional intent.”).
63. Lubrizol, 756 F.2d at 1048.
64. Id.
licenses: there is a “presumption in favor of rejection”66 and rejection is equivalent to termination.67

The aftermath of Lubrizol left IP in a precarious situation.68 Not only is IP extremely prevalent in today’s society,69 but the use of IP can also be a company’s most valuable asset.70 As such, the ability for a debtor to unilaterally reject a license can jeopardize the nondebtor’s entire business.71 Even more broadly, the consequences of rejection have the potential to threaten the technology business sector due to its dependence on licensing,72 and even the “system of licensing.”73

III. THE NEED FOR LEGISLATION

A. 1988: CONGRESS’S ATTEMPT TO CORRECT LUBRIZOL

The speculation over the future of IP licenses led Congress to reevaluate § 365 of the Bankruptcy Code.74 Recognizing that Lubrizol would have a damaging effect on technological innovation,75 Congress

70. 1 CORPORATE COUNSEL’S GUIDE TO BANKRUPTCY LAW § 18:10 (2013).
71. Id. (arguing that Lubrizol’s effects could even lead to the nondebtor’s own bankruptcy).
72. See PETER N. BARNES-BROWN, MORSE, BARNES-BROWN & PENDLETON, P.C., LICENSING INTELLECTUAL PROPERTY FROM AND TO DISTRESSED COMPANIES 1 (2005), available at http://www.mbbp.com/resources/iptech/pdfs/ip_distressed.pdf (stating that intellectual property is among the most valuable business assets for a corporation since it can be “commercialized—that is, converted into revenues—predominantly by means of licensing.”).
73. Giaccio, supra note 62, at 102.
74. See Koha, supra note 22, at 751 (“Congress’ swift enactment of § 365(n) in the wake of Lubrizol demonstrates the significant impact of the holding on the technology industry.”).
75. Marjorie F. Chertok, Structuring License Agreements with Companies in Financial Difficulty Section 365(n)—Divining Rod or Obstacle Course?, 65 ST. JOHN’S L. REV. 1045, 1054 (1991) ("Congress recognized that technological development and innovation are advanced by encouraging solvent licensees to invest in start-up companies. Indeed, the economic reality is that intellectual property is often developed by undercapitalized companies relying on the financial support of solvent licensees to provide ‘venture capital’ for development. To encourage investment in intellectual property and to protect the rights of the licensees who contribute financing, research, development, manufacturing, or marketing skills, Congress limited the power of debtor-licensors to ‘reject’ licenses

enacted § 365(n), which protects certain IP licenses from the general provisions of executory contracts.76 This policy shift favoring technological development is in stark contrast with the fundamental principle of bankruptcy—protecting the debtor.77 No longer can a debtor unilaterally terminate a license agreement. Rather, once a debtor rejects the license, two options are triggered for the licensee. Section 365(n)(1) provides:

If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—

(A)to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B)to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced...78

Once a court approves a debtor’s rejection of a license, the nondebtor can elect to retain its use of the licensed IP.79 However, the statute limits this right only to the property that existed immediately before the bankruptcy proceeding.80 The intended effect of this limitation, as one

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77. Senate Report, supra note 16, at 9 (“This bill is intended to restore confidence in the system of intellectual property licensing, and courts interpreting it should be sensitive to the reasonable practices that have and will evolve among parties seeking to add to the technological and creative wealth of America.”). However, Congress attempted to balance the competing interests by requiring the nondebtor to continue making royalty payments and waiving any right to setoff it might otherwise have based on the nonperformance resulting from the rejection. See 11 U.S.C. § 365(n)(2)(B) (2012).


79. In order to retain use of the property under 11 U.S.C. § 365(n)(1)(B), debtor must give written notice. In re Elf Int'l, 123 B.R. 64, 66 (Bankr. D. Idaho 1991) (“[I]f the licensee elects to retain its rights under the agreement, the licensee shall make written demand on the trustee for the intellectual property included in the agreement and notify the trustee not to interfere with the licensee’s rights under the agreement.”).

author argues, is to encourage prebankruptcy planning. Nevertheless, 
Congress's amendment to the Bankruptcy Code significantly reduces the 
risk posed to a large number of IP licenses. However, a major pitfall exists 
regarding the scope of the Code's definition of IP.

B. THE OMISSION OF TRADEMARK LICENSES

The definition of IP under § 101(35A) excludes trademarks. When 
confronted with the post-Lubrizol emergency, Congress was troubled over 
the fate of the technology industry. Congress was concerned § 365 would 
inhibit growth and development, which are primarily associated with 
patents and copyrights. In fact, the National Bankruptcy Conference 
supported the omission, saying, "[t]he Conference sees no such emergency 
for and has no particular interest in, extending such protection to 
trademarks." Congress prioritized its protection, which some authors 
consider to be a political maneuver.

Additionally, the omission was due to a unique characteristic of 
trademark—quality control. The trademark is a very peculiar kind of 
property. Its primary function is to identify the product or service it 
symbolizes; its survival is dependent upon its goodwill. Unlike patents

81. Chertok, supra note 75, at 1056.
82. See supra note 17 and accompanying text.
83. See Peter S. Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic 
Analysis, 22 BERKELEY TECH. L.J. 733, 774–75 (2007) (noting that Congress was primarily concerned 
with the computing and biotechnology industries, for which trademarks did not play a vital role); Xuan-
recognized that in the technology licensing context, licensees 'use the licensed technology as the basis 
for an entire business,' and if the licensor rejected the license agreement and withdrew the technology, 
the licensees would be left without the technology and possibly would be unable to obtain adequate 
substitute technology.").
84. See SENATE REPORT, supra note 16, at 3–4 (discussing the importance of technology 
licensing, which "plays a substantial role in the process of technological development and 
innovation.").
85. Jelinek, supra note 18, at 381 (quoting letter from George A. Hahn, Nat'l Bankr. Conference, 
to the Senate hearing on S.1626 (July 14, 1988)).
86. See, e.g., Minear, supra note 20, at 114 ("[O]mission [of trademarks] may have simply been 
a product of political horse trading.").
87. SENATE REPORT, supra note 16, at 5.
88. See ARTHUR R. MILLER & MICHAEL H. DAVIS, INTELLECTUAL PROPERTY: PATENTS, 
TRADEMARKS, AND COPYRIGHT IN A NUTSHELL 203 (5th ed. 2012) ("The development of a property 
right in the good will embodied in a trademark is the basis of modern expanded trademark rights . . . ").
89. See id. at 202 ("[A trademark’s] value to the owner is essentially good will. By investing 
resources in the mark itself as opposed to the product, the owner is developing a symbol of its 
reputation."); Edward S. Rogers, Some Historical Matter Concerning Trade Marks, 9 MICH. L. REV. 29, 
43 (1910) ("A well-known brand, trade mark or label is now—a-days the most valuable asset that a trader 
can possess" and "[t]he good will of a business is often of greater value than all the tangible property,
and copyrights, which have a statutorily imposed duration,™ trademarks are unique because a trademark owner can retain its interest indefinitely by monitoring its mark in order to ensure consumer protection.™ In fact, when a licensor fails to police its mark, there is a risk that the mark will be abandoned. When a mark is abandoned, the consumer is at a disadvantage since its dependence on that mark will vanish. This requires a level of quality control, which usually entails a system of inspection ensuring that the licensee’s product adheres to the licensor’s standards.™ Therefore, the licensor has an affirmative obligation to ensure the licensee’s product does not deceive the public.™

This complexity of trademark left Congress in a perilous situation. Although Congress prioritized its decision on this amendment, it did recognize the impact on trademark licenses. In fact, Congress admitted that rejecting a trademark license is a concern due to the harsh nature of Lubrizol.™ Despite this, Congress avoided the situation, stating that “these matters could not be addressed without more extensive study.”™ Not only did Congress fail to decide the future of trademark protection, it left it in the hands of bankruptcy courts to develop an “equitable treatment of this situation.”™

and a trademark is nothing but good will symbolized.”

90. Generally, the term of a copyright is the life of the author plus seventy years. If the work is work for hire, the term of such copyright is ninety-five years from first publication or 120 years from creation, whichever is shorter. Generally, patent protection lasts for twenty years from the date the patent application is filed with the Patent Office. U.S. COPYRIGHT OFFICE, DURATION OF COPYRIGHT 1 (2011), available at http://copyright.gov/circs/circl5a.pdf; U.S. PATENT & TRADEMARK OFFICE, GENERAL INFORMATION CONCERNING PATENTS 1 (2011), available at http://www.uspto.gov/patents/resources/general_info_concerning_patents.pdf.

91. See Menell, supra note 83, at 749 (explaining the critical role that trademark licensing plays in investment and consumer welfare). Another distinguishing factor is that “trademarks cannot be transferred as simply as a patent or a copyright.” Id.

92. See General Motors Corp. v. Gibson Chem. & Oil Corp., 786 F.2d 105, 110 (2d Cir. 1986) (“The critical question in determining whether a licensing program is controlled sufficiently by the licensor to protect his mark is whether the licensees’ operations are policed adequately to guarantee the quality of the products sold under the mark.”); Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (“Courts have long imposed upon trademark licensors a duty to oversee the quality of licensees’ products.”); Saunders, supra note 19, at 936–37 (discussing the development of the quality control requirement).

93. Saunders, supra note 19, at 937.

94. SENATE REPORT, supra note 16, at 5 (stating that rejection of trademarks “is of concern because of the interpretation of section 365 by the Lubrizol court and others”).

95. Id. ("Trademark licenses] raise issues beyond the scope of this legislation.").

96. Id.
C. THE ECONOMIC COSTS OF § 365(N)

The economic cost of omitting trademarks from protection is two-fold: it hinders economic development and imposes a substantial risk on the nondebtor. Trademarks serve a valuable economic function—they promote technological advancement through competition and improve quality of life.97 Trademarks encourage substantial investment in order to prevent consumer confusion.98 Such investment stimulates licensing, allowing a third party to market a product with a known mark. And with increased business activity, licensing exemplifies the economic importance of such practices.99 Since rejection terminates a license, a mark is temporarily removed from the market; this diminishes the mark’s goodwill and risks hurting the public.100 Famed American jurist Richard Posner even argues that a diminished mark can create unnecessary search costs for the consumer, further alienating the policy of trademark law.101 Consequently, the economy suffers from lack of competition and increased consumer search costs.

The lack of trademark protection also harms the nondebtor. The current bankruptcy system is designed to protect the debtor, with no measurable benefits to the nondebtor. Once a debtor rejects a license, the law turns the contractual rights into an unsecured claim. This treats the nondebtor as an unsecured creditor, likely only to receive a small portion of its claim.102 Not only does the nondebtor lose its ability to use the mark, but it risks receiving little or no compensation as an unsecured creditor.

A deeper cost exists when a license includes multiple forms of IP. There are many instances in which a corporation includes multiple forms of IP bundled within a license. For example, a license may include the right to use a patent and a trademark.103 A few cases have discussed the issue regarding bundled licenses, though none have expressly decided the fate of

98. See id. at 144 ("The investment in quality symbolized by a trademark is protected against infringement. Competition in quality is fostered, and the public is protected from deceit and assured that it is purchasing the product represented by a known trademark.").
99. Jenkins, supra note 6, at 156–57.
100. Id. at 157. Without the mark being used, the public will no longer be exposed to it, thus diminishing the licensor’s goodwill. Id. ("[T]he public is unable to identify that owner as the source of any desirable product.").
102. Jenkins, supra note 6, at 158.
103. See Giaccio, supra note 62, at 107–08.
a trademark within those licenses. Instead, the current system seems to create a bifurcated structure wherein courts protect all the rights defined in the statute, but not trademarks. Under § 365, a licensee may retain the right to continue using the protected rights, but will be unable to extend that right to the trademark. As one author puts it, "[t]his bifurcation . . . is not a sound policy."106

IV. A CASE FOR PROTECTING TRADEMARKS

A. SECTION 365(N) FRUSTRATES ITS OWN GOALS

Congress postponed its decision to include trademarks in order to study the issue more and allow courts to develop "equitable treatment of this situation." Yet, the plain language of the statute coupled with the legislative history pushes courts into a difficult situation. One court may decide it is bound by the statutory language and approve the rejection of a trademark license. Alternatively, a court may give deference to legislative history and determine that trademarks should be protected. This uncertainty seems contrary to the goal of equitable treatment.

Even more, allowing rejection does not serve the interest of the bankrupt estate. Many trademark owners find it more beneficial to license their trademarks than use the trademarks themselves. Trademark owners may not have the resources to market the mark as effectively and efficiently as the licensee. Thus, it seems licensing is a win-win for both parties because the licensor maintains its goodwill and acquires a royalty while the licensee is able to use the mark to further its business. Yet, under

104. See, e.g., Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.), 281 B.R. 660, 670–73 (Bankr. N.D. Cal. 2002) (declining to consider equitable considerations in adjudicating trademark rights post-rejection); In re Matusalem, 158 B.R. 514, 516, 521–22 (Bankr. S.D. Fla. 1993) (discussing that legislative history could be called upon to protect trademarks in situations with multiple IP rights, but ultimately failing to resolve that question since the court did not approve the debtors' rejection and did not expressly conclude whether it would have allowed retention of the trademark if rejection was approved).

105. See, e.g., In re Centura Software, 281 B.R. at 669 ("Although [the licensee] has elected to retain its § 365(n)-protected rights to market and sell Raima Software . . . as far as Raima Trademarks are concerned, it will be left with but a § 365(g) claim for damages resulting from being unable to use the trademarks in its business.").

106. Giacco, supra note 62, at 111–12 ("The result . . . runs contrary to a basic tenet of trademark law—to avoid confusion as to the source of the product.").

107. See supra text accompanying notes 95–96.

108. See, e.g., In re Centura Software, 281 B.R. at 669–70 (applying the plain meaning of § 365(n) and declining to conduct judicial inquiry into legislative history).


110. See Nguyen, supra note 83, at 1276–77 (describing the benefits of licensing trademarks).

111. Id. at 1277.
bankruptcy policy, a debtor should reject burdensome contracts in order to permit a successful rehabilitation.\(^\text{112}\)

Though rejecting a license may permit rehabilitation,\(^\text{113}\) it also risks devaluing the mark and losing its goodwill. Consequently, creditors and the bankrupt estate will not benefit from the mark because of its lost value.\(^\text{114}\) Furthermore, the lack of judicial clarity on this issue will harm the bankrupt estate because a potential trademark purchaser may be unwilling to pay the full value if it is unclear whether the licensee can continue to use the mark.\(^\text{115}\) Ultimately, the inability of courts to develop any consistent judicial remedy plus the risk rejection places on the bankrupt estate seems contrary to the intended goals of § 365.

B. CONFRONTING THE "GOODWILL" CONCERN OF CONGRESS

The goodwill concern was a critical factor in Congress’s decision to omit trademarks. Congress deferred protecting trademarks over fears that the burden of continued control was incompatible with § 365(n).\(^\text{116}\) Congress worried a debtor may be unable to continue controlling the quality of the goods, due to limited resources.\(^\text{117}\) The inability of the

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112. See Giaccio, supra note 62, at 126 ("In an effort to rehabilitate a bankrupt debtor/licensor, courts have enforced the rejection of executory contracts . . . ").

113. Id. A debtor may also reject a license strategically in order to relicense the mark at a higher royalty rate. See id. at 113.

114. See Nguyen, supra note 83, at 1307 ("[T]he value of the trademarked domain name is in danger as the rejection threatens to jeopardize the very goodwill it purports to preserve for the benefits of the estate, unsecured creditors, and the consumer."). In fact, failure to use the mark creates a risk of abandonment, see id. at 1280–81, which further exacerbates the detrimental effects to the estate. Without a mark, the debtor will be unable to seek maximum profits by either re-licensing or selling the mark. Giaccio, supra note 62, at 109. This runs contrary to the goal of estate maximization. Id. at 112–13.


116. Jelinek, supra note 18, at 387 ("The duty of a licensor to control the quality of a licensee’s goods or services that bear the licensed mark seems, on the surface, incompatible with the rejection regulation provided by § 365(n). ").

117. Nguyen, supra note 83, at 1311. Another potential risk with trademark licensing is naked licensing. A naked license of a trademark occurs when a licensor allows a licensee to use the mark on any quality or type of good the licensee chooses. As such, the naked license exists when the licensor does not affirmatively control the mark or provide adequate means to ensure its compliance by the licensee. Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995). A recent Seventh Circuit decision reincarnated this doctrine by concluding that a licensor must maintain its quality control and not relinquish such control even if the licensee maintains “high quality.” See Eva’s Bridal Ltd. v. Halanick Enters., Inc., 639 F.3d 788, 790 (7th Cir. 2011) ("There is no rule that trademark proprietors must ensure ‘high quality’ goods . . . . The sort of supervision required for a trademark license is the sort that produces consistent quality."). Nevertheless, the naked license doctrine is rarely invoked. See
licensor to control the goodwill of a trademark creates a “naked license.”

In turn, a naked license may characterize a trademark as abandoned because any deviation from quality standards will mislead the public. However, this concern is unfounded for multiple reasons. First, a similar duty exists with a protected form of IP under § 101(35A)—trade secrets. Second, there has been a growing judicial trend toward more lenient requirements of quality control, alleviating much of the concern surrounding naked licenses.

The unique nature of trademarks should not justify its exclusion, because Congress has created exceptions for similar situations. For example, trade secrets enjoy protection against misappropriation as long as the owner safeguards them. Consequently, it is left to the owner to dutifully ensure the secrecy of its trade secrets, in order to exploit them economically. Without adequate protection, the owner of a trade secret risks its information becoming public knowledge, thereby removing the

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Irene Calboli, The Sunset of “Quality Control” in Modern Trademark Licensing, 57 AM. U. L. REV. 341, 367 (2007) (“Generally, courts have continued to recite that lack of control will lead to naked licensing, yet they have found most licenses valid and accepted almost any evidence of control to uphold licensing.”). More pertinent to this article, there are no bankruptcy cases that discuss any risk of naked licensing within a trademark license.

118. RAYMOND T. NIMMER & JEFF C. DODD, MODERN LICENSING LAW § 9:35 (2013) (explaining that a license is “naked” when a licensor fails to assume and exercise quality control).

119. Eva’s Bridal, 639 F.3d at 790–91 (affirming finding of abandonment because of naked licensing of a mark of a bridal retail shop where the trademark owner made no attempt to control quality); FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 515–16 (9th Cir. 2010) (“We have previously declared that naked licensing is ‘inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor.’”), Barcamerica Int’l. USA Trust v. Tyfield Imps., Inc., 289 F.3d 589, 595–98 (9th Cir. 2002) (affirming dismissal on summary judgment where the plaintiff licensed a mark for use on wine with no quality control provision in the license and the plaintiff “played no meaningful role in holding the wine to a standard of quality—good, bad or otherwise”).

120. See infra note 122 and accompanying text.

121. Calboli, supra note 117, at 345–46.

122. A trade secret is defined as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.


123. Consider the case of Coca-Cola. The formula for Coca-Cola is considered the world’s most valuable and protected trade secret. Because Coca-Cola was unable to secure a patent for its recipe, it resorted to keeping the recipe secret for over a century. Among its efforts to ensure its secrecy, Coca-Cola placed its recipe in a vault for over a century and only allowed a few individuals to know its recipe. Coca-Cola Moves Its Secret Formula to the World of Coca-Cola, COCA-COLA JOURNEY: PRESS CTR. (Dec. 8, 2011), http://www.coca-colacompany.com/press-center/press-releases/coca-cola-moves-its-secret-formula-to-the-world-of-coca-cola.
quintessential aspect of that information—its secrecy. In essence, both trade secrets and trademarks require monitoring measures by the right holder; the former dependent on confidentiality and the latter on quality control. Without monitoring the licensee, both IP rights would be lost. Nevertheless, only trade secrets are protected under § 101(35A) of the 1988 Amendment.124

Moreover, the quality control requirement is insignificant due to the current judicial trend in licensor control.125 The Lanham Act dictates current trademark licensing law.126 Prior to its enactment, the policy of consumer confidence prevented licensing from being an accepted practice.127 The adoption of the Lanham Act, with particular emphasis on sections 5 and 45, created a trend toward licensing that quickly became irreversible.128 In essence, these two provisions allow for licensing under the condition that the licensor continues to control the quality of the mark. The imposition of strict quality control standards on the licensor were required in order for the judiciary to accept new licensing practices.129 It was this requirement that concerned Congress.130

Since the adoption of the Lanham Act, there has been a constant evolution of the quality control standard. What started as strict adherence, namely actual control over the quality of the mark, soon shifted toward broader interpretations of control in order to accommodate the increasing role of licensing in the economy.131 In fact, courts have lowered the standard of quality control to see if a licensor could exercise adequate

125. Calboli, supra note 117, at 345–46.
127. See Calboli, supra note 117, at 360–61 (discussing how historically, the prohibition of licensing practices was considered to be "philosophically impossible" because of the fear that only the owner could guarantee the terms of quality and characteristics of the marks).
128. Section 5 reads “[w]here a registered mark . . . may be used legitimately by related companies . . . such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner to deceive the public.” 15 U.S.C. § 1055 (2012). Section 45 further clarifies the “use” of trademarks and defines a related company as “any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.” 15 U.S.C. § 1127 (2012). See also Calboli, supra note 117, at 354–55 (discussing sections 5 and 45 of the Lanham Act).
129. Calboli, supra note 117, at 362–63 (“As a necessary corollary . . . the judiciary started to require that trademark owners control their licensees to guarantee consistent product quality.”). See Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (“If a trademark owner allows licensees to depart from its quality standards, the public will be misled, and the trademark will cease to have utility as an informational device.”).
control over the quality. Though defining the term "adequate" has created considerable confusion among courts, a general trend seems to favor a flexible, lenient standard when assessing the quality control requirement of a trademark. In fact, licensors may not actually need to physically control the mark or affirmatively visit the licensee's facilities to ensure compliance. Rather, a licensor can set quality standards to which the licensee must adhere.

Since the current practice of trademark licensing has increasingly become more lenient concerning quality control, it seems Congress's quality control concerns no longer justify excluding trademarks. As one author puts it, "[i]f... a trademark licensor may legitimately delegate the quality control function... then Congress' hesitation to include trademark licenses within the definition of those 'intellectual property' licenses protected from a bankrupt licensor's rejection, cannot be sustained."

C. THE IMPORTANCE OF TRADEMARKS

In 1988, Congress deferred action on trademark licensing because it was more worried about the effect Lubrizol would have on technological innovation. It could be theorized that Congress did not view trademarks in the same light as it did patents and copyrights. The rise in computer software, biotechnology, and the overall increase in start-up companies led Congress down this inequitable path. However, the role of trademarks has shifted dramatically since 1988, with trademarks becoming a beacon of competition and economic prosperity.

Trademarks have become an increasingly important aspect of the economy. Corporations license trademarks in order to allow third parties to display the mark on manufactured products. In turn, small companies enjoy the right to use a mark in order to generate profit from the owner's

132. See, e.g., Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc., 212 F. Supp. 715, 740 (E.D. Pa. 1962) (holding that the minimum standard set by the licensor was adequate quality control). However, loosening definitions and standards of control created inconsistencies among the courts. In turn, certain courts further liberalized the standard of control to interpret "adequate" to mean "reasonable" control. See Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48–49 (9th Cir. 1971) (finding that the licensor's reasonable control over the quality of the mark, as opposed to specific control, is sufficient for the license to be valid).

133. Calboli, supra note 117, at 389 ("[C]ourts have adopted an increasingly broad interpretation of quality control and accepted almost any evidence to declare licensing valid.").

134. Nguyen, supra note 83, at 1311–12.


136. See supra Part III.A.

137. See supra text accompanying notes 97–100.
established reputation. Such companies invest heavily in the trademark, through advertising, promotion, creative marketing, and building various distribution networks in order to profit and maintain the mark's market. As previously mentioned, in some cases the viability of a company is predicated on the existence of such license. Unfortunately, licensees are unable to contract around the threat of bankruptcy. The Bankruptcy Code prevents courts from validating any provisions that would restrict a licensor from rejecting a contract. Section 365(e)(1) reads:

Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title . . .

The inability to contract around the threat of bankruptcy is perplexing for two reasons. First, it completely alienates the nondebtor party who wishes to mitigate the potential effects of bankruptcy. Instead, this restriction upon modification means that the trademark licensee is without any defense mechanisms to protect itself in the event of bankruptcy. Second, the inability to modify a contract seems to contradict the notion that Congress encouraged prebankruptcy strategies. Given the economic impact of trademark licensing in the economy, the risk of bankruptcy could have severe repercussions, such as undermining the incentives for parties to license IP. As such, it is imperative that trademarks be given the protection conferred on other forms of IP.

139. Id. at 384–85 ("A licensee often makes substantial investments in its business assuming it will be able to use the licensed trademark for the entire time agreed upon in the contract.").
140. See supra text accompanying notes 13–15
142. Id.
143. See Chertok, supra note 75, at 1056 ("Section 365(n) . . . was drafted with the expectation that licensees will engage in prebankruptcy planning.").
144. See Menell, supra note 83, at 769 (noting that the risk of bankruptcy could jeopardize the future of licensing transactions because parties may not be making optimal investments in exploiting licenses).
V. A CALL FOR PROTECTION: RECENT DECISIONS BREATHE LIFE INTO THE FORGOTTEN TRADEMARK

A. IS THERE AN "EQUITABLE TREATMENT"?

Congress expressed hope that bankruptcy courts would develop a rule to resolve the inequities of trademark licensing. With an excess of 600 reported bankruptcy cases involving trademark licensing since the 1988 Amendments, trademark licensees have been eagerly waiting for bankruptcy courts to create an "equitable treatment" of trademarks or for Congress to amend § 365 to include trademarks. Unfortunately, during that same period, bankruptcy courts have uniformly applied the holding in *Lubrizol* with respect to trademarks and § 365 still stands. In fact, since *Lubrizol*, only one reported decision has criticized the holding, with another expressing concerns over its outcome. It was not until 2010 that a judge suggested an alternative approach toward trademark licensing.

In June 2010, the Court of Appeals for the Third Circuit issued its decision in *In re Exide Technologies*. The opinion vacated the bankruptcy court's determination that a contract between the two parties was executory because the debtor, Exide, did not have any material obligations to perform as of the petition date. Although the majority decision only concerned whether the contract was executory, the

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146. There are approximately 641 total bankruptcy cases since January 1, 1989 dealing with the issue of trademark licensing. *See supra* note 7 and accompanying text.
148. *See, e.g.*, *In re Old Carco L.L.C.*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) ("Trademarks are not 'intellectual property' under the Bankruptcy Code . . . [so, the] rejection of licenses by a licensor deprives the licensee of the right to use the trademark . . . ."); *In re HQ Global Holdings, Inc.*, 290 B.R. 597, 513 (Bankr. D. Del. 2003) ("[S]ince the Bankruptcy Code does not include trademarks in its protected class of intellectual property, *Lubrizol* controls and the Franchisees' right to use the trademark stops on rejection."); Raima UK Ltd. v. Centura Software Corp. (*In re Centura Software Corp.*), 281 B.R. 660, 674–75 (Bankr. N.D. Cal. 2002) ("Because § 365(n) plainly excludes trademarks, the court holds that [the licensee] is not entitled to retain any rights in [the licensed trademark] under the rejected [trademark agreement]."); *In re Chipwich, Inc.*, 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985) ("[B]y rejecting the . . . licenses the debtor will deprive [the licensee] of its right to use the . . . trademark for its products.").
150. Licensing by Paolo, Inc., v. Sinatra (*In re Gucci*), 126 F.3d 380, 394 n.1 (2d Cir. 1997) (declining to declare the effect of rejection of a trademark license but suggesting that to treat rejection as extinguishing a license means that "§ 365 rejection operates as a kind of avoiding power to bring back into the estate a license of the debtor's trade name or trademark").
151. *In re Exide Techs.*, 607 F.3d 957 (3d Cir. 2010).
152. *Id.* at 962–64.
concurring opinion is of significant value because it breaks with § 365 precedent concerning its applicability with trademark licenses.

The concurrence, written by Judge Ambro, contradicted the bankruptcy court's determination that "[r]ejection of the Agreement leaves [the nondebtor licensee] without the right to use the . . . mark." It effectively rejected the reasoning of negative inference, whereby courts have reasoned that the decision in Lubrizol was intended to control trademark licenses due to the lack of Congressional protection on trademarks—an approach which the Supreme Court has endorsed—as "inapt" in the context of trademark licenses. Instead, Judge Ambro relied on the Senate Report discussing the reason for excluding trademarks:

[T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the Lubrizol court and others, such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

Based on this legislative history, the concurrence concluded that the omission has no relevance to the meaning of rejection. Next, the concurrence challenged Lubrizol by concluding that rejection does not necessarily deprive the licensee of rights in the mark, but rather, rejection merely frees the estate from the obligation to perform without severing the continued existence of the contract. In fact, Judge Ambro stated that treating rejection similar to rescission would make bankruptcy "more a

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153. Id. at 964–65 (Ambro, J., concurring) (quoting In re Exide Techs., 340 B.R. 222, 250 (Bankr. D. Del. 2006)).
154. Id. at 966 ("Because Congress did not protect trademark licensees under § 365(n), courts have reasoned by negative inference that it intended for Lubrizol’s holding to control when a bankrupt licensor rejects a trademark license.").
156. In re Exide Techs., 607 F.3d at 966 (Ambro, J., concurring).
157. Id. at 966–67 (Ambro, J., concurring) (quoting SENATE REPORT, supra note 16, at 5) (internal citations omitted).
158. See id. at 967 ("In light of these direct congressional statements of intent, it is 'simply more freight than negative inference will bear' to read rejection of a trademark license to effect the same result as termination of that license.").
159. Id.
sword than a shield” since the debtor could unilaterally terminate a contract. As a result, *Exide* not only stands as having a restrictive view of executory contracts, but also stands for the proposition that courts should in fact use equitable powers to protect licenses.

**B. SUNBEAM: A NEW CASE USING OLD SCHOOL REASONING**

The *Exide* concurrence has been persuasive authority in a recent bankruptcy decision: *In re Lakewood Engineering & Manufacturing Co.* There, the bankruptcy court decided to "step into the breach" and create an equitable solution to the trademark problem. The court approved the debtor's rejection, but used its equitable powers to ensure that the nondebtor licensee was not stripped of its "fairly procured trademark rights."

The decision was appealed to the Seventh Circuit. Chief Judge Frank Easterbrook affirmed the bankruptcy court's decision with a different analysis. Although the opinion deviates from the Third Circuit's concurrence, its analysis is incredibly important because it directly challenges the *Lubrizol* decision and creates a circuit split over the fate of trademark licenses.

Lakewood Engineering & Manufacturing Co. ("Lakewood") entered into a contract with Chicago American Manufacturing ("CAM") to make its fans for 2009. The contract granted CAM a license to use Lakewood's relevant patents and trademarks. Under the contract, CAM would ship Lakewood's products to various customers, on Lakewood's instructions. However, CAM was hesitant to invest in mass production due to Lakewood's financial instability. Lakewood provided assurance by authorizing CAM to sell the products itself if Lakewood did not purchase them. A few months later, Lakewood entered into bankruptcy. A trustee was appointed and sold all of Lakewood's assets,
including its patents and trademarks, to Sunbeam Consumer Products ("Sunbeam"). The trustee rejected the license with CAM, but CAM continued to sell Lakewood's products. Sunbeam sued CAM for infringement.

The issue before the Seventh Circuit was the effect of the trustee's rejection of the license, specifically the trademark license. Judge Easterbrook affirmed the bankruptcy court's determination that rejection did not mean rescission, thereby preserving CAM's rights to use the trademark. The court, however, applied a different rationale, focusing on statutory interpretation rather than legislative history. The court took issue with Judge Ambro's concurrence for two reasons. First, equitable treatment would create greater uncertainty over trademark agreements because every bankruptcy judge has "different ideas about what is equitable in any given situation." Second, courts are unable to use legislative history to protect rights. In fact, a recent Supreme Court decision suggests that public policy and legislative history should not be used to supersede the Bankruptcy Code's provisions. A court must interpret the Code's provisions and must not use its notions of equity.

Although, according to the Seventh Circuit, Judge Ambro's concurrence relied on faulty reasoning, its ultimate decision "[did] not necessarily require reversal." Instead, Judge Easterbrook looked to the Bankruptcy Code to reach the conclusion its protection did not subject trademark licenses to the harsh decision in Lubrizol. Focusing on the opening proposition of § 365(g), "[T]he rejection of an executory contract

172. Id.
173. Id.
174. Id.
175. Id. at 375.
176. Id. at 378.
177. Id. at 376-77 (stating that the bankruptcy court's equitable reasoning was "untenable").
178. Id. at 375-76 ("Some may think that equity favors licensees' reliance interests; others may believe that equity favors the creditors, who can realize more of their claims if the debtor can terminate IP licenses.").
179. Although the Congress calls for "the development of equitable treatment... by bankruptcy courts," SENATE REPORT, supra note 16, at 5, Judge Easterbrook states that "[w]hat the Bankruptcy code provides, a judge cannot override by declaring that enforcement would be 'inequitable.'" Sunbeam, 686 F.3d at 375.
180. See RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 132 S. Ct. 2065, 2073 (2012) ("The Bankruptcy Code standardizes an expansive (and sometimes unruly) area of law, and it is our obligation to interpret the Code clearly and predictably using well established principles of statutory construction.").
181. Sunbeam, 686 F.3d at 375-76.
182. Id. at 376.
183. Id. at 376-78.
or unexpired lease of the debtor constitutes a breach of such contract or lease," the court criticized and rejected Lubrizol's interpretation of the effects of breach of contract. Sunbeam looked to applicable nonbankruptcy law concerning breach of contract, concluding that breach of a license does not automatically terminate the right to use IP. Rather, although breach creates a cause of action in favor of the licensee for damages, it does not rescind the contract. Next, the court analogized IP with real estate leases, saying that when a lessor rejects a lease, the result does not end the tenant's right to possession, but only allows the lessor to substitute specific performance with damages.

The Seventh Circuit explicitly rejected the notion that rejection under § 365(a) constitutes rescission, voiding the contract. By focusing on basic tenets of contract law, the court ruled that rejection frees the estate from the obligation to perform under the license, but has no effect upon the license's continued existence. Therefore, CAM was permitted to continue using the trademark.

The Sunbeam decision represents a significant departure from years of precedent. Conversely, Sunbeam's reasoning is in accord with several cases decided in other contexts. For example, the Eleventh Circuit considered the meaning of rejection with regard to a transfer of copyright in Thompkins v. Lil' Joe Records, Inc. The court held that "rejection does not embody the contract-vaporizing properties so commonly ascribed to it." Similarly, a bankruptcy court in Florida considered whether a tax...
sharing agreement was still property of the debtor postrejection.\textsuperscript{194} Though the court did not reach a decision concerning whether the agreement was in fact executory, it nevertheless held that the tax refund under the agreement was not void if found to be executory.\textsuperscript{195} Collectively, these decisions have persuasively held that rejection does not follow \textit{Lubrizol}'s interpretation—it is not an avoiding power.\textsuperscript{196}

Despite \textit{Sunbeam}'s powerful challenge to \textit{Lubrizol}'s holding, and its potential to be influential throughout the country, it is only binding in the Seventh Circuit. This maintains the level of uncertainty that has existed for trademark licensees in other circuits, especially those in the Fourth. And with the Supreme Court denying certiorari,\textsuperscript{197} it is essential to create a bright-line test to diminish the chilling effect that still pervades this area.

\textbf{VI. THE SOLUTION: THE CODIFICATION OF \textit{SUNBEAM}}

The legislative history of the IPBPA shows Congress intended for the courts to create an equitable doctrine concerning trademark licensing.\textsuperscript{198} Roughly three decades later, trademark licenses are still prone to the harsh results of \textit{Lubrizol}. Though "[n]o other court of appeals has agreed with \textit{Lubrizol}—or for that matter disagreed with it,"\textsuperscript{199} it still holds precedential value when courts are confronted with trademark licenses. Although a judicial consensus argues the result is harsh and inequitable,\textsuperscript{200} courts are unable to invoke public policy or look to legislative history when ruling.\textsuperscript{201}

The Bankruptcy Code must be amended in order to resolve the issue

\textsuperscript{195} Id. at 821 ("[T]o the extent the Tax Sharing Agreement was an executory contract and remained in effect as of the Effective Date, it was rejected as of the Confirmation Date. However, even if the Tax Sharing Agreement was an executory contract at the time the Plan was confirmed, and was therefore rejected as of the Confirmation Date, rejection of an executory contract is not tantamount to extinguishment, rescission, cancellation or termination and did not affect the bankruptcy estate's ownership of the Tax Refund, which was established before the Petition Date.").
\textsuperscript{196} Id. ("Although Congress expressed a clear intent that the courts develop equitable treatment of the rejection of a trademark license after a licensor's bankruptcy filing, the courts have been bound by the statute's plain language: thus, the conundrum.").
\textsuperscript{198} See supra text accompanying notes 95–96.
\textsuperscript{199} Sunbeam, 686 F.3d at 376.
\textsuperscript{200} Saunders, supra note 19, at 939.
\textsuperscript{201} Id. ("Although Congress expressed a clear intent that the courts develop equitable treatment of the rejection of a trademark license after a licensor's bankruptcy filing, the courts have been bound by the statute's plain language: thus, the conundrum.").
facing courts today. A four-point revision to the Code is necessary to achieve this goal. First, Congress should revise the definition of IP under § 101(35A) from the Bankruptcy Code. Second, Congress must codify the Seventh Circuit’s analysis on the effects of rejection. Third, in order to adequately serve the policy of bankruptcy, Congress must retain the requirements of § 365(n), which treat an executory contract as terminated upon rejection in bankruptcy. Finally, the amendment must provide for protection of the public with regards to trademarks.

First, the amendment to the Bankruptcy Code must provide protection for trademarks. Many practitioners and legal scholars argue the most efficient method of ensuring this is to amend § 101(35A) to include trademarks. However, to only include trademarks could pose danger to other forms of IP not protected under § 101(35A). These include trade names, rights of publicity, foreign patents, industrial designs and copyrights. As this Note has shown, various forms of IP are essential to the prosperity of this country. The limited scope of § 101(35A)
jeopardizes every such right—this is inequitable. As a result, Congress should eliminate the narrow definition of IP. No longer will only certain forms of IP be protected. This will advance the goals of IP and foster an increased likelihood in future licensing.

By eliminating § 101(35A), the second revision to the Code would be to codify the contract-based analysis of Sunbeam under § 365(g). Currently, there is ambiguity as to the consequence of a rejection. However, Judge Easterbrook’s decision provides a methodological approach to statutory interpretation. By looking directly at the Code, as required by the Supreme Court, it should be clear that rejection simply implies breach of contract. Though Sunbeam was decided in light of a trademark license, the underlying nature of the licensed property was not a determinative factor. Instead, Sunbeam relied solely on the basics of contract law, which enables this decision to have broader implications for other forms of licenses. As a result, Congress should amend § 365 by affirmatively defining rejection as breach of contract. This revision would provide predictability and consistency within the Code. It will also provide uniformity among the courts and significantly reduce the risk of vulnerability for the licensee.

A potential pitfall to codifying Sunbeam’s decision is the future of § 365(n). If the right to use a license is preserved by a contract-based analysis, then a licensee would no longer want to elect to retain its rights under § 365(n)(1)(B) because it would be unwilling to take on the additional burdens that come with retention. Allowing licensees to retain rights without the burdensome effects of § 365(n) is inequitable since it would result in a windfall for licensees. Furthermore, this would not only ostracize the debtor more because it is no longer receiving any royalties for

207. *See supra* notes 179–180 and accompanying text.

208. In fact, the opening sentence of § 365(g) states “the rejection of an executory contract... constitutes a breach of such contract.” 11 U.S.C. § 365(g) (2012).

209. *See supra* notes 184–188 and accompanying text.

210. Recall that when a debtor-lessee rejects a real estate license, the effect is not rescission or termination of the tenant’s rights. All a lessor can do is to substitute damages for specific performance. *See supra* text accompanying note 188.

211. The additional burdens under 11 U.S.C. § 365(n)(1)(B)(2) (2012) are:

(B) the licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C) the licensee shall be deemed to waive—

(i) any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.
its property, but also deviate from the goals of bankruptcy. As a result, a third revision to the Code would be to retain the additional burdens under § 365(n)(1)(B) under the codified Sunbeam analysis. Given that rejection does not mean rescission, a licensee would be permitted to continue using the license, but, as one author agrees, "that use surely cannot ... be for free."212 A licensee must continue to pay its royalties in order to use the property. Additionally, by retaining these obligations, it could force a licensee to determine whether it wants to continue the contract. In essence, this would mimic the existing choice under § 365(n).

Finally, the revision to the Bankruptcy Code must be mindful of the consumer. As stated above,213 Congress was concerned with the goodwill of trademarks. This concern stemmed from the trademark policy of preventing consumer confusion. In order to protect consumer satisfaction, the Code should be revised to include quality control requirements with the trademark. The revision must allow bankruptcy courts to make a finding that the licensee can continue to maintain the quality of the trademark. If a court finds that a licensee cannot ensure the quality of the mark, it should prevent the licensee from retaining such right. This will ensure that public expectations are met.214

Nevertheless, courts should also be mindful of common practice concerning trademark quality. They should not revert to the strict adherence that characterized such analysis decades ago; rather, courts should be aware that reasonable methods of control are satisfactory.215 This could include a licensor imposing a quality standard provision to which the licensee must adhere, for the remainder of the term of the agreement.216 Courts have upheld such provisions.217 Likewise, it should be noted that licensees generally invest heavily in a trademark in order to ensure its goodwill. As such, a licensee is not likely to destroy a trademark by selling products of a different quality because it could jeopardize the mark’s

212. Levenfeld Pearlstein, supra note 205.
213. See supra Part III.B.
214. Jenkins, supra note 6, at 168 ("A licensee should be able to continue using the mark so long as it does not actually diminish the original approved quality of the goods or services, and the licensee's use does not harm or deceive the public. Consumers' expectations of quality and value are protected only so long as the licensee maintains the licensor's quality standards.").
215. See supra notes 132–134 and accompanying text.
216. At times a licensor may delegate the task of quality control to the licensee, since the licensee may have more expertise or resources to ensure its quality. Nguyen, supra note 83, at 1313. For other means of quality control, see id. at 1311–13.
217. See Jenkins, supra note 6, at 168–70 & n.90 (explaining that courts have found adequate quality control even when actual control was not conclusively present).
existence.\textsuperscript{218}

In sum, this proposal maintains fundamental policies of bankruptcy and trademark. By allowing all forms of executory contracts to be treated the same, the amendment would provide the equitable treatment for which Congress yearned.\textsuperscript{219} However, requiring the licensee to continue making its royalty payments mitigates the concerns over a contract-based analysis. The income acquired by royalty payments will compensate “any diminished value to the estate’s property that results from the existence of a license agreement.”\textsuperscript{220} Finally, establishing quality control standards protects consumers.

\section*{VII. CONCLUSION}

IP licensing represents a substantial portion of U.S. commerce. A report in 2012 noted that IP industries contributed more than $5 trillion to the U.S. gross domestic product.\textsuperscript{221} These industries rely on fundamental IP rights—trademarks, patents, and copyrights. However, § 365(n) threatens the integrity of trademark licensing and poses a risk to future licensing. Under the current practice, lenders risk having subordinated, unsecured claims when trademark licenses are rejected in bankruptcy.\textsuperscript{222} This pitfall can prevent future licensing agreements from coming to fruition. Lenders will be reluctant to lend to a potentially subordinated claim.\textsuperscript{223}

This Note provides a solution grounded upon the principles set forth in Judge Easterbrook’s decision in \textit{Sunbeam}. Using a contract-based approach toward executory contracts provides an equitable solution for all licenses. It creates uniformity, predictability, and consistency within the Code. Accordingly, this approach would encourage judges to defer to precedent. Though it has been argued that a licensor in the Seventh Circuit may lose value in its portfolio,\textsuperscript{224} it cannot be denied that ensuring the existence of a license will increase the likelihood that lenders (and future licensees) will

\textsuperscript{218} Nguyen, \textit{supra} note 83, at 1313.

\textsuperscript{219} See \textit{supra} text accompanying note 96.

\textsuperscript{220} Jenkins, \textit{supra} note 6, at 173.


\textsuperscript{222} See \textit{supra} text accompanying notes 23, 102.

\textsuperscript{223} See \textit{supra} text accompanying notes 63–64.

engage in future licensing agreements.

Although an analysis of IP lending practices is beyond the scope of this Note, it seems logical that protecting trademarks would create a greater willingness to lend from the finance industry. Investors will be more likely to invest in licenses with knowledge that stability and predictability exists among the major IP rights. There would no longer be a worry that the investment would turn into a subordinated, unsecured claim. Instead, these licenses will continue to generate creativity and revenue. Start-up companies that were originally unable to secure lending due to this risk would now have that opportunity. This could stimulate and encourage technological innovation, furthering the underlying policy of IP.

Since 1988, there have been over 1100 bankruptcy filings dealing with IP, over 600 of which have involved trademarks.\textsuperscript{225} With such numbers, it is imperative that Congress amend the Bankruptcy Code.

\textsuperscript{225} See \textit{supra} note 7 and accompanying text.