

5-1-2013

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**THE EFFECTS OF THE SUNBEAM DECISION ON THE REJECTION OF
TRADEMARK LICENSES IN BANKRUPTCY**

John Ellwood

INTRODUCTION

The Bankruptcy Code grants broad powers to the bankruptcy trustee in order to preserve the assets of the debtor. The right to reject an executory contract has become the one of the most misunderstood and controversial of the trustee's powers. This power has proven to be particularly troublesome when used to reject intellectual property licenses. In 1988, Congress passed the Intellectual Property Licenses in Bankruptcy Act to protect the licensees of intellectual property against rejection by a bankrupt licensor. The IPLBA provides the licensee with a choice between (1) treating the license as terminated and filing a claim for monetary damages, or (2) retaining the right to use the intellectual property for the remainder of the term of the license. The enactment of the IPBLA was a direct congressional response to a public outcry that the bankruptcy procedures at the time placed too heavy a burden on licensees who had invested significant sums to capitalize on the licensed intellectual property.

Prior to the enactment of the IPBLA, the Fourth Circuit in *Lubrizol* held that rejection of an intellectual property license would strip the licensee of the right to use the licensed intellectual property.¹ Fearing that this decision would have disastrous effects on the economy, Congress quickly enacted special rules for the treatment of intellectual property. However, Congress omitted trademarks from the statutory definition of intellectual property. Due to this omission, for almost twenty years the bankruptcy courts continued to apply *Lubrizol* when a trademark license was rejected in bankruptcy. This trend was recently broken by the Seventh Circuit when it ruled that a licensee's contractual right to use a Trademark does not automatically

¹ *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985).

end when the licensee is rejected in bankruptcy by a licensor.² In the *Sunbeam* decision, the Seventh Circuit explicitly acknowledged that it had split with the *Lubrizol* holding. In December 2012, the Supreme Court denied certiorari in the *Sunbeam* matter and therefore there currently exists a significant, unresolved circuit split on the issue of rejection of trademark licenses in bankruptcy.

This paper focuses on the potential confusion which is likely to result from the circuit split regarding the effect of rejection of a trademark license. Part I of this paper will provide the background information necessary to understand the circuit split. Subsection A begins with a general definition of trademarks and an explanation of the importance of trademark licensing as a corporate asset. Subsection B will describe the jurisdiction of bankruptcy law and the procedures of rejection of executory contracts. The subsection explains the benefits to the debtor that assumption and rejection of executory agreements may provide. Part II examines the special treatment afforded to intellectual property licenses in bankruptcy. This section follows the recent evolution of Section 365 of the Bankruptcy Code, as intellectual property issues have begun to garner more attention in the last twenty years. Subsection A of this part discusses the *Lubrizol decision* as well as the Congressional response which instituted amendments to the Bankruptcy Code. Subsection B notes that, despite the Congressional action, the *Lubrizol* decision as applied to trademarks stood unopposed for over twenty years. Part III of this paper examines the Seventh Circuit's decision to break with the *Lubrizol* precedent and the *Sunbeam* interpretation of rejection of executory agreements.

The focus of the paper will be to examine the potentially disastrous effects of the circuit split between the Fourth and Seventh Circuits. In particular, Part IV examines the possibility that Congress intended to abrogate the *Lubrizol* decision when it enacted the Intellectual Property

² *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. July 9 2012).

Licenses in Bankruptcy Act. This section will also discuss the confusion which bankruptcy courts may now face when defining the effects of rejection. Part IV examines the potential consequences of bankruptcy courts adopting the *Sunbeam* decision, including potential hazards involving exclusivity clauses and naked licensing. Part V examines the options available to resolve the circuit split and the potential effects on trademark licensors and licensees. This section will conclude that the Supreme Court should have granted certiorari to review the *Sunbeam* decision and resolve the current circuit split so that bankruptcy courts are able to properly dispense the law. Finally, this paper conclude that in the absence of Supreme Court guidance, Congressional action is necessary to clarify Section 365 of the Bankruptcy Code with respect to the effect of rejection on trademark licenses.

I. BACKGROUND

The rejection of executory contracts is a complex and nuanced balance of the policy goals of the Bankruptcy Code. As a basis for understanding the process of rejection and the effects of the *Sunbeam* decision, this section will discuss the underlying policies of trademark licensing and bankruptcy procedures.

A. TRADEMARKS AND THE VALUE OF LICENSING

Trademarks are important and valuable assets of any business. The United States Patent and Trademark Office defined a trademark as “a word, phrase, symbol or design, or a combination thereof, that identifies and distinguishes the source of the goods of one party from those of others.”³ To the public, a trademark serves as an indication of the quality of the goods

³ See Trademarks FAQs, <http://www.uspto.gov/faq/trademarks.jsp> (last visited December 19, 2012).

or services.⁴ Trademarks benefit consumers by allowing them to identify the products or services they wish to buy and to avoid products which they believe are of inferior quality.⁵ For businesses, a trademark represents a long term investment of time, money and effort to garner the good will of consumers. In exchange for this investment, a business is rewarded with a trademark which embodies the good will that the public associates with its good or service.⁶ Due to the unique nature of trademarks, they are intrinsically linked to the goodwill they represent.⁷ A strong trademark is an essential asset to the business because the mark allows the business to capitalize on the goodwill that the public associates with its goods and/or services.

Trademark licensing has grown into a significant source of revenue for businesses in the United States.⁸ In situations where the owner of a trademark is unable to fully capitalize on its trademark, the owner may wish to raise capital by transfer their rights. The owner of a trademark may transfer their rights by assignment or by license.⁹ An assignment is a permanent transfer of ownership and all rights in the trademark.¹⁰ In contrast, licensing is a grant of the right to use a trademark, where the ownership of the trademark is not transferred.¹¹ Licensing is valuable to a business because it provides a revenue stream over a period of time, yet the business retains ownership of the trademark.

⁴ See 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 1.03 (1974 & SUPP. 2012) (“A trademark is a species of property that denotes a particular standard of quality embodied in the product or service, symbolizes the good will of its owner, and represents an advertising investment.”)

⁵ See *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002) (“The consumer who knows at a glance whose brand he is being asked to buy knows whom to hold responsible if the brand disappoints and whose product to buy in the future if the brand pleases.”).

⁶ GILSON *supra* note 4, § 1.03 [4] (“If the mental associations evoked by the trademark are favorable, the trademark has come to symbolize the good will of its owner by encouraging repeated purchases by the consumer”).

⁷ *Id.* (“In fact, a trademark cannot exist apart from the going business in which it is used. The trademark and the good will it represents can thus be said to be inseparable”).

⁸ *Id.* at § 6.01 (“In the United States, trademark licensing has become a huge business, fueled by the franchising boom of the 1960s and 1970s and early court decisions enforcing the licensing of sports teams logos”).

⁹ See *Id.* at § 3.06[2].

¹⁰ See *Id.* (“A valid assignment...transfers ownership of the mark to the assignee, who thereafter may assert exclusive rights of his own”).

¹¹ See *Id.* (“A trademark assignment, which transfers title in the mark, must be distinguished from a trademark license, which does not”).

B. THE TREATMENT OF LICENSES IN BANKRUPTCY

In the United States, jurisdiction over bankruptcy matters is expressly reserved to the federal government by the Constitution.¹² The majority of bankruptcy law is codified under Title 11 of the United States Code, which is referred to as the Bankruptcy Code.¹³ There are numerous types of bankruptcy¹⁴, however this paper focuses on liquidation and reorganization, the two basic types of bankruptcy available to business entities. Liquidation bankruptcy, contained in Chapter 7 of the Bankruptcy Code,¹⁵ collects the debtor's assets, sells them at auction, and then divides the proceeds between the creditors.¹⁶ Reorganization bankruptcy, contained in Chapter 11 of the Bankruptcy Code,¹⁷ allows the debtor¹⁸ to file a plan of reorganization¹⁹ to elect to keep certain assets and pay the creditors over a period of time. The plan of reorganization must be approved by the creditors²⁰ and confirmed by the court.²¹ The

¹² Article I, Section 8, Clause 4 of the United States Constitution grants to Congress the sole power to enact "uniform Laws on the subject of Bankruptcies throughout the United States".

¹³ The general procedures for bankruptcy are contained in Title 11 of the United States Code. 11 U.S.C. § 101 *et seq.* (2006). The jurisdiction and procedures of the Bankruptcy Courts are contained under Title 28 of the United States Code. 28 U.S.C. § 151 *et seq.* (2006). Bankruptcy related crimes are enumerated under Title 18 of the United States Code. 18 U.S.C. § 151 *et seq.* (2006).

¹⁴ Chapter 9 of the Bankruptcy Code provides relief to municipalities. 11 U.S.C. § 901 *et seq.* (2006). Chapter 12 of the Bankruptcy code provides relief to farmers and fishermen. 11 U.S.C. § 1201 *et seq.* (2006). Chapter 13 of the Bankruptcy Code allows for individuals to reorganize their debts. 11 U.S.C. § 1301 *et seq.* (2006). Chapter 15 of the Bankruptcy Code provides procedures for multinational bankruptcies. 11 U.S.C. § 1501 *et seq.* (2006). Chapters 7 and 11 of the Bankruptcy Code are discussed in greater detail later in this paragraph. *See infra* p. 4-5.

¹⁵ 11 U.S.C. § 701 *et seq.* (2006).

¹⁶ In bankruptcy, claims are paid in order of priority with "secured" claims treated as the highest priority, "administrative" claims second highest priority, and "unsecured" claims as the lowest priority, paid on a pro rata basis only if there are any funds remaining. 11 U.S.C. § 507 (2006)

¹⁷ 11 U.S.C. § 1101 *et seq.* (2006).

¹⁸ The debtor is granted an exclusive period of 120 days to file a plan of reorganization, after which his creditors may propose competing plans of reorganization. 11 U.S.C. § 1121 (2006).

¹⁹ 11 U.S.C. § 1123 (2006) (The plan of reorganization must be approved by the creditors).

²⁰ 11 U.S.C. § 1123 (2006)

²¹ The plan of reorganization must be confirmed by the bankruptcy court. 11 U.S.C. § 1129 (2006).

main goal of bankruptcy is provide relief to individuals and businesses who cannot repay their creditors.²² To this end, it is imperative for the court to preserve the assets of the debtor.

When a business entity files for protection under Chapter 11 of the Bankruptcy Code, the entity is usually allowed to continue to operate the business as a "debtor-in-possession"²³, under supervision of the court.²⁴ During the process of a bankruptcy reorganization, the trustee or debtor-in-possession has the right, subject to approval by the bankruptcy court, to assume or reject any executory contract to which it is a party.²⁵ The term "executory contract" is not defined in the Bankruptcy Code, however the many Circuits²⁶ have adopted the "Countryman" definition that a contract is executory if it is "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other."²⁷ As an oversimplification, an agreement is no longer executory once one of the parties has substantially fulfilled their contractual obligations.

In the event a Debtor decides to assume the contract, both parties must resume performance of the agreement as though the bankruptcy had never occurred.²⁸ The executory

²² The bankrupt individual or business is referred to as the "debtor" in bankruptcy. 11 U.S.C. § 101(13)(2006).

²³ 11 U.S.C. § 1101(1) (2006).

²⁴ 7-1101 COLLIER ON BANKRUPTCY P 1101.01 (Alan N. Resnick & Henry J. Sommer eds., 16th ed.) ("Upon the commencement of a chapter 11 case, the debtor automatically becomes a debtor in possession").

²⁵ 11 U.S.C. § 365(a) (2006).

²⁶ See *Sharon Steel Corp. v. Nat'l Fuel Gas Distrib. Corp.*, 872 F.2d 36, 39 (3d Cir. 1989)(applying the Countryman definition when determining that a natural gas contract quailed as an executory contract for purposes of rejection in bankruptcy); *Phoenix Exploration, Inc. v. Yaquinto (In re Murexco Petroleum, Inc.)*, 15 F.3d 60, 62-63 n.8 (5th Cir. 1994)(adopting the Countryman definition when it determined that a contract for operating rights of oil and gas reserves did not qualify as executory because the debtor had substantially performed its obligations); *Zurich Am. Ins. Co. v. Int'l Fibercom, Inc. (In re Int'l Fibercom, Inc.)*, 503 F.3d 933, 941 (9th Cir. Ariz. 2007)(adopting the Countryman definition when determining that a workers compensation insurance policy was not executory); Cf. *National Labor Relations Board v. Bildisco & Bildisco*, 465 U.S. 513 (1984)(The Supreme Court has not expressly adopted the Countryman definition, however it has held that a labor contract was executory because there were "reciprocal obligations" and "performance was due by both parties").

²⁷ Vern Countryman, *Executory Contracts in Bankruptcy*, 57 MINN. L. REV. 439, 460 (1973).

²⁸ See *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp)*, 281 B.R. 660 (Bankr. N.D. Cal. 2002)(" If the trustee or debtor-in-possession assumes a contract, it is not interrupted and the contracting parties'

contract must be assumed in full, the debtor may not assume a contract in part.²⁹ The debtor must affirmatively assume each executory agreement.³⁰ Failure to affirmatively assume an agreement results in automatic rejection of that agreement.³¹ In order to assume an agreement the debtor must first cure any default and provide adequate assurance of future performance.³² Once the debtor cures any defaults and provides adequate assurance of future performance, the non-bankrupt party is obligated to resume performance. Presumably the non-bankrupt party would become liable for breach of contract if it refused to resume performance of the agreement.

As an alternative the Debtor may reject the agreement, which releases the debtor from any future obligation under the contract.³³ The rejection is considered to be a material breach of the agreement as of the date of the filing of the debtor's bankruptcy petition.³⁴ It is important to recognize that the Debtor is in complete control of this decision. In fact, the Supreme Court has declared that the "the authority to reject an executory contract is vital to the basic purpose to a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization."³⁵ When reviewing a debtor's rejection of an executory contract under section 365(a), the reviewing court must apply the business judgment standard.³⁶ In bankruptcy, the business judgment standard simply asks whether the

rights are undisturbed.")(*citing* Lawrence P. King et al., *Collier on Bankruptcy* P365.01 pp. 365-17 (15th ed. Rev. 2002)).

²⁹ *Id.*

³⁰ In Chapter 7 bankruptcies the executory agreement must be affirmatively assumed within 60 days of the filing of the bankruptcy petition. 11 U.S.C. § 365(d)(1) (2006). In Chapter 11 bankruptcies the executory agreement must be assumed before confirmation of the plan by the bankruptcy judge. 11 U.S.C. § 365(d)(2) (2006).

³¹ 11 U.S.C. § 365(d) (2006).

³² 11 U.S.C. § 365(b)(1) (2006).

³³ *See* *Sunbeam* at 377 (*citing* *Bildisco* at 531).

³⁴ 11 U.S.C. § 365(g)(2006).

³⁵ *Bildisco*, 465 U.S. at 528 (1984).

³⁶ *See* *Group of Inst. Investors v. Chicago, Milwaukee, St. Paul, and Pac. R.R. Co.*, 318 U.S. 523, 550 (1943)(applying the business judgment rule to the rejection of executory agreements in bankruptcy).

rejection benefits the estate.³⁷ Once the license is rejected the non-bankrupt party has no recourse to compel performance of the agreement. In the event of a rejection of the agreement, the non-bankrupt party is entitled to an unsecured claim for monetary damages based on the breach of the agreement.³⁸

II. THE REJECTION OF INTELLECTION PROPERTY LICENSES IN BANKRUPTCY

Congress has granted special protection to licensees whose intellectual property license is rejected in bankruptcy. Pursuant to Section 365(n) of the Bankruptcy Code, in the narrow circumstance where the bankrupt entity is the licensor of intellectual property who rejects an agreement under Section 365(a), the non-bankrupt licensee is provided with two options. The first option is for the licensee to treat the rejection as a termination of the entire agreement.³⁹ Both parties are released from further obligation under the license and the licensee may pursue a claim in bankruptcy for monetary damages attributable to the rejection of the license.⁴⁰ The second option available to the licensee is to retain its right to use the licensed intellectual property for the remaining term of the rejected agreement. This second choice is a dramatic departure from the unilateral process of rejection in bankruptcy.

A. THE EVOLUTION OF SECTION 365(N)

The addition of Section 365(n) to the Bankruptcy Code was a direct Congressional response to *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*⁴¹ In 1982, Richmond Metal Finishers, Inc. ("RMF") granted to Lubrizol Enterprises, Inc. ("Lubrizol") a nonexclusive

³⁷ N.L.R.B. v. Bildisco (In re Bildisco), 682 F.2d 72, 79 (3d Cir.1982)(the "usual test for rejection of an executory contract is simply whether rejection would benefit the estate, the 'business judgment' test"), affirmed 465 U.S. 513, 104 S.Ct. 1188 (1984).

³⁸ 11 U.S.C. § 365(g) (2006); *See also* Sunbeam at 377.

³⁹ 11 U.S.C. § 365(n)(1)(A) (2006).

⁴⁰ Essentially this option allows the licensee to "opt-in" to the default treatment under 11 U.S.C. 365(g)

⁴¹ *Lubrizol*, 756 F.2d 1043 (4th Cir. 1985).

license to use RMF's patented metal coating process technology.⁴² RMF later filed for bankruptcy under Chapter 11 reorganization and elected to reject the Lubrizol license pursuant to 365(a).⁴³ Before approving the rejection, the bankruptcy court applied the "two-step inquiry to determine the propriety of rejection: first, whether the contract is executory; next, if so, whether its rejection would be advantageous to the bankrupt."⁴⁴ Upon finding that the license was executory, due to the continuing contractual obligations of both parties, and that rejection was in the interest of RMF, the bankruptcy court approved RMF's rejection of the Lubrizol license.⁴⁵ Lubrizol immediately appealed to the District Court. The District Court reversed, finding that the license was not executory and therefore RMF's rejection of the Lubrizol license was improper.⁴⁶

On appeal the Fourth Circuit reinstated the Bankruptcy Court decision to approve the rejection of the Lubrizol contract. The court found that the bankruptcy court had properly determined the agreement was executory and ripe for rejection. In its opinion the Fourth Circuit recognized that, from a policy perspective, the rejection of intellectual property licenses "imposes serious burdens upon contracting parties".⁴⁷ However, the court determined that it would be improper to grant special treatment to intellectual property licenses which had not been given by Congress. It noted that, at that time, special treatment was only afforded to lessees of real property⁴⁸ and collective bargaining agreements⁴⁹, and that only Congress could grant special treatment to intellectual property licenses.

⁴² *Id.* at 1045.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Id.* at 1048.

⁴⁸ 11 U.S.C. § 365(h) (2006).

⁴⁹ *See* NLRB v. Bildisco, 465 U.S. 513, 526 (U.S. 1984) ("...the Bankruptcy Court should permit rejection of a collective-bargaining agreement under § 365(a) of the Bankruptcy Code if the debtor can show that the

The Lubrizol decision produced “a strong adverse reaction within the intellectual property, high technology, and investor communities”.⁵⁰ In response to the public outcry, Senators Dennis DeConcini (D-AZ) and Howell Heflin (D-AL) introduced the “Intellectual Property Bankruptcy Protection Act of 1987” for consideration by the Senate on August 7, 1987. The bill was enacted on October 18, 1988 as the “Intellectual Property Licenses in Bankruptcy Act of 1988” (“IPLBA”).⁵¹ In the official record, Senator DeConcini noted that the Lubrizol decision had disastrous effects on the economy as “potential licensees are now insisting on total ownership transfers to prevent the possible loss of rights during a bankruptcy filing.”⁵² With the passage of the IPLBA, Congress intended “to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license.”⁵³ The IPBLA amended the Bankruptcy Code created a special exception for the rejection of intellectual property licenses⁵⁴ and introduced a statutory definition of “intellectual property”⁵⁵.

The newly added Section 101(35A) of the Bankruptcy Code defines “intellectual property” as a trade secret, patent, patent application, plant variety, copyright, and/or mask work.⁵⁶ Noticeable absent are trademarks, trade names and service marks. According to contemporaneous Congressional statements, trademarks were omitted “to postpone congressional action in this area and to allow the development of equitable treatment of this

collective-bargaining agreement burdens the estate, and that after careful scrutiny, the equities balance in favor of rejecting the labor contract.”)

⁵⁰ 4 MELVILLE B. NIMMER AND DAVID NIMMER, NIMMER ON COPYRIGHT § 19[A][06] (Matthew Bender, Rev. Ed. 2011) (1963).

⁵¹ Pub. L. No. 100-06, 102 Stat. 2358 (1988).

⁵² 134 Cong. Rec. S12993-01, Congressional Record - Senate, 1988 WL 182382 (September 20, 1988).

⁵³ S. Rep. No. 100-505, 100th Cong., 2d Sess. 5 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3207.

⁵⁴ Later codified as 11 U.S.C. § 365(n)(2006).

⁵⁵ Later codified as 11 U.S.C. § 101(35A)(2006).

⁵⁶ 11 U.S.C. § 101(35A)(2006).

situation by bankruptcy courts.⁵⁷ The courts disagree whether the omission was an implicit approval of the *Lubrizol* decision as applied to trademark.⁵⁸ Despite the disagreement over the intent of Congress when it enacted the IPBLA, courts have consistently held that Section 365(n) does not apply to trademarks.⁵⁹

B. THE VALIDITY OF THE *LUBRIZOL* DECISION IN THE WAKE OF THE IPLBA

The year following the enactment of the IPBLA, the Bankruptcy Court for the District of Rhode Island held that a trademark licensee whose license is rejected may only pursue to a claim of monetary damages for breach of contract.⁶⁰ In July 1989, Blackstone Potato Chip Co., Inc. entered into a licensing agreement with Mr. Popper, Inc. for the use of the Blackstone trademark and trade name. Two months later Blackstone Potato Chip Co. filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code and rejected the Mr. Popper license pursuant to 365(a). The rejection was upheld by the bankruptcy court on the grounds that it satisfied the business judgment rule. The court ordered the trademark and trade name to be transferred from the licensee to the debtor and held that the licensee was only entitled to an “unsecured claim for breach of its executory contract”.⁶¹ Curiously the bankruptcy court did not discuss Section 365(n) despite being decided a full year after enactment, however it is clear that the holding is in line with other courts which have held that 365(n) does not extend to trademark. Although the court did not explicitly acknowledge *Lubrizol*, the court came to the same conclusion.

In a 2002 adversarial proceeding, the United States Bankruptcy Court for the Northern District of California also followed the *Lubrizol* holding after determined that trademark

⁵⁷ S. Rep. No. 505, S. REP. 100-505, 5, reprinted in 1988 U.S.C.C.A.N. 3200, 3204.

⁵⁸ *Compare* Centura, 281 B.R. at 660 (stating that it is improper to consider legislative history because the Bankruptcy Code definition of intellectual property clearly omits trademark); *with* Sunbeam at 375 (stating that “an omission is just an omission” and that an omission is not a signal of congressional intent).

⁵⁹ *Infra* p.11-16.

⁶⁰ *In re* Blackstone Potato Chip Co., Inc., 109 B.R. 557 (Bankr. D.R.I. 1990).

⁶¹ *Id* at 559.

licensees are not entitled to relief under Section 365(n) due to the fact that the Bankruptcy Code definition of “intellectual property” plainly excludes trademarks.⁶² The history of the licensing arrangement between the parties is convoluted, therefore for our purposes it will suffice that Raima UK was the sub-licensor of the “Raima” trademark and Centura UK, a subsidiary of Centura US, was the sub-licensee of that trademark.⁶³ Soon after filing a petition for Chapter 11 bankruptcy protection in the United States, Centura US rejected the trademark license between its subsidiary and Raima UK and the rejection was approved by the bankruptcy court. Raima UK filed adversarial proceedings seeking a declaration that it retained its right to use the trademarks pursuant to 365(n). Upon surveying the issue post-enactment of IPLBA, the bankruptcy court declared that “both pre and post-amendment cases as well as scholarly writings suggest that, upon the rejection of a trademark license, *Lubrizol's* harsh holding controls, and the licensee is left with only a claim for breach.”⁶⁴ Raima UK was stripped of the trademark and Lubrizol remained the law of the land as applied to trademark.

The Bankruptcy Court for the District of Delaware came to the same conclusion in the 2003 bankruptcy of office space franchisor HQ Global Holdings, Inc. (“HQ Global”).⁶⁵ HQ Global, and its related entities, entered into franchise agreements with numerous parties for the use of HQ Global’s “trade names, trademarks, service marks, logos, emblems, insignia, and other indicia of origin”.⁶⁶ After filing for Chapter 11 reorganization, HQ Global moved to reject the franchise agreements. The franchisees argued that they retained the right to use the trademarks pursuant to 365(g) because a breach of the agreement would not automatically terminate the right

⁶² In re Centura, 281 B.R. at 660.

⁶³ *Id.* at 663. (Raima Corporation, as the original owner of the trademarks, granted the exclusive right to use the trademarks in the UK market to its subsidiary Raima UK. Raima UK was then sold to a third party but the license survived. Raima Corporation was thereafter purchased by Centura US. The UK subsidiary of Centura US, Centura UK, sublicensed the trademark rights back from Raima UK.).

⁶⁴ *Id.* at 673.

⁶⁵ In re HQ Global Holdings, Inc., 290 B.R. 507 (Bankr. D. Del. 2003).

⁶⁶ *Id.* at 509.

to use the trademark. The bankruptcy court was not persuaded. It held that “that affirmative obligation of the Debtors to allow the Franchisees to use the marks is excused” by rejection.⁶⁷ Further, the “Bankruptcy Code does not include trademarks in its protected class of intellectual property, Lubrizol controls and the Franchisees’ right to use the trademarks stops on rejection.”⁶⁸

Lubrizol was first challenged in a Third Circuit concurrence in 2010.⁶⁹ In 1991, Enersys, Inc. (“Enersys”) purchased the majority of Exide Technologies’ (“Exide”) industrial battery business. Contemporaneous with the purchase, the parties entered into a “Trademark and Trade Name License Agreement” wherein Enersys was granted a “perpetual, exclusive, royalty-free license to use the Exide trademark in the industrial battery business”, while Exide retained use of the mark in connection with other goods and services.⁷⁰ Exide filed for Chapter 11 bankruptcy protection and attempted to reject the license pursuant to 365(a).⁷¹ The bankruptcy court determined that the contract was executory and therefore approved the rejection. The bankruptcy court further held that the licensee had no right to continued use of the mark following rejection, expressly stating that trademark licenses are not included in Section 365(n). The district court affirmed. In a non-controversial majority opinion, the Third Circuit reversed the lower courts, holding the license was not executory because Exide had substantially performed its contractual obligations. The majority did not reach the effect of rejection on a trademark license because the license could not be rejected under Section 365(a). The *Exide* majority did not hint whether it would have applied *Lubrizol* had it determined that the contract was executory.

Although the *Exide* majority did not discuss whether *Lubrizol* would have applied if the contract was deemed executory, Judge Ambro issued a concurrence in which he attacked the

⁶⁷ *Id.* at 513.

⁶⁸ *Id.* (citing *In re Centura*, 281 B.R. at 673, n. 24).

⁶⁹ *Exide*, 607 F.3d at 957.

⁷⁰ *Id.* at 961.

⁷¹ *Id.* at 960.

Lubrizol interpretation of rejection. He argued that pursuant to the plain language of 365(g), rejection is simply a breach of the agreement and does not terminate the agreement.⁷² The concurrence argued that this distinction is significant because outside of bankruptcy a breach of the agreement would not automatically terminate the licensee’s contractual right to continued using trademark.⁷³ Further, Judge Ambro insisted that the omission of trademark from coverage under 365(n) did not prove Congressional intent to codify the *Lubrizol* decision.⁷⁴ He concluded that “the Courts here should have used... their equitable powers to give Exide a fresh start without stripping EnerSys of its fairly procured trademark rights.”⁷⁵ Despite Judge Ambro’s spirited concurrence, none of the other members of the panel joined his concurrence and *Lubrizol* remained good law in the Third Circuit.

III. THE RECENT SEVENTH CIRCUIT DECISION IN SUNBEAM PRODUCTS, INC. V. CHICAGO AMERICAN MANUFACTURING, LLC

The *Lubrizol* decision was expressly repudiated by the Seventh Circuit when it ruled that a licensee's contractual right to use a Trademark does not automatically end when the licensee is rejected in bankruptcy.⁷⁶ In 2008, Lakewood Engineering & Manufacturing Co. (“Lakewood”) entered into a supply agreement with Chicago American Manufacturing (“CAM”) which granted to CAM the right to use certain patents and trademarks in order to produce box fans which would be sold to Lakewood within 30 days of production. Shortly thereafter a group of creditors filed an involuntary liquidation bankruptcy action against Lakewood. A bankruptcy trustee was appointed to liquidate the company by auctioning off the Lakewood assets. At auction the

⁷² *Id.* at 967(Ambro, J., concurring).

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ Sunbeam 686 F.3d at 372.

Lakewood patent and trademark portfolios were sold to Sunbeam Products (“Sunbeam”)⁷⁷. Sunbeam Products desired to produce its own Lakewood brand box fans, therefore the trustee did not assign the CAM license as part of the sale of assets.⁷⁸ Soon after the sale of the Lakewood assets, the bankruptcy trustee to reject Lakewood’s supply agreement with CAM.⁷⁹ During the auction process CAM continued to make Lakewood brand box fans for the 2009 season and sold most at a steep discount to clear inventory after Lakewood declined purchasing them.⁸⁰ Sunbeam filed an adversarial action in the Bankruptcy Court for the Northern District of Illinois arguing that CAM had violated the Lakewood patents and trademarks by producing box fans which were not covered by the rejected supply agreement.⁸¹

The bankruptcy court examined the supply agreement and found that its terms were ambiguous as to the amount of fans to be produced.⁸² To resolve the ambiguity, the court relied on extrinsic evidence to determine that the fans at issue were covered by the supply agreement.⁸³ The court found that, although trademarks are not covered by 365(n), the rejection of the supply agreement did not end CAM’s right to continue making Lakewood box fans using the Lakewood trademark.⁸⁴ The court then took up Judge Ambro's challenge to “begin the ‘development of equitable treatment’ Congress anticipated would occur.”⁸⁵ The court thereupon decide in favor of CAM and allowed the use of the Lakewood trademark on equitable grounds.

⁷⁷ During the purchase of the Lakewood assets, Sunbeam Products, Inc. was doing business as Jarden Consumer Solutions. *See Id.* at 374.

⁷⁸ The debtor may assign any executory contracts, regardless of whether the terms of the license allows for assignment. 11 U.S.C. § 365(f).

⁷⁹ Sunbeam 686 F.3d at 374

⁸⁰ Szilagyi v. Chi. Am. Mfg., LLC (In re Lakewood Eng'g & Mfg. Co.), 459 B.R. 306 (Bankr. N.D. Ill. 2011).

⁸¹ *Id.* at 322-24.

⁸² *Id.* at 345.

⁸³ *Id.*

⁸⁴ *Id.* (finding that the Lakewood patents were not infringed because 11 U.S.C. § 365(n) extends to patents and therefore CAM had properly exercised its right to retain the patent rights pursuant to the terms of the license.

⁸⁵ *Id.* at 345 (quoting S. Rep. No. 505).

On appeal the Seventh Circuit vigorously disagreed with equitable approach of the bankruptcy court, and by extension Judge Ambro.⁸⁶ The Circuit court noted that an equitable approach would lead to uneven application of the law by the bankruptcy courts because of the ambiguous nature of equitable treatment.⁸⁷ Yet in the end the appeals court upheld the decision on the bankruptcy court on different grounds than the lower court. Focusing on the statutory language of section 365(g), which states, in part, that “rejection of an executory contract...of the debtor constitutes a breach of such contract”,⁸⁸ the *Sunbeam* court expressly rejected the *Lubrizol* decision, noting that “[o]utside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property.”⁸⁹ In its holding, the Seventh Circuit expressly recognized that its decision would create “a conflict among the circuits”,⁹⁰ yet no judge within the circuit favored rehearing the case *en banc*.⁹¹ A petition for a Writ of Certiorari was filed by Sunbeam Products and the Supreme Court denied Certiorari on December 10, 2012.⁹²

IV. THE CIRCUIT SPLIT ON THE EFFECTS OF REJECTION OF A TRADEMARK LICENSE BY A BANKRUPT LICENSOR

In the aftermath of the *Sunbeam* decision there now exists a significant disagreement between the circuits regarding the effect of rejection on a trademark license. The *Lubrizol* and *Sunbeam* courts hold opposite positions on whether the licensee retains its right to use the licensed trademark after rejection of the license. *Lubrizol* and its progeny teach that the licensee loses its right to use the trademark and may only file a claim for monetary damages attributable

⁸⁶ Sunbeam 686 F.3d at 376.

⁸⁷ See *Id.* at 375, 376 (“There are hundreds of bankruptcy judges, who have many different ideas about what is equitable in any given situation. Some may think that equity favors licensee’s reliance interests; others may believe that equity favors the creditors, who can realize more of their claims if the debtor can terminate IP licenses. Rights depend, however, on what the Code provides rather than on notions of equity.”).

⁸⁸ 11 U.S.C. § 365(g)(1)(2006).

⁸⁹ Sunbeam 686 F.3d at 376.

⁹⁰ *Id.* at 378.

⁹¹ *Id.*

⁹² Sunbeam Prods. v. Chi. Am. Mfg., LLC, 2012 U.S. LEXIS 9472 (U.S. Dec. 10, 2012).

to the rejection. *Sunbeam* instructs that the licensee’s right to use the intellectual property remains unaffected by rejection. These holdings cannot be reconciled, therefore this section will examine the impact of the *Sunbeam* decision on bankruptcy courts facing this issue.

Prior to the *Sunbeam* decision, at least one bankruptcy courts had inferred that, by its silence, Congress codified *Lubrizol* as it has been applied to trademark licenses.⁹³ This court saw the omission of trademark from the Bankruptcy Code definition of intellectual property as a significant congressional act because Congress was well aware of the impact of *Lubrizol* on all forms of intellectual property.⁹⁴ The *Sunbeam* court disagreed, stating that an “omission is just an omission.”⁹⁵ As the *Sunbeam* court noted, the Senate committee report explained that trademarks were omitted “to allow the development of equitable treatment of this situation by bankruptcy court.”⁹⁶ The ambiguity of the congressional record could be construed to support either viewpoint.

Although Congress may not have explicitly codified *Lubrizol*, nor has it acted to limit its application to trademark licenses. In fact, the Supreme Court has previously declared that it would “not read the Bankruptcy Code to erode past bankruptcy practice absent a clear indication that Congress intended such a departure.”⁹⁷ Prior to the *Sunbeam* opinion, bankruptcy courts across the nation have followed *Lubrizol* by treating rejection of the agreement as a termination of the rights of the licensee to use the intellectual property.⁹⁸ It is clear that it was the practice of bankruptcy courts to apply *Lubrizol* when analyzing the rejection of trademark licenses in

⁹³ See *In re Centura* at 673.

⁹⁴ *Id.* at

⁹⁵ *Sunbeam* 686 F.3d at 375.

⁹⁶ S. Rep. 100-505 (1988).

⁹⁷ *Pennsylvania Pub. Welfare Dep’t v. Davenport*, 495 U.S. 552, 563 (1990).

⁹⁸ See *In re Centura*; *In re HQ Global*.

bankruptcy. Despite a lack of specific intent by Congress to change the status quo, the *Sunbeam* court has broken with two decades of bankruptcy practice.

Complicating matters is that fact that the *Sunbeam* interpretation of Section 365(g) may render Section 365(n) to be superfluous. It is a well settled principle of statutory construction that a court should interpret a statute “as to avoid rendering superfluous” any part of the statute.⁹⁹ The Bankruptcy Code specifically uses the term “breach” in 365(g) and “terminated” in 365(n). As the *Sunbeam* court correctly noted, outside of bankruptcy the non-breaching party has the option to cancel the agreement upon a material “breach”,¹⁰⁰ thus releasing both parties from further contractual obligations, or to waive the breach and continue to perform the agreement. The result of the *Sunbeam* decision is that Trademark licensees receive the same treatment under 365(g) that statutory “intellectual property” licensees receive under 365(n).

Even outside of the intellectual property context, courts have struggled to construe the effects of rejection under Section 365(g). As the Fourth Circuit has aptly noted, the “effect of rejection is one of the great mysteries of bankruptcy law.”¹⁰¹ In particular, the difficulties arise when courts try to determine which contractual provisions are subject to rejection. The *Lubrizol* interpretation neatly avoids this difficulty by terminating all obligations and benefits. The *Sunbeam* decision does not touch on this issue, however past bankruptcy cases may provide guidance. This section will examine the various contractual provisions which have plagued courts.

⁹⁹ See *Astoria Federal Savings & Loan Ass’n v. Solimino*, 501 U.S. 104, 112 (1991); See also *Montclair v. Ramsdell*, 107 U.S. 147, 152 (1883) (declaring that courts should “give effect, if possible, to every clause and word of a statute, avoiding, if it may be, any construction which implies that the legislature was ignorant of the meaning of the language it employed”).

¹⁰⁰ UCC 2-106(4) (2010) (“Cancellation occurs when either party puts an end to the contract for breach by the other and its effect is the same as that of “termination” except that the cancelling party also retains any remedy for breach of the whole contract or any unperformed balance.”)

¹⁰¹ *Cromwell Field Assoc. F. App’x*. 186, 188 (4th Circ. 2001).

Courts have been extremely inconsistent when dealing with the rejection of individual contractual provisions. Courts have come to opposite outcomes when deciding whether a debtor may reject a covenant not to compete. The Bankruptcy Court for Massachusetts has previously held that a covenant not to compete was invalid upon rejection of the contract and the non-bankrupt party was limited to a claim for damages.¹⁰² However, the Bankruptcy Court for the Northern District of Florida came to the opposite conclusion, finding that a covenant not to compete remains valid despite rejection of a contract.¹⁰³ Courts have also come to opposite conclusions on whether the right of first refusal may be rejected.¹⁰⁴ Adding to the confusion, the Ninth Circuit has previously held that a debtor may specifically reject the exclusivity provision of a contract.¹⁰⁵ The *Select-A-Seat* was partially abrogated by Section 365(n)(1)(B),¹⁰⁶ it is entirely possible that it would still be valid as applied to trademark, as trademark is not covered by 365(n). The courts are in complete disarray when handling the rejection of contractual obligation.

The *Sunbeam* interpretation of rejection may also cause havoc with the quality control provisions of rejected licenses. There is evidence to suggest that Congress may have been wary of this unique problem when it decided omitted trademark from the IPBLA.¹⁰⁷ Trademark licensing is unique in that the trademark licensor is required to maintain quality control when licensing a trademark. A lack of quality control over the licensed use of a trademark is referred

¹⁰² See *Maids Int'l v. Ward* (In re *Ward*), 194 B.R. 703 (Bankr. D. Mass. 1996).

¹⁰³ See *In re Printronics, Inc.*, 189 B.R. 995, 1000 (Bankr. N.D. Fla. 1995)('rejection of the franchise agreement does not terminate the covenant not to compete').

¹⁰⁴ Compare *In re Bergt*, 241 B.R. 17 (Bankr. D. Alaska 1999) (holding that the right of first refusal is not subject to rejection), with *In re Kellstrom Industries, Inc.*, 286 B.R. 833 (Bankr. D. Del. 2002) (holding that the right of first refusal is executory in nature and therefore subject to rejection by the debtor).

¹⁰⁵ See *In re Select-A-Seat Corp.*, 625 F.2nd 290, 293 (9th Circuit 1980)('rejection can cancel covenants requiring future performance by the debtor.').

¹⁰⁶ 11 U.S.C. § 365(n)(1)(B)(2006)(a licensee may retain its "right to enforce any exclusivity provision.').

¹⁰⁷ S. Rep. 100-505 (1988)('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').

to as “naked licensing”. While it is not required that the license itself contains a provision for quality control,¹⁰⁸ the licensor must make actual efforts to enforce quality control standards over the course of the license.¹⁰⁹ The trademark licensor may not passively rely on the licensee to maintain quality.¹¹⁰ The trademark owner-licensor must maintain “reasonable control over the nature and quality of the goods, services, or business on which the [mark] is used by the licensee.”¹¹¹ Failure to enforce quality controls may result in the abandonment and unenforceability of the trademark.¹¹² Once abandoned, the trademark essentially lose all value as anyone may use the mark on their own product.¹¹³

Under the *Sunbeam* interpretation of 365(g) it is unclear how quality control provisions would apply post rejection. Contractual quality controls are a mutual benefit and a mutual obligation. Both parties are benefited by the continued strength and viability of the trademark. The licensor is obligated to enforce the quality controls and the licensee is obligated to conform to the contractual specifications. However, bankruptcy courts have held that specific performance is not an available post-rejection remedy.¹¹⁴ As the bankruptcy court would be unable to enforce the quality control provision, rejection very well might render the quality control provision unenforceable. The entire quality control mechanism would be messy post-

¹⁰⁸ See *FreecycleSunnyvale v. The FreeCycle Network*, 626 F.3d 509, 516 (9th Cir. Nov. 24, 2010).

¹⁰⁹ *Id.*

¹¹⁰ See *Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589 (9th Cir. Cal. 2002)(Licensor of the “Leonardo DaVinci” trademark for wine was found to have abandoned the mark because minimal efforts were made to enforce quality of the licensee’s wine, including infrequent tasting of the wine).

¹¹¹ Restatement (Third) of Unfair Competition § 33 (1995).

¹¹² See *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963); *Eva’s Bridal Ltd. v. Halanick Enterprises, Inc.*, 639 F.3d 788 (7th Cir. 2011); *Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589 (9th Cir. Cal. 2002); *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509 (9th Cir. Cal. 2010).

¹¹³ It is important to note that abandonment extends only to the specific trademark as used in connection with specific goods or services by the owner of the abandoned trademark. For example, if the Coca Cola Company abandoned the “Coke” mark, competitors would be free to use the “Coke” trademark on goods and services covered by the trademarks owned by the Coca Cola Company, such as Class 32 soft drinks. It would not, however, allow use of the “Coke” mark on goods and services where a third party maintains a valid trademark.

¹¹⁴ See *Midway Motor Lodge of Elk Grove v. Innkeepers ’ Telemanagement & Equipment Corp.*, 54 F.3d 406, 407 (7th Cir. 1995)(“Rejection avoids specific performance, but the debtor assumes a financial obligation equivalent to damages for breach of contract”).

rejection. The worst case scenario would be a licensor who is unable to enforce any quality controls thereby abandoning the mark and completely destroying the value of the trademark.

V. POTENTIAL SOLUTIONS

There are two solutions to the current crisis, a Supreme Court decision resolving the circuit split or Congressional action to resolve the ambiguity of the statute. This section will address each option in turn.

A. THE SUPREME COURT MUST RESOLVE THE CIRCUIT SPLIT

The most pressing issue is to quiet the conflict between the Fourth and Seventh Circuits. Uniformity in the application of the Bankruptcy Code is of paramount concern. It is clear that the *Lubrizol* and *Sunbeam* decisions cannot be reconciled therefore it is imperative that the Supreme Court step in to settle this dispute. The current state of the law is that two identical bankrupt-licensors will receive completely opposite treatment in the Fourth and Seventh circuits. The licensor will receive more favorable treatment in the Fourth Circuit and less favorable treatment in the Seventh. This uncertainty is detrimental to the uniform application of the Bankruptcy Code and may encourage forum shopping. Much more troubling is that this uncertainty may have a chilling effect on the negotiation of trademark licenses.

The circuit split will arguably make it harder for parties to come to terms on a trademark license agreement when the licensor is financially distressed. The licensee may be unwilling to risk losing the right to use the trademark if the licensor files for bankruptcy. As Congress has noted, “licensees sometimes use the licensed technology as the basis for an entire business.”¹¹⁵ The licensor may also be hesitant to license its trademark with the threat of bankruptcy looming. While licensing would provide a stream of revenue to stave off bankruptcy, the licensor may determine that it is too risky to license. This may lead to a less productive use of otherwise

¹¹⁵ H.Rep. 100-506 (1988)

viable trademarks. The uncertainty will make it much harder for the licensor and licensee to reach agreement on a licensing agreement. The uncertainty may also has disastrous effects on the liquidation sale of trademarks in bankruptcy. Until the issuance of the *Sunbeam* opinion, the purchaser of a trademark was guarantee to receive a trademark free and clear of encumbrances. Bidders may be reluctant to pay “full price” for a trademark which they may have to share with a prior licensee. The current uncertainty will increase the amount of diligence the bidder must undertake before placing a bid and may dissuade potential buyers.

As a general matter, supporters of the *Sunbeam* interpretation would argue that the non-bankrupt licensee should be favored because it is a good actor and therefore it should not be punished for the debtor’s business failing. The licensee has presumptively satisfied their obligations under the license and it is through no fault of the licensee that the licensor has gone bankrupt. The *Lubrizol* interpretation to deny continued use of the Trademark would have disastrous effects on the licensee. The Licensee itself may be forced into bankruptcy if it is denied use of the trademark. The licensee may have invested considerable time, effort and money into build a business which relies on the use of the Trademark. Under *Sunbeam* the licensee is also still obligated to make the contractual royalty payments to the debtor, which in turn would be distributed to the other creditors. Supporters of the *Sunbeam* interpretation would argue it should be affirmed because allowing the licensee to continue use of the trademark provides the greatest value to the creditors.

Detractors of the *Sunbeam* decision would argue that the *Lubrizol* interpretation of rejection should be adopted because it strengthens the Bankruptcy estate and provides more value to the creditors. Bankruptcy allows a narrow opportunity to financially rehabilitate the debtor into a productive member of the corporate society. The debtors is already in a precarious

financial position and the trademark may be one of the few assets with any value. The bankruptcy estates as a whole would be hurt by the *Sunbeam* interpretation of rejection because it would encumber the trademark with agreements which existed before Bankruptcy. This interpretation would possibly provide less value to the remaining creditors as bidders would not pay as much at auction for the encumbered trademark as they might for the unencumbered trademark. However, it should be noted that the *Sunbeam* interpretation might offset this risk through ongoing royalty payments by the licensee. In sum, supporters of the Lubrizol interpretation would argue that the licensor must be allowed to reject the trademark license in its entirety so that it is able to maximize the value of the mark. One thing is absolutely certain, continued uncertainty regarding the effect of rejection would be disastrous to all of the involved parties. Unfortunately, now that the Supreme Court has denied certiorari in the *Sunbeam* matter, the circuit split may not be resolved for quite some time.

B. CONGRESS MUST CLARIFY THE EFFECT OF REJECTION

Although the Supreme Court must now wait for another opportunity to resolve the circuit split, Congress is free to clarify the effect of rejection at any time and should act immediately. At this time, the circuit courts are in disarray and many bankruptcy courts have issued conflicting opinions regarding rejection.¹¹⁶ Congress needs to step in and provide guidance to the bankruptcy courts so that rejection is handled uniformly. As one option, Congress could amend the bankruptcy code to expressly state that the right to use a trademark does not survive rejection of a trademark license in bankruptcy. As an alternative, Congress could act to include trademark in the bankruptcy code definition of intellectual property and thereby extend coverage of Section 265(n) to trademarks.

¹¹⁶ See *supra* p. 18-19.

Trademarks are traditionally considered to be intellectual property, therefore there is a certain logical to including trademarks in the bankruptcy code definition of intellectual property. Yet trademarks are unique in that indicate a single source of origin of a good or service and therefore may be used by one supplier in connection with a single products or services without diminishing the trademark. This is notably different from copyrights and patents which can arguably be used by multiple parties on a concurrent basis without devaluing the intellectual property. Having multiple parties with a right to use a Trademark would muddy the markets with multiple parties producing goods bearing the same trademark. Congress has an interest in assuring the public that they receive the products that they intend to buy and therefore should address this very important trademark issue. However, due to the current gridlock in Congress,¹¹⁷ it is unlikely that the issue will be addressed any time soon.

VI. CONCLUSION

The current circuit split is untenable. As it stands, the Fourth and Seventh circuits would reach different outcomes when adjudicating the bankruptcies of identical trademark licensors. The Fourth Circuit would greatly benefit the licensor by revoking trademark rights from the licensee. The Seventh Circuit would favor the non-bankruptcy licensee by protecting its right to continued use of the trademark. There is an urgent need for guidance from the Supreme Court to resolve the circuit split on the issue so that there is uniformity in the Bankruptcy courts. The balance of the hardships of rejection tips strongly in favor of the debtor and creditors, therefore the Supreme Court should have granted certiorari and reversed the *Sunbeam* decision.

Although a Supreme Court ruling on the issue is not possible until the issue is appealed to the court, Congress should act immediately to clarify the effect of rejection of trademark

¹¹⁷ Susan Davis, This Congress Could Be Least Productive Since 1947, USA Today, August 14, 2012, available at <http://usatoday30.usatoday.com/news/washington/story/2012-08-14/unproductive-congress-not-passing-bills/57060096/1> (last visited on December 20, 2012).

licensed. Despite the fact that there is a strong case that Trademarks should be included in the definition of Intellectual Property, the unique problem of naked licensing should prevent the inclusion on trademarks in Section 101(35A). Therefore Congress should instruct whether the right to use a trademark survives rejection and whether quality control provisions survive rejection. Due to the recent denial of certiorari in the *Sunbeam* matter, Congressional should act immediately to prevent the uneven application of rejection pursuant to Section 365 of the Bankruptcy Code.