You're Asking the Wrong Question—The Effect of a Licensor's Rejection on the Trademark License

"One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark. For this purpose the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain."[1]

I. INTRODUCTION

A trademark is a symbol that allows a consumer to distinguish a good from similar goods sold by others.[2] As such, a trademark is a legally recognized form of intellectual property that exists solely as a manifestation of the goodwill engendered by a company or product.[3] One of the most important properties of modern trademark law is the ability of the trademark owner to allow another party to use the trademark through a licensing agreement.[4] This

1. El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986) (citations omitted).

2. *See* 15 U.S.C. § 1127 (2012) (codifying definition of trademark).

> The term "trademark" includes any word, name, symbol, or device, or any combination thereof—
> (1) used by a person, or
> (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter,
> to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

Id.; *see* Janet Marvel, *Trademark Licensing*, *in* 1 UNDERSTANDING THE INTELLECTUAL PROPERTY LICENSE 2012 125, 132 (Practising Law Inst. 2012) (stating avoidance of consumer confusion as primary purpose of trademark requirements); Richard Lieb, *The Interrelationship of Trademark Law and Bankruptcy Law*, 64 AM. BANKR. L.J. 1, 6 (1990) (elucidating primary function of trademarks).

3. *See* Prestonettes, Inc. v. Coty, 264 U.S. 359, 368 (1924) (stating trademark protects owner's goodwill); *see also* 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:15 (4th ed. 2013) (noting trademarks have no independent existence). Goodwill represents the psychological existence known as buyer momentum. *See* Newark Morning Ledger Co. v. United States, 507 U.S. 546, 555-556 (1993) (defining goodwill as "expectancy of continued patronage"); *see also* MCCARTHY, *supra*, § 2:18 (explaining buyers generally purchase acceptable products based on past usage).

4. *See* 15 U.S.C. § 1055 (2012) (allowing related companies to use trademarks); *see also* Comment, *Trademark Licensing: The Problem of Adequate Control*, 1968 DUKE L.J. 875, 878 n.15 (explaining provision "for use by related companies" authorizes licensing). Whether a trademark license is a transfer of a property right or a negative obligation to not sue for infringement is debatable. *Compare* 1 JAY DRATLER, JR. & STEPHEN M. MCJOHN, LICENSING OF INTELLECTUAL PROPERTY § 1.03, chs. 1-2 (2011) (explaining licensing

conveyance helps maximize the overall economic efficiency of the trademark.[5] Since the adoption of the Lanham Act, the economy has experienced an expansive growth in trademark licensing agreements, raising revenues for both the licensor and licensee.[6]

Despite the importance of trademarks to the economy, neither licensors nor licensees are immune to the forces of the unforgiving market.[7] When a licensor enters bankruptcy, an important issue that arises is whether the licensee can retain its right to use the licensed trademark.[8] When this occurs, two bodies of

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equates to grant of property right without transference of ownership), *and* David M. Jenkins, Comment, *Licenses, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 156 (1991) (equating license to conveyance of property right), *with* 2 RAYMOND T. NIMMER, INFORMATION LAW, § 11:163 (2012) (stating essence of trademark license equates to promise not to sue for infringement), *and* Laura Jelinek, *Equity for Brand Equity: The Case for Protecting Trademark Licensees in Licensor Bankruptcies*, 40 AIPLA Q.J. 365, 386 (2012) (noting license transfers no right in trademark). Nevertheless, the licensor must maintain a level of quality control over the licensee's usage of its trademark to ensure proper consumer protection. *See, e.g.*, Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (stating long-standing rule); Darren W. Saunders, *Should the U.S. Bankruptcy Code Be Amended To Protect Trademark Licensees?*, 94 TRADEMARK REP. 934, 936-38 (2004) (discussing quality-control requirement); Laura D. Steele, Comment, *Actual or Hypothetical: Determining the Proper Test for Trademark Licensee Rights in Bankruptcy*, 14 MARQ. INTELL. PROP. L. REV. 411, 417 (2010) (noting courts still find control necessary although control requirement not enforced as stringently). Although courts vary as to how this requirement is satisfied, failure to exercise sufficient quality control can result in the trademark being deemed abandoned, leaving the licensor without any rights to the mark. *Compare* Susan Progoff, *Trademark Licensing*, *in* 1 UNDERSTANDING THE INTELLECTUAL PROPERTY LICENSE 2012, *supra* note 3, at 89, 95-97 (explaining courts have upheld three levels of quality control), *and* Xuan-Thao N. Nguyen, *Bankrupting Trademarks*, 37 U.C. DAVIS L. REV. 1267, 1313 (2004) (noting courts allow various forms of quality control as sufficient to satisfy requirement), *with* Barcamerica Int'l USA Trust v. Tyfield Imps., Inc., 289 F.3d 589, 598 (9th Cir. 2002) (holding licensor's lack of quality control results in abandonment of mark), *and* Sally M. Abel, *Trademark Licensing*, *in* 1 UNDERSTANDING THE INTELLECTUAL PROPERTY LICENSE 2012, *supra* note 3, at 157, 163 (labeling loss of rights as result of "naked" licensing).

5. *See* Abel, *supra* note 4, at 161 (explaining licensing as way to access trademark's value); *see also* Steele, *supra* note 4, at 416 (explaining successful trademark licensing increases its value); Comment, *supra* note 4, at 876 (noting licensor and licensee's benefits in entering licensing agreement). Licensing allows the owner of the trademark to expand its market. *See* Abel, *supra* note 4, at 161 (noting licensing allows expansion to new territories). As a result of licensing, entire business plans are created around trademark licenses. *See* Steele, *supra* note 4, at 416-17 (discussing growth of trademark licensing); *see also* Robert L. Tamietti, *Technology Licenses Under the Bankruptcy Code: A Licensee's Mine Field*, 62 AM. BANKR. L.J. 295, 296 (1988) (explaining licenses allow products to enter market early, increasing value to all parties).

6. *See* Alfred M. Marks, *Trademark Licensing—Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 645-48 (1988) (examining growth of trademark licensing). An analysis of the history of trademark licensing shows that the market is quite different than it was in the past. *See id.* at 646-47 (providing examples of growth in trademark licensing).

7. *Compare* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 374 (7th Cir. 2012) (highlighting licensor of trademark agreement entering bankruptcy), *with* N.C.P. Mktg. Grp., Inc. v. Blanks (*In re* N.C.P. Mktg. Grp., Inc.), 337 B.R. 230, 232-33 (D. Nev. 2005) (emphasizing licensee of trademark agreement entering bankruptcy), *aff'd sub nom.* N.C.P. Mktg. Grp., Inc. v. BG Star Prods., Inc. (*In re* N.C.P. Mktg. Grp., Inc.), 279 F. App'x 561 (9th Cir. 2008).

8. *See* Brief of the Int'l Trademark Ass'n as Amicus Curiae Supporting Petitioner, Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 133 S. Ct. 790 (2012) (No. 12-431), *petition for cert. denied*, 102 TRADEMARK REP. 1347, 1364 (2012) (noting circuit split). *Compare Sunbeam Prods., Inc.*, 686 F.3d at 378 (holding licensee can continue using its trademark license despite licensor's contract rejection in bankruptcy proceeding), *with*

law—trademark and bankruptcy—come crashing together, resulting in a wave of uncertainty for licensees.[9]

Recently, in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, the Court of Appeals for the Seventh Circuit held that a trademark licensee could continue to use a trademark, notwithstanding the bankruptcy trustee's rejection of a licensing contract.[10] While providing some comfort to licensees, *Sunbeam* has turned the tables on the long-standing view that trademark licensees are in peril in bankruptcy proceedings involving the licensor of the trademark.[11] Furthermore, the decision raises many questions about the proper application of rejection to trademark licenses.[12] The issue is now ripe for review by Congress or the Supreme Court.[13]

This Note discusses the effect of rejection on a trademark licensee's right to continue using a licensed trademark and the need for Congress to clarify these rights in order to minimize economic inefficiency.[14] It begins by providing an overview of rejection under the Bankruptcy Code and the case law interpreting the effect of rejection on a trademark licensee.[15] Next, this Note explains that both courts and scholars are asking the wrong questions; instead, this Note

Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.) 756 F.2d 1043, 1048 (4th Cir. 1985) (holding rejected contract in bankruptcy proceeding eliminates licensee's right to use intellectual property).

9. *See* Steele, *supra* note 4, at 413 (describing trademark and bankruptcy junction as "train wreck" for licensees). Neither the courts nor Congress have fully addressed the issue. *See id.*; *see also* Lieb, *supra* note 2, at 4 (noting both bodies of law developed independent of one another). Thus, reconciliation is required when trademark and bankruptcy law conflict. *See* Lieb, *supra* note 2, at 4 (observing reconciliation occurs in bankruptcy court system). Nevertheless, bankruptcy law principles and purposes generally supersede other conflicting bodies of law in a bankruptcy proceeding. *See* Stuart M. Riback, *Intellectual Property Licenses: The Impact of Bankruptcy*, *in* 2 UNDERSTANDING THE INTELLECTUAL PROPERTY LICENSE 2012, *supra* note 3, at 197, 199 (noting concerns of bankruptcy trump those of intellectual property).

10. *See* 686 F.3d at 377-78 (affirming lower court's judgment).

11. *See* Christopher Linden, *Seventh Circuit's Take on Section 365(n) of the Bankruptcy Code: What's the Point?*, WEIL BANKR. BLOG (July 24, 2012, 9:01 AM), http://business-finance-restructuring.weil.com/executory-contracts/seventh-circuits-take-on-section-365n-of-the-bankruptcy-code-whats-the-point/#axzz26THxToQR (discussing lessened concerns for Seventh Circuit licensees); *see also Seventh Circuit Bankruptcy Ruling Is Big Win for Trademark Licensees*, COOLEY LLP, 4 (July 2012), http://www.cooley.com/files/89219_ALERT_TrademarkLicenseesWin.pdf [hereinafter *Seventh Circuit Bankruptcy Ruling*] (explaining upending of long-standing view of rejection's effects). *See generally* Ryan Gabay, Note, Sunbeam*: A Ray of Hope for Trademark Licensees*, 82 FORDHAM L. REV. 245 (2013) (examining circuit split caused by *Sunbeam*).

12. *See* Dan Schechter, *Rejection of Trademark License by Bankrupt Licensor's Trustee Does Not Terminate Licensee's Right To Use Trademark*, COM. FIN. NEWSL., July 23, 2012, at 60 (noting statutory uncertainty); *see also Seventh Circuit Bankruptcy Ruling*, *supra* note 11, at 3 (opining on issues raised as result). Some of the issues raised by the decision include how long the right to use the trademark continues, the effect on royalties due from the licensee, the impact on other forms of intellectual property, and the reaction of consumers. *Id.*

13. *See* Schechter, *supra* note 12, at 60 (stating issue is ripe for review). Nevertheless, in *Sunbeam*, the Supreme Court refused to grant certiorari. Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 133 S. Ct. 790, 790 (2012) (denying certiorari).

14. *Compare infra* Part II (discussing history of rejection of trademark licenses), *with infra* Part III. (analyzing history and providing possible solution).

15. *See infra* Part II (discussing statutory basis for rejection and various judicial interpretations).

argues that the courts should be asking whether a trademark license grants the licensee a property right to use the trademark or if it is simply an obligation of the licensor to not sue the licensee for trademark infringement.[16] This Note then analyzes the respective answers to this question and its result in the rejection analysis.[17] This Note then turns to the need for this analysis, explaining that trademark licensees cannot obtain the added protection that other intellectual property licensees receive pursuant to § 365(n).[18] Finally, this Note proposes a possible solution, providing a suggested amendment that would codify the effect of rejection of a trademark license.[19]

II. HISTORY

Congress enacted the modern Bankruptcy Code through the Bankruptcy Reform Act of 1978.[20] While providing for various forms of bankruptcy, the Code specifically allows a business to reorganize in order to recover from economic hardship.[21] The goals of such a proceeding are to allow the debtor to reduce its obligations and focus on becoming a viable enterprise, while allowing for the company's creditors to obtain maximum recovery.[22] Subject to various restrictions, the Code allows a debtor-in-possession or bankruptcy trustee to reject executory contracts in order to reach economic viability.[23] A valid rejection results in a breach of contract.[24]

A. Rejection, Generally

As previously mentioned, the Code allows a debtor-in-possession or

16. *See infra* Part III.A (elucidating essential question for interpretation).

17. *See infra* Part III.B (discussing different results depending on whether license grants property right or negative obligation).

18. *See infra* Part III.C (discussing inapplicability of § 365(n) to trademark licenses).

19. *See infra* Part III.D (proposing amendment to bankruptcy code).

20. Bankruptcy Reform Act of 1978, Pub. L. No. 95-598, 92 Stat. 2549 (codified as amended in scattered sections of U.S.C.); *see* H.R. REP. NO. 95-595, at 1 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 5963 (noting reason for Bankruptcy Reform Act of 1978). The purpose of recodifying the rules of bankruptcy was to modernize the bankruptcy system. *See* H.R. REP. NO. 95-595, at 4 (highlighting update from last major revision in 1938).

21. *See* H.R. REP. NO. 95-595, at 220 (noting business reorganization cases available through bankruptcy proceedings).

22. *See* Steele, *supra* note 4, at 419 (articulating purpose of Chapter 11 bankruptcy); *see also* Riback, *supra* note 9, at 199 (explaining dual purpose of providing "fresh start" to debtors, while maximizing creditors' recovery). Generally, it is more economically efficient to allow for reorganization because it preserves a company's assets. *See* H.R. REP. NO. 95-595, at 220 (noting continuance of operations preserves jobs, produces returns for stockholders, and allows payment to creditors).

23. *See* 11 U.S.C. § 365(a) (2012) (encoding debtor's ability to reject). "Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." *Id.*

24. *Id.* § 365(g). "Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease[.]" *Id.*

bankruptcy trustee to reject executory contracts.[25] The main purpose of rejection is to allow the debtor-in-possession or trustee to rid itself of burdensome obligations so that it can focus its efforts on becoming a viable enterprise.[26] As a threshold limitation, the debtor-in-possession or trustee must first show that the contract is executory.[27] The Code does not define what constitutes an executory contract.[28] Nevertheless, courts have determined that for rejection purposes, contracts are executory when substantial performance remains due on both sides; failure of which would amount to a material breach, excusing the other party's performance.[29]

Once the debtor or trustee shows that a contract is executory it must then obtain the court's permission to reject the contract.[30] Courts employ the business judgment test to determine whether to grant a motion to reject.[31] So long as the rejecting party can show that it made an informed decision to reject the contract because it would benefit the estate, the court will defer to the debtor's or trustee's business judgment and approve the rejection.[32]

Once a court approves a motion to reject, the rejection is treated as a breach

25. *See supra* note 23 and accompanying text (recognizing restrictions on ability to reject).

26. *See* Frito-Lay, Inc. v. LTV Steel Co. (*In re* Chateaugay Corp.), 10 F.3d 944, 954-55 (2d Cir. 1993) (describing purpose of § 365 as relieving estate of burdensome obligations).

27. *See* 11 U.S.C. § 365(a) (allowing for rejection of executory contracts); *see also* 2 WILLIAM L. NORTON JR., NORTON BANKRUPTCY LAW AND PRACTICE, § 46:5 (3d ed. 2013) (explaining only executory contracts and unexpired leases rejectable pursuant to § 365).

28. *See* Phx. Exploration, Inc. v. Yaquinto (*In re* Murexco Petrol., Inc.), 15 F.3d 60, 62 (5th Cir. 1994) (noting Code fails to define executory contracts).

29. *See* NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522 n.6 (1984) (indicating congressional intent for term "executory contract"); Lewis Bros. Bakeries Inc. v. Interstate Brands Corp. (*In re* Interstate Bakeries Corp.), 690 F.3d 1069, 1073 (8th Cir. 2012) (recognizing Countryman test as binding in Eight Circuit); *In re* Exide Techs., 607 F.3d 957, 962 (3d Cir. 2010) (noting party attempting to reject bears burden of proving executoriness); Olah v. Baird (*In re* Baird), 567 F.3d 1207, 1211 (10th Cir. 2009) (highlighting executory contracts require both sides to have substantial performance due); *see also* Scott W. Putney, *Bankruptcy Code v. Lanham Act and Controlled Licensing*, 80 TRADEMARK REP. 140, 141 (1990) (explaining courts have adopted Professor Countryman's definition of executory contract); *cf.* H.R. REP. NO. 95-595, at 347 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6303 (stating executory contracts include contracts with performance due on both sides). Professor Countryman's seminal article analyzed what the term executory contract means for purposes of assumption and rejection in the bankruptcy context. *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part 1*, 57 MINN. L. REV. 439, 450 (1973) (stating threshold inquiry into defining executory contracts in bankruptcy). Professor Countryman concluded that an executory contract was a contract where both parties had remaining unperformed obligations that would amount to material breach if either failed to complete its performance. *See id.* at 460 (arriving at definition through eliminating other types of contracts). Professor Countryman explained that a definition of an executory contract should be made in relation to the purpose of allowing assumption or rejection—the benefit of the bankruptcy estate. *See id.* at 450 (differentiating definition of executory contracts in bankruptcy from their general legal definition).

30. *See* 11 U.S.C. § 365(a) (2012) (requiring court approval for rejection).

31. *See Bildisco & Bildisco*, 465 U.S. at 523 (recognizing business judgment test as governing standard for courts' acceptance of motion to reject); *see also* Tamietti, *supra* note 5, at 297 (indicating courts use business judgment test in determining whether to approve rejection).

32. *See* Saunders, *supra* note 4, at 935 (noting courts do not interfere absent showing of bad faith or abuse of discretion).

of contract.[33] The contract does not disappear as a result of the rejection.[34] Rather, the debtor is relieved of its obligations under the contract and relinquishes the future benefits of the other party's performance.[35] Thus, the other party is left with a claim for damages as a result of the debtor's rejection of the contract.[36] These damages are treated as a pre-petition claim.[37]

B. Lubrizol

In 1982, Richmond Metal Finishers (RMF) contracted with Lubrizol Enterprises, Inc. (Lubrizol), allowing Lubrizol to use a metal coating process technology that RMF owned.[38] Under the agreement, each party owed the other several ongoing duties.[39] In 1983, RMF filed for Chapter 11 bankruptcy and sought to reject the contract.[40]

The bankruptcy court approved RMF's motion to reject the contract and noted that its decision left Lubrizol with a claim for breach of contract.[41]

33. *See* 11 U.S.C. § 365(g) (stating rejection constitutes breach).

34. *See, e.g.*, O'Neill v. Cont'l Airlines, Inc. (*In re* Cont'l Airlines), 981 F.2d 1450, 1459 (5th Cir. 1993) (holding rejection does not invalidate contract or eliminate its existence); Standard Ins. Co. v. Phillips (*In re* Phillips), No. C09-1399Z, 2010 WL 3041968, at *3 (W.D. Wash. July 30, 2010) (stating rejection "does not nullify, invalidate, cancel, or rescind" contract), *aff'd sub nom.* Phillips v. James (*In re* Phillips), 460 F. App'x 636 (9th Cir. 2011); Cohen v. Drexel Burnham Lambert Grp., Inc. (*In re* Drexel Burnham Lambert Grp., Inc.), 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992) (stating rejection does not make contract "disappear").

35. *See* Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1308 (11th Cir. 2007) (noting rejection frees debtor and other party from outstanding obligations); *Standard Ins. Co.*, 2010 WL 3041968, at *3 (explaining rejection frees debtor from obligation to perform).

36. *See* Med. Malpractice Ins. Ass'n v. Hirsch (*In re* Lavigne), 114 F.3d 379, 387 (2d Cir. 1997) (stating rejection results in pre-petition claim for breach); *Cohen*, 138 B.R. at 711 (holding rejection results in general unsecured claim in bankruptcy dollars).

37. *See* 11 U.S.C. § 502(g)(1) (2012) (codifying claim treated as if made pre-petition). Claims for rejection damages are filed under § 501. *See id.* § 501(d) (stating kind of claim found in § 502(g) filed under this section). Thus, the principle of equality of distribution amongst similarly situated creditors applies to rejection creditors. *See* 11 U.S.C. § 726(b) (2012) (stating claims paid pro rata); *see also* Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN. L. REV. 227, 252-53 (1989) (analyzing equality of distribution principle).

38. *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1045 (4th Cir. 1985) (creating nonexclusive license).

39. *See id.* (setting forth each party's obligations under contract). RMF was obligated to notify and defend Lubrizol in any patent infringement suit; notify Lubrizol if another licensing agreement was made regarding the licensed technology and reduce the royalty payments owed if a lower royalty agreement was reached in a subsequent licensing contract; and compensate Lubrizol for any losses resulting from RMF's misrepresentation or breach of warranty. *Id.* In exchange, Lubrizol was obligated to account for and pay royalties on the use of the technology; cancel the existing indebtedness RMF owed Lubrizol; and defer use of the technology until May 1, 1983. *See id.* (highlighting Lubrizol never used licensed technology).

40. *Id.* In support of the motion to reject the contract, RMF's president testified that the contract with Lubrizol hindered subsequent attempts to sell or license the intellectual property, and in order to fund the Chapter 11 plan, it was a sound business decision to reject the existing contract with Lubrizol. *In re* Richmond Metal Finishers, Inc., 34 B.R. 521, 522 (Bankr. E.D. Va. 1983), *rev'd*, 38 B.R. 341 (E.D. Va. 1984), *rev'd sub nom.* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043 (4th Cir. 1985).

41. *See In re Richmond Metal Finishers, Inc.*, 34 B.R. at 525-26 (holding agreement executory, and

Lubrizol appealed the bankruptcy court's decision permitting rejection to the district court.[42] The district court reversed the bankruptcy court's decision, holding that the contract was nonexecutory and rejection was not beneficial to the estate.[43]

Subsequently, RMF appealed the district court's reversal.[44] The Court of Appeals for the Fourth Circuit reversed the district court's ruling and remanded the case for entry of judgment in accordance with the original decision of the bankruptcy court.[45] The court concluded that the licensing agreement was executory and rejection was a sound business decision, thus satisfying the requirements of § 365(a).[46] More importantly, the court held that as a result of the rejection, Lubrizol was entitled to money damages, yet lost its right to use the licensed intellectual property.[47] The court reasoned that despite the resulting adverse effects, § 365(g) specifically provides damages as the proper remedy for rejection, and allowing specific performance as a remedy would undermine the express provisions of the statute.[48]

C. The Reaction

As a result of *Lubrizol*, licensees of intellectual property were left in an

rejection benefits estate and creditors of RMF). The court reasoned that the contract was executory based on the legislative history of § 365, prior case law, and the seminal work of Professor Countryman. *See id.* at 523-25.

42. *See In re* Richmond Metal Finishers, Inc., 38 B.R. 341, 342 (E.D. Va. 1984) (seeking reversal), *rev'd* sub nom. Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043 (4th Cir. 1985).

43. *See id.* at 345 (indicating contract would not hinder reorganization). The court noted that it was hard for it to see how the bankruptcy court could strip Lubrizol of the intellectual property it purchased; therefore, the only benefit to the estate would be relieving it from defending Lubrizol's title to the process. *See id.* at 344 (stating lack of testimony to support increased marketability as result of rejection).

44. *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.) 756 F.2d 1043, 1045 (4th Cir. 1985) (appealing both findings).

45. *Id.* at 1048.

46. *See id.* at 1046-47 (reasoning both parties had outstanding obligations and no evidence suggested unsound business judgment). The court noted that the proper inquiry for approval of rejection requires an analysis of the executoriness of the contract and the benefits of rejection for the estate. *Id.* at 1045. Similarly, in *In re Chipwich, Inc.*, the debtor licensed its trademark to a company to use in the production of eggnog and flavored milk. 54 B.R. 427, 428 (Bankr. S.D.N.Y. 1985). The court granted the debtor's motion to reject its licensing agreement because the license was both an executory contract and it was advantageous to the debtor. *See id.* at 431 (explaining company could enter into better contracts by ending relationship).

47. *See Lubrizol Enters.*, 756 F.2d at 1048 (reasoning allowance of specific performance undermines purpose of § 365); *cf. In re Chipwich, Inc.*, 54 B.R. at 431 (noting rejection deprives licensee of right to use licensed trademark); *In re* Waldron, 36 B.R. 633, 642 n.4 (Bankr. S.D. Fla. 1984) (explaining specific performance not available as remedy for rejection under Bankruptcy Code), *rev'd sub nom.* Shell Oil Co. v. Waldron (*In re Waldron*), 785 F.2d 936 (11th Cir. 1986); H.R. REP. NO. 95-595, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305 (stating rejection claims treated as pre-petition claims). *But see* Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection"*, 59 U. COLO. L. REV. 845, 916 (1988) (arguing rejection does not terminate party's right to use any form of intellectual property).

48. *See Lubrizol Enters.*, 756 F.2d at 1048 (setting forth proper statutory interpretation).

untenable and vulnerable position.[49] Critics of the decision argued that *Lubrizol* adversely impacted intellectual property licensees and potentially threatened technological development in the United States.[50] In response to this perceived threat, Congress enacted the Intellectual Property Licenses in Bankruptcy Act (IPLBA).[51] The central purpose of the IPLBA was to protect licensees' rights to use intellectual property in the event that the licensor of the intellectual property rejected the license in a bankruptcy proceeding.[52]

The IPLBA changed two key sections of the Bankruptcy Code.[53] First, it amended the definitional section, adding the term "intellectual property" and defining it for purposes of the Bankruptcy Code.[54] Secondly, it amended the

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49. *See* S. REP. NO. 100-505, at 3, (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201-02 (noting possible adverse outcome from courts failing to use their equity powers).

50. *See id.* (noting instability of licensing forces wasteful, alternative transfer arrangements that threaten progress); *see also* Stuart M. Riback, *Are Trademarks Intellectual Property in Bankruptcy? Maybe***,** N.Y.L.J., Sept. 7, 1994, at 1, 4 (suggesting Congress believed in importance of high-tech industries for future economy). Licensing plays a vital role in the development of new technology as it allows the inventor to disperse risk and obtain additional financing from interested investors. *See* S. REP. NO. 100-505, at 1-2 (explaining economics of licensing intellectual property); *see also* DRATLER & MCJOHN**,** *supra* note 4, § 1.03, ch. 1, at 20-35 (discussing business advantages of licensing intellectual property). Often, firms do not have the resources to obtain the full value of their intellectual property. *See* DRATLER & MCJOHN**,** *supra* note 4, § 1.03, ch. 1, at 20 (explaining need for licensing arrangements); *see also* JOHN W. SCHLICHER, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS, 8-9 (1996) (noting development of new technology requires large and risky investment with low probability of success). Thus, licensing allows for development in various fields by disbursing the technology to those in a better position to apply it. *See* S. REP. NO. 100-505, at 3 (explaining multi-field disbursement capabilities of licensing); *see also* DRATLER & MCJOHN, *supra* note 4, § 1.03, ch. 1, at 20-21 (explaining even fully integrated firms often need licensing to expand across markets and product lines).

51. *See* Intellectual Property Licenses in Bankruptcy Act, Pub. L. No. 100-506, 102 Stat. 2538 (1988) (codified as amended at 11 U.S.C. §§ 101, 365 (2012)); *see also* S. REP. NO. 100-505, at 1-2 (acknowledging recent court decisions as need for legislation); Nguyen, *supra* note 4, 1291-92 (indicating IPLBA as response to *Lubrizol*).

52. *See* S. REP. NO. 100-505, at 1-2 (setting forth purpose of IPLBA).

53. *See* Intellectual Property Licenses in Bankruptcy Act § 1 (amending sections 101 and 365 of Title 11); *see also* S. REP. NO. 100-505, at 7-11 (setting forth amendment); Stephen M. Goldberg, *Treatment of Intellectual Property Licenses Under the Bankruptcy Code*, COM. L. BULL., July-Aug. 1993, at 20, 20 (explaining changes in law resulting from IPLBA).

54. *See* 11 U.S.C. § 101(35A) (2012) (defining intellectual property); *see also* S. REP. NO. 100-505, at 7 (describing definition as list of intellectual property types). The amended section states that "[t]he term 'intellectual property' means—(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law." 11 U.S.C. § 101(35A). In addition, mask work was defined as having the same meaning as 17 U.S.C. § 901(a)(2), which states that:

> [A] "mask work" is a series of related images, however fixed or encoded—
>
> (A) having or representing the predetermined, three-dimensional pattern of metallic, insulating, or semiconductor material present or removed from the layers of a semiconductor chip product; and
>
> (B) in which series the relation of the images to one another is that each image has the pattern of the surface of one form of the semiconductor chip product[.]

17 U.S.C. § 901(a)(2) (2012); *see* 11 U.S.C. § 101(39) (defining mask work as same as stated in 17 U.S.C. §

executory contracts section, allowing an intellectual property licensee to retain its rights under the license agreement and, if necessary, compel specific performance of those rights.[55] Nevertheless, the IPLBA did not include several types of intellectual property—most importantly trademarks—in the definitional section.[56] Notwithstanding this omission, the legislative history appears to confer upon the bankruptcy courts the ability to develop an equitable solution to the effect of rejection on trademark licensees.[57]

D. Post-IPLBA Cases

Despite the enactment of the IPLBA, courts continued to recognize that once a trademark owner properly rejected a license in bankruptcy, a trademark licensee's right to use the trademark was terminated.[58] In *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*,[59] Blackstone Potato Chip Co. (Blackstone) entered into a licensing agreement with Mr. Popper, Inc. (Mr. Popper) whereby Blackstone allowed Mr. Popper to use the Blackstone trademark for four years.[60] Nearly two months later, Blackstone filed for Chapter 11 bankruptcy due to its poor financial condition.[61] As part of its Chapter 11 plan, Blackstone filed a motion to reject the licensing agreement with Mr. Popper.[62] In granting Blackstone's motion, the court ordered the termination of the license.[63] The court explained that by allowing the rejection,

901).

55. *See* 11 U.S.C. § 365(n)(1)(B) (2012) (codifying options for intellectual property licensees resulting from rejection); *see also* S. REP. NO. 100-505, at 8-9, (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3205-07 (explaining amendment).

56. *See* S. REP. NO. 100-505, at 5 (noting issues raised by trademark licensing agreements as beyond scope of legislation); *see also* Riback, *supra* note 50, at 4 (reporting trademarks excluded because of quality-control element and threat to technology). *But see* Nguyen, *supra* note 4, at 1288 (arguing omission of trademarks due to careless expediency and inequivalent importance as other intellectual property); Jenkins, *supra* note 4, at 159-65 (arguing none of reasons for excluding trademarks survives scrutiny).

57. *See* S. REP. NO. 100-505, at 5 (deferring congressional action on trademark licensee's rights); *see also* Putney, *supra* note 29, at 158 (arguing courts should employ equitable solutions to trademark issues in rejection of trademark licenses); *cf.* Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L.J. 733, 777 (2007) (noting questionability of whether courts can look to legislative history to protect trademark licensees). *But cf.* Saunders, *supra* note 4, at 934 (noting bankruptcy courts had declined to act on congressional intent).

58. *See infra* notes 59-90 and accompanying text (discussing various reasoning for eliminating licensee's rights in trademarks post-rejection).

59. 109 B.R. 557 (Bankr. D.R.I. 1990).

60. *Id.* at 559. The agreement and other related agreements also included Mr. Popper's obligations to continue the Blackstone name in the marketplace, rent space from Blackstone, assume payments Blackstone owed for truck rentals, employ certain Blackstone drivers, and purchase certain portions of Blackstone's inventory. *Id.* Blackstone also agreed to cover Mr. Popper's employees under its health insurance plan and to produce popcorn for Mr. Popper. *Id.*

61. *Id.* In addition to filing for bankruptcy, Blackstone sent a letter to Mr. Popper informing it of Blackstone's intent to reject the newly signed licensing agreement. *Id.*

62. *Id.* at 558 (noting Mr. Popper opposed motion).

63. *See Blackstone Potato Chip Co.*, 109 B.R. at 562. The court ruled that the proper standard to apply in

Blackstone would be able to negotiate a new licensing agreement for its trademark that would be more beneficial than the one with Mr. Popper.[64]

In *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*,[65] Raima Corp. (Raima US) granted its wholly owned English subsidiary, Raima UK, an exclusive license for its trademark and software in exchange for license fees.[66] Subsequently, Centura Software Corp. (Centura US) acquired all of Raima US's ownership rights in its trademark and software.[67] Centura US and its wholly owned subsidiary, Centura UK, acquired a sublicense on the prior license to Raima UK—now owned by a third party—in return for fees paid to Raima UK that could be setoff from what Raima UK now owed Centura US.[68] Subsequently, Centura US filed a Chapter 11 petition and rejected the license with Raima UK.[69] As a result of the court's approval of the rejection, Raima UK filed a complaint alleging that it was entitled to continue its usage of the trademark under the license.[70] The court held that Raima UK could not retain its rights to the trademark post-rejection.[71] The court reasoned that some provisions of § 365 afford parties more rights than the normal pre-petition claim for damages pursuant to § 365(g); nevertheless, § 365(n), while allowing for a licensee to retain its rights in intellectual property, expressly withholds its protections from a trademark licensee.[72] Thus, Raima UK's only remedy was a pre-petition claim under §

determining whether to accept rejection is the business judgment test. *Id.* at 560. Despite the court's allowance of Blackstone's motion to reject the license, the court used its powers in equity to grant priority-creditor status for Mr. Popper's damages because of Mr. Popper's maintenance of the value of the trademark during the interim period. *See id.* at 561 (providing reasons for elevating Mr. Popper's status to priority creditor).

64. *See id.* at 561 (explaining sound business judgment). The court noted that at the time Blackstone formed the licensing agreement with Mr. Popper, it did not realize the full value of its trademark. *See id.* at 559 (noting Blackstone's obliviousness to value of license prior to filing for Chapter 11 bankruptcy). Once Blackstone had been apprised of its worth, it entered into negotiations with another company to recognize the full $200,000 value of its trade name over the same four-year period as the license agreement with Mr. Popper. *Id.* Only by allowing the rejection and the return of the license to Blackstone would the company be able to realize the trademark's full value, thus increasing the benefit to all of Blackstone's creditors. *See id.* at 561 (concluding Blackstone used sound business judgment in its decision to reject).

65. 281 B.R. 660 (Bankr. N.D. Cal. 2002).

66. *See id.* at 663 (noting geographical limitation of license to United Kingdom, Ireland, and Channel Islands).

67. *See id.* at 663 (detailing Centura US's purchase of Raima US's intellectual property).

68. *See id.* (detailing complex transactional history). Subsequently, Raima UK setoff its payment to Centura US because it claimed that Centura UK failed to pay Raima UK. *Id.* In response, Centura US claimed that Raima UK had failed to pay it the required license fees. *Id.*

69. *See Raima UK Ltd.*, 281 B.R. at 663 (noting response to its subsidiary Centura UK entering liquidation in England). An order from the court granted the rejection, but maintained that Raima UK retained any rights protected under § 365(n). *Id.*

70. *See id.* at 664 (explaining complaint also included allegation that Raima UK did not breach its licensing agreement).

71. *See* Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 674-75 (Bankr. N.D. Cal. 2002) (recognizing Raima UK's remedy as limited to damages).

72. *See id.* at 668-73 (analyzing § 365); *cf. In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (stating trademark licensees not entitled to § 365(n) protections because of trademark's exclusion from

365(g).[73]

Similarly, in *In re HQ Global Holdings, Inc.*,[74] HQ Global Holdings, Inc. (HQ) owned and operated office centers.[75] As part of its business model, HQ leased some of its office centers, and granted exclusive rights to use its trademarks to individual franchisees.[76] Subsequently, HQ filed for Chapter 11 bankruptcy and moved to reject several of these licensing agreements.[77] The court granted the motion, concluding that as a result of the rejection, the franchisees could no longer use the trademarks; instead, the franchisees would receive damages pursuant to § 365(g).[78] The court reasoned that rejection of the license includes a rejection of the nucleus of the agreement—HQ's affirmative allowance of the franchisees to use the trademarks—resulting in the end of HQ's obligation to continue allowing the franchisees to use its trademarks.[79] Furthermore, the court explained that the express omission of trademarks from the added protections that § 365(n) provides left the

its provisions), *aff'd*, 2010 WL 3566908 (S.D.N.Y. Sept. 14, 2010), *aff'd sub nom.* Mauro Motors Inc. v. Old Carco LLC, 420 F. App'x 89 (2d Cir. 2011). In *Raima UK Ltd.*, the court explained that the plain language of § 365(n) does not include trademarks, and if Congress had intended to allow other forms of intellectual property it would have used the term "includes" instead of "means" in the definitional section for intellectual property. *See Raima UK Ltd.*, 281 B.R. at 669-70; *see also* 11 U.S.C. § 101(35A) (2012) (defining intellectual property). Furthermore, the court explained that it could not look to the legislative history to assess whether Congress wanted the court to use its equity powers because the statute is clear on its face. *See Raima UK Ltd.*, 281 B.R. at 670 (rejecting balancing of equities).

73. *See Raima UK Ltd.*, 281 B.R. at 675 (concluding damages as sole remedy available to Raima UK).

74. 290 B.R. 507 (Bankr. D. Del. 2003).

75. *See id.* at 509 (characterizing HQ as a full-service office lessor). HQ owned and leased office space and provided office-related services. *See id.* (highlighting phone and videoconferencing services).

76. *See id.* (noting licensing agreements also include various other use rights). The franchisees paid HQ a royalty fee in exchange for the right to use HQ's office centers and its trademarks. *Id.*

77. *See id.* at 508 (noting franchisees opposed rejection of license agreements).

78. *See In re HQ Global Holdings, Inc.*, 290 B.R. at 514 (granting HQ's motion for rejection). In granting the motion, the court first concluded that the rejection was proper because the contracts were executory in nature. *Id.* at 513. The court stated that the proper test to determine if a contract is executory is whether there are unfulfilled obligations that would constitute a material breach of the contract if left unperformed. *See id.* at 509-10 (stressing time of bankruptcy petition's filing determines proper time for assessing contract's executory nature). The court reasoned that the franchisees' ongoing obligations to keep at least one HQ office center open, payment of royalties, and generation and submission of reports create outstanding executory obligations on the franchisees side. *See id.* at 510 (emphasizing agreements contained unperformed obligations from franchisees). The court further reasoned that HQ maintained obligations to not use its trademarks in the territories where the franchisees had been granted an exclusive right to use them, thus making the contract fully executory on both sides of the license. *See id.* at 510-11 (noting difference in one franchisee's license, yet maintaining its executory nature). Secondly, the court concluded that HQ met the business judgment standard for its decision to reject the licenses. *See id.* at 513-14 (stating decision not made with "bad faith, whim or caprice"). The court explained that it would grant a decision to reject an executory contract so long as the debtor determined that the rejection would benefit the estate and its decision was not made arbitrarily or in bad faith. *See id.* at 511-12 (explaining evidence suggested 800% increase in revenue as result of rejection).

79. *See id.* at 513 (dismissing franchisees' argument that rejection does not terminate contract as off point); *cf.* Everex Sys., Inc. v. Cadtrak Corp. (*In re* CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (equating nonexclusive patent license to waiver of right to sue for infringement).

franchisees with only a claim for rejection damages pursuant to § 365(g).[80]

In *In re Exide Technologies*,[81] Exide Technologies (Exide) sold its industrial battery business to EnerSys Delaware, Inc. (EnerSys) in 1991.[82] Concurrent with the sale, Exide and EnerSys entered into a licensing agreement that provided EnerSys with the ability to use Exide's trademark in the industrial battery business.[83] In 2000, Exide decided to reenter the industrial battery market and sought to regain the usage of its trademark from EnerSys.[84] EnerSys refused to retransfer the trademark to Exide, and in 2002, Exide filed for Chapter 11 bankruptcy, motioning to reject the prior licensing agreement.[85] The bankruptcy court granted Exide's motion to reject, concluding that EnerSys's right to use the trademark was extinguished.[86] The court reasoned that rejection of the license excused Exide's obligation to allow EnerSys to continue to use the trademark.[87] Furthermore, the court explained that allowing EnerSys to continue using the trademark after granting the rejection would produce no meaningful benefit to Exide, the bankrupt licensor.[88]

Subsequent to the district court affirming the bankruptcy court's ruling, EnerSys appealed.[89] The Third Circuit Court of Appeals vacated the district

80. *In re* HQ Global Holdings, Inc., 290 B.R. 507, 512-13 (Bankr. D. Del. 2003).

81. 607 F.3d 957 (3d Cir. 2010).

82. *See id.* at 960 (noting sale included substantially all of Exide's battery business).

83. *See id.* at 961 (explaining perpetual, exclusive, and royalty-free nature of licensing agreement). The licensing agreement was only one of twenty-three agreements that formalized Exide's sale. *See id.* at 960-61. The bankruptcy court determined that the trademark licensing agreement and three other agreements constituted a single integrated agreement. *See In re* Exide Techs., 340 B.R. 222, 227 (Bankr. D. Del. 2006) (noting court's prior determination), *aff'd sub nom.* EnerSys, Del., Inc. v. Exide Techs. (*In re* Exide Techs.), No. 06-302-SLR, 2008 WL 522516 (D. Del. Feb. 27, 2008), *vacated and remanded*, 607 F.3d 957 (3d Cir. 2010).

84. *See In re Exide Techs.*, 607 F.3d at 961 (stating Exide wanted to regain trademark to unify its image).

85. *Id.*

86. *See In re Exide Techs.*, 340 B.R. at 250-51 (allowing two years to discontinue use of trademark as transition period). The court first established that the agreement was executory. *See id.* at 229-39. The court pointed to EnerSys's ongoing duties to refrain from using the trademark outside of the industrial battery business and to maintain the quality standards set forth in the agreement as material executory obligations. *See id.* at 231-32 (describing EnerSys's executory obligations under license). The court also noted that Exide maintained material executory obligations, including its obligations to allow EnerSys to continue using the trademark and to prosecute trademark infringement claims. *See id.* at 234 (describing Exide's executory obligations under license). The court then established that Exide's decision to reject the agreement satisfied the business judgment test because the evidence presented showed that Exide had analyzed the expected impact on its business in rejecting the agreement. *See id.* at 239-41 (explaining Exide need only show it arrived at its decision through deliberative and thoughtful processes).

87. *See id.* at 250 (noting various support for ending right to use trademark).

88. *See id.* (stating allowance of continued usage would produce absurd results).

89. *See In re* Exide Techs., 607 F.3d 957, 961 (3d Cir. 2010) (appealing District Court's order); *see also* EnerSys, Del., Inc. v. Exide Techs. (*In re* Exide Techs.), No. 06-302-SLR, 2008 WL 522516, at *2 (D. Del. Feb. 27, 2008) (affirming Bankruptcy Court's ruling), *vacated and remanded sub nom. In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010). EnerSys argued that the agreement was not executory, and even if it was, rejection should not extinguish its right to continue using the trademark. *See In re Exide Techs.*, 607 F.3d at 961 (stating issues on appeal).

court's order and remanded the case, holding that the license was not executory and, therefore, could not be rejected, thus effectively avoiding the question of whether EnerSys could continue to use the trademark subsequent to rejection.[90] Nevertheless, in a concurring opinion, Justice Ambro disagreed with the district court's determination that rejection terminated the licensee's right to use the trademark.[91] Justice Ambro reasoned that the court's equitable powers enabled it to disallow Exide from eliminating EnerSys's right to use its trademark through rejection.[92]

E. Sunbeam

Historically, Lakewood Engineering and Manufacturing Company (Lakewood) was one of the largest manufacturers of box fans in the United States.[93] As part of its business, Lakewood owned several patents and trademarks.[94] Despite its market share, Lakewood experienced an increase in losses from production of its fans and the company began outsourcing the manufacturing of certain fans to Chicago American Manufacturing, LLC (CAM).[95]

In 2008, the two companies signed a contract that allowed CAM to place Lakewood's trademarks on the fans that it produced for Lakewood.[96] Shortly thereafter, Lakewood's creditors filed an involuntary bankruptcy petition

90. *See In re Exide Techs.*, 607 F.3d at 964 (setting forth conclusions of law). The court explained that under New York law it is necessary to determine whether the outstanding obligations have been substantially performed in order to determine whether there has been a material breach, making the contract executory. *See id.* at 962. The court further explained that EnerSys's payment of the full price of the agreement and operating under the agreement for over ten years amounted to substantial performance of its obligations, thus making the agreement no longer executory. *See id.* at 963-64 (analyzing EnerSys's substantial performance and explaining performance outweighs outstanding obligations).

91. *See id.* at 964-65 (Ambro, J., concurring) (joining majority opinion in full); *see also* Jonathan C. Balfus, *Exide Inside Out: New Third Circuit Decision Preserves Trademark Licensee's Rights Following Licensor's Rejection Under Bankruptcy Code § 365*, 31 CAL. BANKR. J. 523, 534 (2010) (recognizing Justice Ambro's concurring opinion as most important point of *In re Exide Technologies*).

92. *See In re Exide Techs.*, 607 F.3d at 967-98 (Ambro, J., concurring) (arguing bankruptcy shields debtors, not used as sword to thwart prior contracts); *cf. In re* Matusalem, 158 B.R. 514, 516 (Bankr. S.D. Fla. 1993) (asserting legislative history allows courts to use equitable powers to determine effect of trademark rejection). Moreover, Justice Ambro argued that although reasoning from negative inference has been accepted for interpreting § 365, such reasoning does not bear a sufficient basis for eliminating bargained away rights. *See In re Exide Techs.*, 607 F.3d at 966-67 (Ambro, J., concurring) (arguing reasoning from negative inference as unsuitable for granting rejection of trademark licenses).

93. *See* Szilagyi v. Chi. Am. Mfg., LLC (*In re* Lakewood Eng'g & Mfg. Co.), 459 B.R. 306, 312 (Bankr. N.D. Ill. 2011) (recognizing Lakewood as one of three largest manufacturers of box fans prior to 2008), *aff'd sub nom.* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).

94. *Id.*

95. *See id.* at 313 (noting Lakewood chose CAM as its business partner after reviewing other options).

96. *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 374 (7th Cir. 2012) (noting contract included trademark and patent licenses). Due to the financial distress of Lakewood, it also provided CAM with the ability to sell the rest of the fans that it produced during 2009 if Lakewood was unable to purchase them for its own use. *See id.* (recognizing provision as assurance for payment).

against it.[97] The trustee of Lakewood's estate eventually sold the business—including the trademarks—to Sunbeam Products (Sunbeam) and rejected the aforementioned contract with Lakewood at Sunbeam's request.[98] After CAM continued to manufacture and sell fans under the Lakewood—now Sunbeam—trademarks, Sunbeam filed suit alleging trademark infringement and unfair competition.[99]

After hearing testimony, the bankruptcy court concluded that CAM had not infringed on the trademarks because rejection did not terminate the license.[100] The court reasoned that section § 365(n) did not apply to the rejection of a trademark license because the definition of intellectual property specifically excludes trademarks.[101] Nevertheless, the court explained that its powers in equity provided the court with the ability to maintain CAM's right to use the trademarks subsequent to rejection.[102]

Subsequently, Sunbeam appealed, and the Seventh Circuit Court of Appeals affirmed the bankruptcy court's decision on other grounds.[103] Like the bankruptcy court's prior decision, the Seventh Circuit held that rejection did not eliminate CAM's right to use the licensed trademarks.[104] The court explained § 365(g) provides that rejection constitutes a breach of contract, and just like outside of bankruptcy, a breach does not terminate the nonbreaching party's rights under a license.[105] Rather, the nonbreaching party's rights remain in place, and the breaching party is liable for damages.[106] The court further explained that the lower court erred because it could not use equitable powers to supplant direct Code provisions.[107]

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97. *Szilagyi*, 459 B.R. at 320.

98. *See Sunbeam Prods., Inc.*, 686 F.3d at 374 (noting Sunbeam did not want to purchase or have CAM sell fans bearing its trademarks).

99. *See* Szilagyi v. Chi. Am. Mfg., LLC (*In re* Lakewood Eng'g & Mfg. Co.), 459 B.R. 306, 312 (Bankr. N.D. Ill. 2011) (noting Sunbeam and bankruptcy trustee brought suit alleging several claims), *aff'd sub nom.* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).

100. *See id.* at 347 (entering judgment for CAM).

101. *Id.* at 343.

102. *See id.* at 345-46 (highlighting consistency between equitable treatment and rejection law).

103. *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 378 (7th Cir. 2012) (holding rejection does not eliminate contractual rights).

104. *See id.* (recognizing court's holding creates circuit split). The court further explained that rejection is not the equivalent of the Code's avoidance powers. *See id.* at 377 (differentiating rejection from rescission); *see also* Andrew, *supra* note 47, at 931 (concluding rejection equates to estate's election to not assume contract).

105. *See Sunbeam Prods., Inc.*, 686 F.3d at 376 (stating outside of bankruptcy breach would not terminate right to use licensed property). *But see* NIMMER, *supra* note 4, § 11:163 (suggesting faulty analysis); Raymond T. Nimmer, *Uniform Computer Information Transactions Act*, *in* 10 HAWKLAND UCC SERIES UCITA, § 802:3 (Frederick H. Miller ed., 2012) (arguing *Sunbeam* violates Bankruptcy Code's structure); James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 BUS. LAW. 739, 739 (2013) (stressing *Sunbeam* misconstrues trademark licenses as vested property rights).

106. *See Sunbeam Prods., Inc.*, 686 F.3d at 377 (noting debtor not subject to specific performance).

107. *See id.* at 375-76 (stating policy and legislative intent cannot supersede Code's specific wording); *cf.* Toibb v. Radloff, 501 U.S. 157, 162 (1991) (explaining statutory language controls absent ambiguity). *But cf.*

III. ANALYSIS

A. The Proper Question

From the foregoing discussion, it is clear that the courts are split as to the effect of rejection on trademark licensees' abilities to continue using licensed trademarks post-rejection.[108] An examination of the case law shows that the courts vary widely in their analyses.[109] In cases where courts have held that rejection eliminates a licensee's ability to continue using a licensed trademark post-rejection, the courts have individually focused on one of a number of issues, including: the unavailability of specific performance as a remedy for rejection; the benefit to the estate; the inability of a trademark licensee to retain its usage of a trademark license pursuant to § 365(n); and the nucleus of a trademark license.[110] Conversely, in *Sunbeam*—the only case holding that rejection does not eliminate a licensee's ability to continue using a licensed trademark—the court focused on rejection and its inability to eliminate creditors' continuing rights.[111]

Although the courts have made valiant strides in analyzing the effects of rejection on a trademark licensee, only the court in *In re HQ Global Holdings, Inc.*, comes close to focusing on the essential issue in determining whether a licensee can continue to use a trademark post-rejection.[112] Simply put, this

Corley v. United States, 556 U.S. 303, 313-14 (2009) (providing court should not make statutory provision superfluous through interpretation); 2A NORMAN J. SINGER & J.D. SHAMBIE SINGER, SUTHERLAND STATUTES AND STATUTORY CONSTRUCTION § 46:6 (7th ed. 2007) (discussing judicial canon of giving each word effect for statutory interpretation).

108. *Compare Sunbeam Prods., Inc.*, 686 F.3d at 378 (holding licensee can continue using its trademark license despite licensor's contract rejection in bankruptcy proceeding), *with* Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.) 756 F.2d 1043, 1048 (4th Cir. 1985) (holding rejected contract in bankruptcy proceeding eliminates licensee's right to use intellectual property).

109. *See supra* Parts II.B, D, E (examining case history of trademark licensor rejection).

110. *See, e.g.*, *Lubrizol Enters., Inc.*, 756 F.2d at 1048 (reasoning continued usage not allowed because licensee had only monetary damages as available remedy); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 512-13 (Bankr. D. Del. 2003) (noting rejection excuses obligation to allow licensee to use trademark); Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 671-75 (Bankr. N.D. Cal. 2002) (highlighting prior case law eliminating licensee's ability to continue using trademark post-rejection); Blackstone Potato Chip Co. v. Mr. Popper, Inc. (*In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561-62 (Bankr. D.R.I. 1990) (recognizing benefits of elimination of right to continued use because licensor could negotiate better agreement).

111. *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 377-78 (7th Cir. 2012) (noting difference between rejection and Bankruptcy Code's avoiding powers). Although in *In re Exide Techs.*, the Third Circuit disposed of the case holding the license as nonexecutory, Justice Ambro's concurring opinion reasoned that the court's equitable powers would enable it to allow a licensee to continue using a trademark post-rejection. *See In re* Exide Techs., 607 F.3d 957, 965-67 (3d Cir. 2010) (arguing rejection should not eliminate licensee's rights).

112. *See In re HQ Global Holdings, Inc.*, 290 B.R. at 513 (focusing on nucleus of trademark license); NIMMER, *supra* note 4, § 11:163 (noting flaw in *Sunbeam* analysis as failure to address fundamental trait of license); *infra* notes 113-15 and accompanying text (setting forth essential question for analysis of rejection's effect on trademark licensee).

question goes to the core of licensing—what is a trademark license?[113] If a license is a licensor's negative obligation to not sue the licensee for trademark infringement, then rejection relieves the estate from this obligation, and the licensee's usage of the trademark post-rejection is an infringement on the licensor's trademark.[114] Conversely, if a license is an affirmative grant of a property right from licensor to licensee, then rejection should not affect the licensee's rights to the trademark post-rejection.[115]

B. Application of the Proper Question

1. License as Negative Obligation

Several courts and scholars treat a trademark license as nothing more than a licensor's prohibitory obligation to not sue the licensee for trademark infringement.[116] In this vein, a trademark license is a covenant between the licensor and licensee, enabling the latter to use the trademark free from fear of being sued, while the former maintains an ongoing obligation to not bring an infringement action.[117] Under § 365 of the Bankruptcy Code, a debtor-in-possession or trustee of the bankruptcy estate is allowed to reject any executory contract, so long as it finds that it is beneficial to the estate.[118] Although rejection does not eliminate any property rights that are transferred via an executory contract, any outstanding obligations are terminated upon the court's approval of rejection.[119] Moreover, specific performance of any outstanding

113. *Compare* NIMMER, *supra* note 4, § 11:163 (explaining license's essence equates to licensor's promise to not sue licensee for use of trademark), Jelinek, *supra* note 4, at 386 (describing main feature of trademark license as ongoing obligation to allow licensee's use of trademark), *and* Tamietti, *supra* note 5, at 300-03 (explaining trademark license transfers no property right to licensee), *with* Nguyen, *supra* note 4, at 1275 (labeling license as grant of right to use trademark), *and* Jenkins, *supra* note 4, at 156 (equating license to conveyance of property right).

114. *See In re HQ Global Holdings, Inc.*, 290 B.R. at 513 (noting rejection excuses licensor's obligation to allow licensee to continue using licensed trademark); *cf.* Chateaugay Corp. v. LTV Steel Co. (*In re* Chateaugay Corp.), 10 F.3d 944, 954 (2d Cir. 1993) (stating rejection relieves estate of burdensome obligations).

115. *See Sunbeam Prods., Inc.,* 686 F.3d at 376 (explaining rejection does not terminate party's rights); *see also* Andrew, *supra* note 47, at 921 (explaining rejection does not change party's rights); Westbrook, *supra* note 37, at 257 (stating bankruptcy law enforces property rights). Contract rights are a form of property rights. *See* Westbrook, *supra* note 37, at 325 (explaining billions of dollars worth of property rights secured by contract).

116. *See In re* HQ Global Holdings, Inc., 290 B.R. 507, 512-13 (Bankr. D. Del. 2003) (noting rejection excuses obligation to allow licensee to use trademark); Jelinek, *supra* note 4, at 386 (highlighting fundamental feature of trademark license); Tamietti, *supra* note 5, at 300-03 (explaining trademark license transfers no property right to licensee).

117. *See* NIMMER, *supra* note 4, § 11:163 (equating license to promise to not stop licensee from using trademark); Tamietti, *supra* note 5, at 301 (noting license insulates licensee from litigation).

118. *See* NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523 (1984) (recognizing business judgment test as governing standard for court's acceptance of motion to reject); Tamietti, *supra* note 5, at 297 (indicating courts use business judgment test in determining whether to approve rejection); *see also* Saunders, *supra* note 4, at 935 (noting courts will not interfere absent showing of bad faith or abuse of discretion).

119. *Compare* Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1308 (11th Cir. 2007) (noting

obligations is simply unavailable to the creditor because the Code specifically provides for the creditor's remedy to be damages for rejection purposes.[120]

Specific performance is not available as a remedy in bankruptcy because of the principle of equality of distribution—the rule that all unsecured creditors should receive a pro rata distribution.[121] Allowing one creditor to obtain full payment through specific performance would result in the other creditors receiving less.[122] Thus, so long as a license is understood as an ongoing obligation to not sue the licensee for infringement: rejection eliminates this obligation, the licensee cannot seek to have this obligation specifically performed, and the licensee's ability to continue using the licensor's trademark without infringing on that mark ceases.[123] In other words, for all intents and purposes, rejection eliminates the licensee's ability to use the trademark.[124]

Moreover, the overall purpose of rejection and the Bankruptcy Code in toto suggest that this is a valid result.[125] The Code is set up to relieve the debtor from obligations that would impede it from reassuming its status as a viable economic entity.[126] Eliminating a trademark licensor's obligation to not sue the licensee for infringement allows the debtor to refocus its efforts on obtaining economic viability, and just as importantly, the licensor can use its trademark to assist in this goal.[127]

In addition, trademark licenses include a required element of quality control.[128] Although quality control can be satisfied in numerous ways, a

rejection frees debtor and other party from outstanding obligations), *with* Westbrook, *supra* note 37, at 258 (stating bankruptcy law enforces property rights).

120. *See* 11 U.S.C. § 365(g) (2012) (setting forth available remedy); *see also* Lubrizol Enters. v. Richmond Metal Finishers, Inc. (*In re* Richmond Metal Finishers, Inc.), 756 F.2d 1043, 1048 (4th Cir. 1985) (reasoning specific performance undermines express provision of statute).

121. *See* 11 U.S.C. § 726(b) (2012) (stating claims should be paid pro rata); *see also* Westbrook, *supra* note 37, at 255-56 (explaining equality of distribution principle).

122. *See* Westbrook, *supra* note 37, at 256 (explaining 100% payment to one party leaves other parties with less from which to collect).

123. *See In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003) (extinguishing licensee's right to use trademarks); *see also* Lubrizol Enters., 756 F.2d at 1048 (stating specific performance not available to enforce unperformed obligations).

124. *See Lubrizol Enters.*, 756 F.2d at 1048 (holding rejection eliminates licensee's ability to continue use of trademark).

125. *See* Chateaugay Corp. v. LTV Steel Co. (*In re* Chateaugay Corp.), 10 F.3d 944, 954 (2d Cir. 1993) (stating estate's relief of burdensome obligations as purpose of rejection); *see also* Steele, *supra* note 4, at 419 (explaining reducing obligations in order to focus on economic viability as purpose of bankruptcy); Riback, *supra* note 9, at 199 (explaining dual purpose of bankruptcy: to foster economic viability and ensure equal treatment of creditors).

126. *See supra* note 22 and accompanying text (explaining purpose of bankruptcy).

127. *See* Blackstone Potato Chip Co. v. Mr. Popper, Inc. (*In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561 (Bankr. D.R.I. 1990) (noting benefit in ability to negotiate new licensing agreement); *see also* Nimmer, *supra* note 105, § 802:3 (noting Code's structure allows optimization of assets by allowing debtor to not perform certain obligations).

128. *See, e.g.*, Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (stating long-standing rule); Saunders, *supra* note 4, at 936-38 (discussing quality-control requirement); Steele,

licensor is generally required to maintain some level of quality control over the licensee's use of the mark.[129] If the licensor fails to meet this requirement, it can be found to have abandoned the mark, and therefore lose its rights in the mark.[130] Allowing a licensee to continue using a trademark post-rejection also runs counter to the Code's purpose of freeing the debtor of its obligations in order for it to focus on economic viability because the licensor is forced into maintaining its quality-control obligation out of fear that it will be deemed to have abandoned the mark.[131] An abandonment would further worsen the debtor's economic position, as it would lose any value that could be obtained through usage of this asset.[132]

Finally, allowing a trademark licensee to continue using the license post-rejection would invert the statutory structure of § 365.[133] Notwithstanding the added quality-control element, trademark licenses have similar attributes as other intellectual property licenses.[134] Section 365(n) provides licensees of intellectual property with the ability to elect to continue using the licensed intellectual property or to treat the license as terminated and file a claim for damages.[135] Thus, § 365(n) provides an added layer of protection for intellectual property licensees that is not found in § 365(g).[136] If a trademark licensee was allowed to continue using the licensed mark post-rejection pursuant to § 365(g), presumably all intellectual property licensees could do the

supra note 4, at 417 (noting courts still find control necessary although control requirement not enforced as stringently).

129. *See* Nguyen, *supra* note 4, at 1313 (observing courts allow various forms of quality control as sufficient to satisfy requirement); Progoff, *supra* note 4, at 95-97 (explaining courts have upheld three levels of quality control).

130. *See* Barcamerica Int'l USA Trust v. Tyfield Imps., Inc., 289 F.3d 589, 598 (9th Cir. 2002) (holding licensor's lack of quality control results in abandonment of mark); Abel, *supra* note 4, at 163 (labeling loss of rights as result of "naked" licensing).

131. *Compare* Chateaugay Corp. v. LTV Steel Co. (*In re* Chateaugay Corp.), 10 F.3d 944, 954 (2d Cir. 1993) (stating estate's relief of burdensome obligations as purpose of § 365), *and* Steele, *supra* note 4, at 419 (articulating purpose of Chapter 11 bankruptcy), *with Barcamerica Int'l USA Trust*, 289 F.3d at 589 (holding licensor's lack of quality control results in abandonment of mark), *and* Abel, *supra* note 4, at 163 (labeling loss of rights as result of "naked" licensing).

132. *Cf. Barcamerica Int'l USA Trust*, 289 F.3d at 598 (holding licensor's lack of quality control results in abandonment of mark); Abel, *supra* note 4, at 163 (labeling loss of rights as result of "naked" licensing); Nguyen, *supra* note 4, at 1274 (noting some marks' values estimated as high as $44.6 billion).

133. *See* NIMMER, *supra* note 4, § 11:163 (explaining *Sunbeam's* faulty analysis). *Compare* 11 U.S.C. § 365(a) (2012) (providing debtor ability to reject), *and* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 378 (7th Cir. 2012) (holding rejection does not eliminate licensee's ability to use trademark), *with* 11 U.S.C. § 365(n) (providing intellectual property licensee's with election ability).

134. *Compare* Everex Sys., Inc. v. Cadtrak Corp. (*In re* CFLC, Inc.), 89 F.3d 673, 677 (9th Cir. 1996) (noting patent license equates to waiver of right to sue for infringement), *with In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003) (stating obligation to allow licensee to use mark as essence of trademark license).

135. *See* 11 U.S.C. § 365(n) (encoding intellectual-property licensees' options post-rejection).

136. *See id.* (allowing specific performance); *see also* Goldberg, *supra* note 53, at 20 (noting how § 365(n) changes licensor-licensee relationship post-rejection).

same, thus nullifying the need for § 365(n).[137] Thus, the basic interpretive canon that no statutory provision should be made superfluous through interpretation provides added support for a trademark licensee's inability to continue using a license post-rejection because if the licensee were able to continue using the license under § 365(g), there would be no need for § 365(n).[138]

2. License as Grant of Property Right

Conversely, a trademark license can be seen as a grant of a property right to use the trademark.[139] Rejection is not the equivalent to other avoidance powers found in the Bankruptcy Code.[140] Rather, rejection is a statement by the debtor that it will no longer abide by its obligations under a contract.[141] As a result, rejection is a breach of these contractual obligations for which the creditor may receive damages.[142] Breach of contract, however, does not eliminate the underlying contract and property rights that are already transferred by such contract.[143] Thus, if a trademark license is a grant of a property right to use the license, then rejection does not affect the licensee's rights to the trademark because the property right to use the trademark has already been transferred to the licensee.[144]

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137. *See* NIMMER, *supra* note 4, § 11:163 (noting *Sunbeam* inverts § 365(n)).

138. *See* Corley v. United States, 556 U.S. 303, 313 (2009) (providing court should not make statutory provision superfluous through interpretation); SINGER & SINGER, *supra* note 107, § 46:6 (discussing statutory interpretive canon of giving each word effect).

139. *See* DRATLER & MCJOHN, *supra* note 4, § 1.03, ch. 1, at 2 (explaining licensing equals grant of property rights without transferring ownership); Jenkins, *supra* note 4, at 156 (equating license to conveyance of property); Nguyen, *supra* note 4, at 1275 (defining license as grant of specified use right).

140. *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 377 (7th Cir. 2012) (stating rejection not equivalent to bankruptcy's avoiding powers); *see also* NORTON, *supra* 27, § 46:24 (distinguishing rejection from avoidance, rescission, and termination).

141. *See* Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1308 (11th Cir. 2007) (noting rejection frees debtor and other party from outstanding obligations); Standard Ins. Co. v. Phillips (*In re* Phillips), No. C09-1399Z, 2010 WL 3041968, at *3 (W.D. Wash. July 30, 2010) (explaining rejection frees debtor from obligation to perform), *aff'd sub nom.* Phillips v. James (*In re* Phillips), 460 F. App'x 636 (9th Cir. 2011); *see also* Lieb, *supra* note 2, at 36-37 (explaining rejection terminates outstanding obligations).

142. *See* Med. Malpractice Ins. Assoc. v. Hirsch (*In re* Lavigne), 114 F.3d 379, 387 (2d Cir. 1997) (stating rejection results in pre-petition claim for breach); Cohen v. Drexel Burnham Lambert Grp., Inc. (*In re* Drexel Burnham Lambert Grp., Inc.), 138 B.R. 687, 711 (Bankr. S.D.N.Y. 1992) (holding rejection results in general unsecured claim in bankruptcy dollars).

143. *See, e.g.*, O'Neill v. Cont'l Airlines, Inc. (*In re* Cont'l Airlines), 981 F.2d 1450, 1459 (5th Cir. 1993) (holding rejection does not invalidate contract nor does it eliminate contract's existence); *Standard Ins. Co.*, 2010 WL 3041968, at *3 (stating rejection does not nullify, invalidate, cancel, or rescind contract); *Cohen*, 138 B.R. at 703 (stating rejection does not make contract disappear).

144. *See Sunbeam Prods., Inc.,* 686 F.3d at 376 (explaining rejection does not terminate party's rights); Andrew, *supra* note 47, at 921 (explaining rejection does not change party's rights); Westbrook, *supra* note 37, at 257 (stating bankruptcy law enforces property rights).

C. The Need for the Discussion

Although the prior discussion may seem punctilious, it is absolutely necessary because trademarks are not covered by the IPLBA.[145] As previously discussed, the IPLBA amended the Bankruptcy Code, giving licensees of several forms of intellectual property added protection post-rejection.[146] Although discussed in Congress prior to the amendment, trademarks were expressly left out of the definitional section of intellectual property.[147] Furthermore, courts have rightfully held that the plain meaning of the statute is unambiguous, and therefore, trademark licensees may not obtain any of the added protection contained within § 365(n) because the definitional section for intellectual property uses specific language excluding any type of property not mentioned within its provisions.[148] Thus, § 365(g) controls the effect of rejection for trademark licenses, which is, in turn, determined by whether a trademark license is a negative obligation to not sue for infringement or a grant of a property right to use the trademark.[149]

D. The Solution: Amend the Code

It should be clear from the foregoing discussion that the differing outcomes—whether the licensee maintains the ability to use the trademark or whether its ability to use the trademark is eliminated—create economic winners and losers.[150] If the licensee is allowed to continue using the license post-rejection, the licensor either needs to utilize its diminished resources to maintain its quality-control function over the licensee or risk losing a valuable resource to abandonment of the mark.[151] Conversely, if the licensee's ability to use the license is eliminated, the licensee might also experience severe

145. *See infra* text accompanying notes 146-49 (analyzing IPLBA).

146. *See supra* notes 51-55 and accompanying text (discussing IPLBA).

147. *See* 11 U.S.C. § 101(35A) (2012) (defining intellectual property); *see also* S. REP. NO. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204 (stating IPLBA does not address trademarks).

148. *See, e.g.*, *In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (stating trademark licensees not entitled to § 365(n) protections because excluded from its provisions), *aff'd*, 2010 WL 3566908 (S.D.N.Y. Sept. 14, 2010), *aff'd sub nom.* Mauro Motors Inc. v. Old Carco LLC, 420 F. App'x 89 (2d Cir. 2011); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 512-13 (Bankr. D. Del. 2003) (explaining trademarks expressly omitted from definitional section); Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 670-71 (Bankr. N.D. Cal. 2002) (analyzing § 365(n)); *see also* Menell, *supra* note 57, at 778 (stating legal standard disallows courts from looking at legislative history); Saunders, *supra* note 4, at 939 (noting courts decline to provide § 365(n) protection based on plain meaning doctrine).

149. *See supra* Part III.A (analyzing proper question to determine effect of rejection on trademark licensee).

150. *Compare* Jenkins, *supra* note 4, at 158 (noting licensee loses ability to use trademark and receives little of its full damages claim), *with supra* notes 130-32 and accompanying text (discussing licensor's potential loss of ownership rights).

151. *See supra* notes 130-32 and accompanying text (discussing licensor's potential loss of ownership rights).

economic hardship.[152] Licensors and licensees, however, are not alone in bearing this burden.[153] Consumers may also experience heightened costs as a result of rejection.[154] Moreover, the mere uncertainty of rejection's effect on the rights of trademark licensors and licensees creates economic inefficiencies that prevent trademarks from being fully utilized.[155] Thus, an equitable solution needs to be crafted.[156]

Due to the Supreme Court's recent refusal to determine the proper effect of rejection on a trademark licensee, this Note proposes amending the Bankruptcy Code to expressly provide the equitable solution that Congress imagined when it passed the IPLBA.[157] Like the IPLBA, an amendment for trademark licenses should allow the licensee to retain usage of the trademark post-rejection.[158] Nevertheless, the amendment should only allow the licensee to retain usage when the license has proper quality-control features that do not require the licensor to maintain any ongoing control obligations.[159]

This proposed amendment will allow for licensees to retain usage of properly bargained-for licenses, but not at the expense of the fundamentals of bankruptcy and trademark law.[160] More specifically, the proposed amendment incorporates rehabilitation by freeing the debtor from outstanding obligations

152. *See* Menell, *supra* note 57, at 769 (discussing harsh result of eliminating licensee's ability to use licensed trademark); Jenkins, *supra* note 4, at 146 (noting possible destruction of licensee's business).

153. *See* Brief of the Int'l Trademark Ass'n as Amicus Curiae Supporting Petitioner, *supra* note 8, at 1368 (highlighting other creditors' burdens in bankruptcy proceedings); Menell, *supra* note 57, at 749 (noting trademark licenses' role in consumer welfare); Jelinek, *supra* note 4, at 397 (explaining consumers bear some burden upon trademark removal from market).

154. *See* Jelinek, *supra* note 4, at 397 (explaining increase in consumer search costs); Jenkins, *supra* note 4, at 157-58 (describing consumers' loss of information).

155. *See* Brief of the Int'l Trademark Ass'n as Amicus Curiae Supporting Petitioner, *supra* note 8, at 1367-68 (describing relationship between uncertainty and economic inefficiency); Menell, *supra* note 57, at 769 (explaining how uncertainty prevents investment); Jenkins, *supra* note 4, at 146 (stating uncertainty threatens economic development).

156. *See supra* text accompanying notes 150-55 (explaining reasons for need of solution).

157. *See* S. REP. NO. 100-505, at 5, (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204 (postponing congressional action and allowing equitable development via court system); *see also* Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 133 S. Ct. 790, 790 (2012) (denying certiorari). Although amending the Code is not a novel idea, the proposed amendment differs from prior proposals. *Compare* Menell, *supra* note 57, at 784 (recommending Code provision granting courts discretion), Nguyen, *supra* note 4, at 1314 (proffering amendment that mandates licensor to maintain quality-control obligations), Jelinek, *supra* note 4, at 405-06 (suggesting amendment that transfers quality-control requirement to other party), *and* Jenkins, *supra* note 4, at 165-75 (proposing extensive six-point amendment), *with infra* text accompanying notes 158-63 (setting forth fundamentals of amendment proposal).

158. *See, e.g.*, Jelinek, *supra* note 4, at 368 (stating trademarks should have same protection as other forms of intellectual property); Menell, *supra* note 57, at 784 (positing licensee should bear burden of proof in order to retain usage); Jenkins, *supra* note 4, at 166 (proposing amendment for trademark licensees with similar protections found in § 365(n)).

159. *See* Saunders, *supra* note 4, at 937-38 (noting bankruptcy must account for trademark's quality-control requirement).

160. *See supra* notes 158-59 (stating basis of amendment).

and ensuring that valuable assets are not abandoned.[161] Simultaneously, the proposed amendment guarantees that proper quality control will be maintained over the trademark in order to *ensure consumer protection*.[162] Only an amendment that incorporates the fundamentals of both bodies of law will provide calm to the rocky waters that trademark licensors and licensees find in § 365.[163]

IV. CONCLUSION

When a company enters Chapter 11 bankruptcy, the goal of the proceedings that follow is to rehabilitate the bankrupt party, so that it can become a viable economic entity. In order to accomplish this goal, the Bankruptcy Code allows the bankruptcy trustee or debtor-in-possession to reject executory contracts if it is in the bankrupt's interest to do so. Nevertheless, the Code does not spell out in plain, unambiguous language what rejection is, nor does it explain what the resulting effects are.

For decades, courts have struggled with the proper application of rejection to trademark licenses. This Note has attempted to find safe passage through the tumultuous waters that licensees and licensors find themselves in when a licensor enters bankruptcy and rejects a trademark license. This Note explains that although courts have made headway into the depths of the Bankruptcy Code's solution, the same courts have failed to ask the vital question that provides the ultimate solution to whether trademark licensees can continue using a licensed trademark post-rejection. Simply put, is a license a negative obligation of the licensor or a grant of a property-use right to the licensee? Only with an answer to this question will a final solution be determined.

This Note has further provided a possible solution as scholars and courts seem to be split on the answer to the aforementioned question. The solution—an amendment to the Code—focuses on the fundamental quality-control element of a trademark license, while expressly allowing the courts to use their equitable powers when control is maintained without any added obligation to the licensor. The proposed amendment attempts to provide a set answer in order to decrease uncertainty in the market and allow the creation of true

161. *Compare supra* note 159 and accompanying text (proposing amendment enabling licensor to focus on rehabilitation), *with* Chateaugay Corp. v. LTV Steel Co. (*In re* Chateaugay Corp.), 10 F.3d 944, 954 (2d Cir. 1993) (stating purpose of rejection as relieving estate of burdensome obligations), *and* Steele, *supra* note 4, at 419 (explaining reducing obligations in order to focus on economic viability as purpose of bankruptcy).

162. *Compare supra* note 159 and accompanying text (proposing amendment that ensures quality control over trademark), *with* Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977) (stating long-standing rule of quality control of trademark), Saunders, *supra* note 4, at 936-38 (discussing quality-control requirement), *and* Steele, *supra* note 4, at 417 (noting courts still find control necessary although control requirement not enforced as stringently).

163. *Compare supra* note 9 and accompanying text (describing intersection of bankruptcy and trademark law as wave of uncertainty), *with supra* Part III.D (providing solution to uncertainty).

pricing of trademark licenses, thus decreasing market inefficiencies, and once and for all calming the rapids of bankruptcy for trademark licensors and licensees.

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