A "Sunbeam" of Hope: The Seventh Circuit's Solution Overcoming Disparaging Treatment to Trademark Licenses Under the Bankruptcy Code

Jarrod N. Cone

Follow this and additional works at: https://digitalcommons.law.uga.edu/jipl

Part of the Bankruptcy Law Commons, and the Intellectual Property Law Commons

Recommended Citation
Available at: https://digitalcommons.law.uga.edu/jipl/vol20/iss2/4

This Notes is brought to you for free and open access by Digital Commons @ Georgia Law. It has been accepted for inclusion in Journal of Intellectual Property Law by an authorized editor of Digital Commons @ Georgia Law. Please share how you have benefited from this access. For more information, please contact tstriepe@uga.edu.
A "SUNBEAM" OF HOPE: THE SEVENTH CIRCUIT'S SOLUTION OVERCOMING DISPARAGING TREATMENT TO TRADEMARK LICENSEES UNDER THE BANKRUPTCY CODE

Jarrod N. Cone

TABLE OF CONTENTS

I. INTRODUCTION ................................................................. 349

II. BACKGROUND .................................................................................. 350
      A. INTELLECTUAL PROPERTY LAW OVERVIEW ......................... 350
      B. TRADEMARK LAW OVERVIEW ........................................... 351
      C. LICENSING AS A METHOD OF TRADEMARK EXPANSION ..... 352
      D. QUALITY CONTROL CONCERNS ASSOCIATED WITH LICENSING TRADEMARKS ................................................................. 354
      E. BANKRUPTCY LAW, EXECUTORY AGREEMENTS, AND FIDUCIARY REJECTION OF AGREEMENTS ............................................... 355
      F. THE INTERSECTION OF BANKRUPTCY AND INTELLECTUAL PROPERTY, AND THE TRADEMARK TREATMENT DISCREPANCY ....................................................................................... 357

1. Lubrizol Highlights Disparaging Treatment of Intellectual Property Licensing Agreements in Bankruptcy Proceedings ......................................................... 358
2. Congress's Incomplete Response to the Intellectual Property Licensing Problem Creates More Uncertainty For Trademark Licensees .................................................. 360
3. The "Bundle" Problem and the Lack of Equitable Treatment by Courts .......................................................................................................................... 362
4. The Supreme Court's Previous Statutory Interpretation of the Bankruptcy Code ...................................................................................................................... 364
5. The Seventh Circuit's Resolution: Sunbeam ........................................ 366

* J.D. Candidate 2014, University of Georgia School of Law. The author would like to thank his family and friends for their love and support, as well as members of the Journal for their assistance in editing this Note.
III. ANALYSIS.................................................................................................................. 370
   A. EQUITABLE TREATMENT APPROACH: THE ATTEMPT OF JUDGE AMBRO AND LAKEWOOD TO FURTHER LEGISLATIVE INTENT................................................................. 370
   B. LUBRIZOL APPROACH: AN INCONSISTENT STATUTORY INTERPRETATION OF THE BANKRUPTCY CODE........................................................... 373
   C. SUNBEAM APPROACH: CONTRACT ANALYSIS AS THE BEST SOLUTION ...................................................................................................................... 375

IV. CONCLUSION............................................................................................................. 376
Imagine a start-up brewery located in Maine that wants to grow its business by introducing a specific beer into markets in the southwestern United States. The brewery must deliver the freshest product possible to consumers, which requires the beer to be brewed, bottled, and distributed from within the region. Currently, the brewery has no facilities outside of Maine, so its owners decide the best approach to establishing a market presence in the Southwest is to license the brewery’s recipe, along with its trademarked brand, to a Texas-based bottling and distribution company. The distributor brews the recipe, brands and packages bottles with the Maine brewery’s label, and distributes the beer throughout the southwestern United States. The companies agree to a set monthly fee for the distributor’s services, directing all of the sales revenue back to Maine. The contract includes a clause allowing the distributor to continue brewing, labeling, and selling the beer to recoup missed payments in the event that the brewery defaults on a monthly installment by retaining sufficient revenue.

The beer is well-received in the Southwest, and the brewery contract accounts for eighty percent of the distributor’s total production. Unfortunately, the brewery over-leveraged itself by aggressively expanding throughout Canada; after missing several monthly payments, the brewery files for bankruptcy. Per the contractual agreement, the distributor continues selling the popular beer and retains sufficient profits to cover the monthly payments. A large international brewing company, which already owns manufacturing and distributing facilities across the United States, subsequently buys all of the Maine brewery’s assets through a bankruptcy auction. The new owners obtain a court injunction that prohibits the Texas distributor from selling any additional beer bearing its newly-acquired trademark, despite the agreement made with the original brewery. The international distributor makes tremendous profits selling the beer, while the original distributor is stuck with a warehouse of spoiling inventory that a court has forbidden it to sell and accounts receivable that a court has forbidden it to collect. The effect of the injunction threatens the continued vitality of the distributor.

The described hypothetical illustrates several equitable dilemmas. How can this result be fair, when the original agreement clearly allowed the distributor to recoup delinquent payments by keeping sales revenue? Why does the court allow the asset purchaser to prevent the distributor from exercising its contractual rights? Why is there no statutory protection for trademark licensees whose businesses depend on one or few contracts? The outcome of the hypothetical is not “fair” to the distributor, but the principles of equity and
fairness alone will not resolve this problem. Resolving the disparaging treatment toward trademark licensees also requires thoughtful consideration of Bankruptcy Code provisions, statutory interpretation, congressional intent, and traditional contract law.

First, one must examine the Bankruptcy Code’s specific provisions describing post-rejection rights retained by intellectual property licensees. These licensees retain their bargained-for rights for specifically listed forms of intellectual property. Trademarks, however, are excluded from the Code’s definition of “intellectual property.” Trademark exclusion from specific statutory protection has subjected trademark licensees to harsh judgments over the past three decades.

Part II of this Note examines the treatment of trademark licensees under the Bankruptcy Code. Relevant intellectual property law, trademark law, licensing expansion, the Bankruptcy Code, cases, and developments in this dynamic area of trademark law are discussed. Part III of this Note analyzes the pros and cons of each viable, yet conflicting solution offered by courts of appeals. Part III concludes by discussing why the contract analysis provided in the 2012 Seventh Circuit decision, *Sunbeam Products, Inc. v. Chicago American Manufacturing*, is the most suitable long-term solution, absent statutory modification.

II. BACKGROUND

A. INTELLECTUAL PROPERTY LAW OVERVIEW

Intellectual property (IP) law is a body of principles and doctrines that creates rights in intangible property. Many forms of American intellectual property law have roots in the Constitution. “[Congress may make laws] ... [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective

---

2 Id.
4 686 F.3d 372 (7th Cir. 2012).
Writings and Discoveries . . . .” Although the drafters of the Constitution specifically addressed copyrights and patents, intellectual property law has since expanded to address unfair competition and to include protection for trademarks, trade secrets, and trade dress.7

IP law balances the interests of promoting art and innovation and providing consumer protection with respect to the quality and integrity of goods.8 Legal protection includes the exclusionary right of the owner to regulate or prohibit the use or sale of protected property and a right to sue those who misappropriate protected property.9 Legal protection of intellectual property encourages innovation by rewarding those who invest time and money, as legal protection lends value to innovation in a market economy.10 An important distinction between IP rights and tangible property rights is the duration of protection. Tangible property rights last as long as someone physically possesses an item, but IP rights are statutorily limited in order to encourage innovation and ideas that build off of previous concepts and technology.11

B. TRADEMARK LAW OVERVIEW

A trademark is any word, name, symbol, device, or any combination thereof used to identify or distinguish goods and services for consumer purposes.12 Trademarks include slogans, colors, designs, smells, shapes, containers, and sounds.13 Trademarks are at the heart of sales and advertising as seen in the market today. Trademarks serve a dual function: to protect consumers from confusion by signifying uniform quality and to protect businesses from competitors who attempt to misappropriate their ideas or goods.14 Trademarks

---

6 U.S. CONST. art. 1, § 8, cl. 8.
8 Peter S. Menell, Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis, 22 BERKELEY TECH L.J. 733, 737 (2007) (discussing the former interest being protected through copyrights and patents, while the latter interest is served through trademarks and unfair competition law).
9 See id. at 739–41 (discussing the prominent forms of intellectual property and how legal protection helps make creative works valuable).
10 Id.
11 GREGORY, SABER & GROSSMAN, supra note 7, at 1.
14 Bussert, supra note 13, at 4; HUNTER, supra note 5, at 155.
are protected under state law and also under federal law by the Lanham Act. Trademarks meeting the Lanham Act requirements for federal registration are granted protection from trademark infringement. Trademark owners can seek damages and injunctions against any person who uses a mark without permission, confuses consumers by using a mark similar to a protected mark, or advertises false statements intended to harm another business. Integrity of the marketplace is accomplished through trademark protection by encouraging firms to build goodwill with consumers by offering high quality products and services.

The duration of trademark protection is unlike patent and copyright protection due to its indefinite nature. Protection of a mark or brand lasts until the owner either abandons the mark, allows infringement of the mark until the value is completely diluted, or the protected mark becomes generic by overuse. According to the Lanham Act, a mark is deemed abandoned after its use in trade has been discontinued with intent not to resume use; three consecutive years of nonuse serves as prima facie evidence that no intent to resume use exists. Trademark protection can also be lost if the owner allows the mark to become a generic name for a good or service by failing to take measures to prevent unauthorized use. In contrast, federal law limits protection of utility patents for twenty years, design patents for fourteen years, and copyrights for the lifetime of the author plus seventy years.

C. LICENSING AS A METHOD OF TRADEMARK EXPANSION

Trademarks have become valuable assets of corporations, due in part to the legal protections they afford and the technological improvements that make...
monitoring and subsequent enforcement less difficult. For example, Apple, Google, Microsoft, Wal-Mart, Samsung, and GE are among the nine global brands with a value of at least $30 billion in 2012.26 The majority of a trademark’s value is derived from the goodwill established by the company associated with the mark.27 “[A] trademark is simply a symbol of goodwill and cannot be sold or assigned apart from the goodwill it symbolizes.”28 Trademark owners are not solely responsible for expanding goodwill. Through licenses, companies can retain their trademark protection while working with outside firms to increase brand value.

Licensing is a common method used by trademark owners to expand the value of trademarks. A licensing agreement grants the licensee permission to manufacture, use, or sell the trademark owner’s intellectual property without legally infringing on the mark.29 In order to preserve an interest in the trademark, the owner must affirmatively exercise control over the mark by monitoring and controlling the quality of the goods and services sold by the licensee.30 For example, a trademark owner can “franchise” a mark, a license that allows the licensee to use one or more of the marks in its business operations, typically in exchange for a percentage of profit.31 The licensee must subject himself to the licensor’s prescribed format and quality standards for products or services associated with the licensed mark.32 For all licenses, the trademark owner gains royalties from the mark’s use without incurring the

31 Bussert, supra note 13, at 37.
32 Id.
expenses of producing, marketing, or selling the goods. After licensing a trademark, the owner can expand the trademark into new markets or product lines, enhancing the goodwill of the mark in a cost-effective manner by utilizing third-party familiarity and expertise in particular marketplaces or industries. Trademark licensing agreements in both national and global markets facilitate trademark expansion into new territories and increase goodwill.

D. QUALITY CONTROL CONCERNS ASSOCIATED WITH LICENSING TRADEMARKS

Quality control is an important consideration for trademark licensors; any decrease in product quality decreases the goodwill connected to a particular brand, which in turn decreases consumer confidence in purchasing that brand. The control asserted by the licensor is exercised not over the licensee’s actual day-to-day business but instead over the licensee’s usage of the mark to the extent reasonably necessary to ensure consumer confidence. Quality control and consumer confidence are not the only two concerns associated with trademark licensing. From the licensee’s perspective, it is risky to have profitability contingent upon the strength of a particular licensor’s business model and the corresponding goodwill associated with its trademarks. This risk is particularly relevant when entering into agreements with financially-troubled licensors because the licensee’s rights to use the trademark can become a problem if the licensor files for bankruptcy. This intersection of trademark

Nguyen, supra note 27, at 1276.

Id. at 1275–79 (explaining that the primary example of expanding trademark use is the internet, where larger companies commonly use third parties to facilitate the demand of a global marketplace).


Sheldon W. Halpern, Craig Allen Nard & Kenneth L. Port, Fundamentals of United States Intellectual Property Law: Copyright, Patent, Trademark 351 (3d ed. 2011); see also 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) (explaining that courts previously required licensors to exercise stringent control in order to retain rights to the mark, but recently, courts have eased the requirements of due diligence in supervising licensees because of the growing importance of trademarks in the modern economy).


and bankruptcy law has been problematic for courts, recently leading to a circuit split.

E. BANKRUPTCY LAW, EXECUTORY AGREEMENTS, AND FIDUCIARY REJECTION OF AGREEMENTS

Bankruptcy law has three general objectives: (1) give debtors time to assess their situation and reevaluate the business, (2) provide an equitable method of sharing the debtor’s assets among creditors, and (3) give debtors a “fresh start” by discharging their previous financial obligations. Like congressional authority over intellectual property, Congress’s power to enact and oversee bankruptcy procedures in the United States is derived from the Constitution. Failing companies typically initiate bankruptcy filings on their own behalf, but creditors may have the ability to force a debtor into bankruptcy. Filing a bankruptcy petition is important for two reasons: first, filing immediately creates a “bankruptcy estate”; second, the filing initiates an “automatic stay” that preserves the estate and enjoins creditors from harassing the debtor or attempting collection of debt.

A debtor, for purposes of this Note, may file bankruptcy petitions under either Chapter 7 or Chapter 11 of the Bankruptcy Code. A Chapter 7 filing consists of ceasing business operations, liquidating assets, and dividing them among creditors according to priority. A Chapter 11 filing requires debtors to reorganize and restructure their business, allowing continued operation and use of property of the bankruptcy estate pending court approval of the reorganization plan. During Chapter 7 proceedings and certain Chapter 11 proceedings, the court will appoint or approve a third-party “trustee” to be the fiduciary representative of the bankruptcy estate. Typically in Chapter 11

40 Steven H. Rittemaster, The Surety and Bankruptcy 4 (J. Blake Wilcox et al. eds., 2010).
41 U.S. Const. art. 1, § 8, cl. 4 (“[Congress may make laws] . . . [t]o establish a[] uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States . . . .”).
42 Menell, supra note 8, at 751–52.
43 11 U.S.C. § 541(a) (2006) (including all current assets and future property interests owned by the debtor within the bankruptcy estate); but see id. § 541(b) (listing exceptions when filing does not operate as an automatic stay).
44 Id. § 362.
45 Menell, supra note 8, at 752–53.
47 Id. §§ 1101–1129.
48 Id. §§ 701, 1104; see also Michael T. Andrew, Executory Contracts in Bankruptcy: Understanding Rejection, 59 U. Colo. L. Rev. 845, 851–54 (1988) (discussing the difference between when a third-party trustee is necessary under Chapter 7 and Chapter 11 bankruptcy proceedings).
proceedings, the debtor becomes the estate's fiduciary, or "debtor-in-possession," and continues to manage its assets unless the court chooses to appoint a third-party trustee to the estate, usually due to fraud or mismanagement of the business.49

Regardless of whether a debtor-in-possession or a trustee represents the bankruptcy estate, an important fiduciary duty is to "assume or reject any executory contract or unexpired lease of the debtor."50 An executory contract is not statutorily defined but is essentially any contract with outstanding obligations by both parties.51 Executory contracts can be viewed as both an asset and an obligation of the debtor; thus, the trustee must decide if continuing the contract will increase or diminish the bankruptcy estate's value.52 The trustee must consider the benefit to the estate, the effect on creditors, and the potential future liability associated with accepting and continuing operations under the contract terms.53 If the trustee decides to reject the executory contract, the non-debtor party no longer has an obligation to perform duties under that agreement54 and has a claim for damages,55 which places the non-debtor among the unsecured creditors to the bankruptcy estate.56 Nearly every IP license will have sufficiently unperformed obligations by the licensee and licensor to be considered "executory" because of the continuous duty to pay royalties and monitor quality.57 However, an intellectual property license will

49 11 U.S.C. §§ 1104-1108 (2006); Andrew, supra note 48, at 854; Menell, supra note 8, at 753.
51 Vern Countryman, Executory Contracts in Bankruptcy: Part I, 57 MINN. L. REV. 439, 460 (1973) (discussing a widely accepted definition of an “executory contract”: “[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.”); see also Steve Jakubowski, Treatment of IP Licenses in Bankruptcy, 1036 PLI/Pat 153, 159-60 (April 2011) (discussing the Countryman definition and other definitions); Andrew, supra note 48, at 889-95.
52 In re Orion Pictures Corp., 4 F.3d 1095, 1099 (2d Cir. 1993) ("[A] bankruptcy court reviewing a trustee’s or debtor-in-possession’s decision to assume or reject an executory contract should examine a contract and the surrounding circumstances and apply its best ‘business judgment’ to determine if it would be beneficial or burdensome to the estate to assume it.").
54 11 U.S.C. § 365(g) (2006); Andrew, supra note 48, at 892-93.
55 11 U.S.C. §§ 501-502 (2006); see Jakubowski, supra note 51, at 166-67 (citing 3 COLLIER ON BANKRUPTCY ¶ 365.09 (15th ed. 2006)) ("Contract rejection, because it is only deemed a breach, does not affect the parties’ substantive rights under the contract, such as ... damages for breach ... ").
56 Andrew, supra note 48, at 878 ("The [purpose of the breach] is to insure that the non-debtor party to the contract will have rights equivalent to those of other parties who are otherwise similarly situated.").
57 Jakubowski, supra note 51, at 160.
not be considered executory "simply because [one] party is obligated to make payments of money to the other party," if the party receiving royalties has no obligation in return. With IP licensing emerging as a standard business practice, situations where IP licensors declare bankruptcy, leaving licensees in precarious financial positions, are not uncommon, and a relatively new body of law has developed at the intersection of bankruptcy law and IP licensing.

F. THE INTERSECTION OF BANKRUPTCY AND INTELLECTUAL PROPERTY, AND THE TRADEMARK TREATMENT DISCREPANCY

The Intellectual Property Bankruptcy Protection Act (IPBPA) is the section of the Bankruptcy Code that details the treatment of an intellectual property licensee’s rights once the debtor/licensor has rejected an executory agreement. When trustees of the debtor/licensor rejects a licensing agreement, the IPBPA allows a non-debtor/licensee two options: (1) treat the licensing agreement as terminated and pursue a claim for contractual breach or (2) retain contractual rights (excluding specific performance) for the duration of the agreement, as well as any period during which the licensee can legally extend the agreement. Congress notably excluded trademarks from the definition of "intellectual property" in the IPBPA, leaving trademark licensees subject to general bankruptcy standards. Applying the IPBPA can be particularly difficult due to the conflicting goals of intellectual property law and bankruptcy law. Bankruptcy law focuses on successfully rehabilitating debtors by discharging

---

58 Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1046 (4th Cir. 1985).
59 Ron E. Meisler et al., Rejection of Intellectual Property License Agreements Under Section 365(n) of the Bankruptcy Code: Still Hazardous After All These Years, 19 NORTON J. BANKR. L. & PRAC. 163, 164 (2010) ("Courts consider [IP licenses] to be executory contracts where there are ongoing, material obligations on both sides, such as the duty to indemnify, pay royalties, maintain confidentiality, provide updates, or adhere to quality standards.").
60 Menell, supra note 8, at 735–37; Nguyen, supra note 27, at 1271–75.
62 Id. § 365(n); see also Giaccio, supra note 29, at 102–03 (discussing the licensee's right of election mechanism).
64 Giaccio, supra note 29, at 96.
their debts among a hierarchy of creditors, while IP law focuses on consumer protection, disseminating ideas, and promoting art and science.\textsuperscript{65} 

In 1988, Congress enacted the IPBPA in response to a 1985 case,\textsuperscript{66} \textit{Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.}\textsuperscript{67} Prior to the IPBPA, the Bankruptcy Code negatively affected licensees in situations where trustees rejected licensing agreements; upon rejection, licensees could only obtain monetary damages for breach of contract, typically resulting in recovery of pennies on the dollar, at best, for unsecured creditors.\textsuperscript{68} Many licensees who relied on particular intellectual property to sustain their business operations were placed in precarious positions when licenses were rejected because no alternative suppliers of the IP existed.\textsuperscript{69} In 1985, this scenario occurred in \textit{Lubrizol}.\textsuperscript{70} 

1. Lubrizol Highlights Disparaging Treatment of Intellectual Property Licensing Agreements in Bankruptcy Proceedings. In 1982, Lubrizol Enterprises (Lubrizol) entered into a licensing agreement with Richmond Metal Finishers (RMF) to use RMF’s intellectual property, specifically a metal coating technology patent, in manufacturing Lubrizol’s products.\textsuperscript{71} However, before Lubrizol ever actually used the patented technology, RMF encountered financial difficulties and filed Chapter 11 bankruptcy.\textsuperscript{72} RMF sought to reject the licensing agreement with Lubrizol as part of its reorganization and reemergence strategy.\textsuperscript{73} The Fourth Circuit Court of Appeals was presented with several issues: whether the licensing contract was executory, thus able to be rejected;\textsuperscript{74} whether rejection would be beneficial to RMF;\textsuperscript{75} and if so, whether Lubrizol had any residual rights in the intellectual property.\textsuperscript{76} 

The Fourth Circuit held that each party owed continuing duties to the other party, the non-performance of which would be considered a material breach of

\textsuperscript{65} See \textit{id.} ("The application of the rigid test set forth in § 365(n) frustrates the primary policy goals of both intellectual property law . . . and bankruptcy law . . . ."); see also Menell, \textit{supra} note 8, at 738, 751 (discussing the objectives of intellectual property and bankruptcy laws).


\textsuperscript{67} 756 F.2d 1043 (4th Cir. 1985).

\textsuperscript{68} Giglio, \textit{supra} note 29, at 101–02.

\textsuperscript{69} \textit{id.} at 102.

\textsuperscript{70} \textit{Lubrizol}, 756 F.2d at 1043.

\textsuperscript{71} \textit{id.} at 1045.

\textsuperscript{72} Id.

\textsuperscript{73} Id.

\textsuperscript{74} Id.

\textsuperscript{75} RMF’s decision to reject the executory contract was reviewed in light of the business judgment rule. \textit{id.} at 1047.

\textsuperscript{76} \textit{id.} at 1048.
the agreement, rendering the agreement executory. The court determined that RMF's rejection of the executory contract was advantageous to its bankruptcy strategy because continuation of the agreement would limit RMF's ability to "sell or license the technology on more advantageous terms to other potential licensees." Thus, rejection fell within RMF's discretion under the business judgment rule. Finally, the Fourth Circuit found that Lubrizol was not entitled to seek specific performance of the agreement upon rejection by RMF but instead was limited to treating the rejection as a contractual breach and seeking monetary damages based on the application of 11 U.S.C. § 365(g). The Fourth Circuit explicitly rejected equitable considerations in bankruptcy disputes over IP contracts due to the lack of a specific provision in the statute.

This application of the Bankruptcy Code illustrates the incompatibility of bankruptcy law goals and IP law goals; granting specific performance—allowing Lubrizol to continue innovating by expanding upon the licensed technology—would undercut the goals of bankruptcy proceedings—preventing RMF from efficiently emerging from debt by putting its assets to the most profitable use.

77 Id. at 1045. The court discussed the standard that the bankruptcy court used, 11 U.S.C. § 365(a) (an agreement is executory if performance is "due to some extent on both sides"), to reach its determination that the contract was executory. Id. However, the Fourth Circuit went on to discuss the "Countryman" standard that it adopted, which more specifically requires that both parties' nonperformance of their respective continuous duties must materially breach the contract for it to be considered "executory" as to either party. Id. at 1045–46. RMF had duty to notify Lubrizol of any patent infringement of any other use or technology license and to indemnify Lubrizol for losses associated with misrepresentation or breach of warranty. Lubrizol owed the continuing duty to account for and pay royalties for using the technology, as well as to keep the technology confidential. Id.

78 Id. at 1047.

79 Id. at 1047–48; see also Menell, supra note 8, at n.132 ("Although the business judgment standard of review is highly deferential, a bankruptcy tribunal may, as a court of equity, restrain a debtor's rejection of a contract where such an action will needlessly inflict great damage on the licensee, especially if not accompanied by some countervailing benefit to the estate." (citing In re Peter U.S.A. Instrument Co., 35 B.R. 561, 563 (Bankr. W.D. Wash. 1983))).

80 Lubrizol, 756 F.2d at 1048. The court discussed the legislative history behind § 365(g), which clearly states that "the purpose of the provision is to provide only a damages remedy for the non-bankrupt party." Id. (citing H.R. REP. NO. 95-595, at 349 (1978), reprinted in 1978 U.S.C.C.A.N. 5963, 6305).

81 Id. ("[E]quitable considerations may not be indulged by courts in respect of the type of contract here in issue."). The court rejected Lubrizol's argument that IP should be treated as real property, which had a specific statutory provision in the Bankruptcy Code, 11 U.S.C. § 365(h), that allowed lessees of real property to retain certain rights and to enforce agreements. Id.

82 Id. at 1048 (noting this holding's "general chilling effect" on parties' willingness to enter into contracts with businesses that are potentially struggling financially). Ultimately, the court placed the burden on Congress to change the effect of the Bankruptcy Code provision on "technology licensees," if it so chooses. Id.
As a result of the court’s decision, Lubrizol, the licensee, lost the right to use the metal coating process technology patented by RMF and was thrown into the pool of RMF’s general unsecured creditors with no guaranteed monetary recovery.83 This holding imposed minimal obligations on the debtor upon finding the contract executory and effectively terminated the licensee’s right to use the patent by allowing a rejection of the contract.84 The decision to uphold rejection of the non-exclusive licensing agreement based on the business judgment standard, coupled with the rationale that the agreement inhibited RMF’s ability to achieve maximum benefit from licensing the technology, created the potential for a negative impact on the willingness of companies to enter into IP licensing agreements in the future.85

2. Congress’s Incomplete Response to the Intellectual Property Licensing Problem Creates More Uncertainty For Trademark Licensees. Lubrizol set the stage for Congress to assess treatment of IP licensees in bankruptcy proceedings.86 In 1988, Congress amended the Bankruptcy Code to include protection for licensees’ IP rights by adding two new sections.87 Section 101(35A) defines the term “intellectual property,” and § 365(n) provides a mechanism for licensees to elect retention of certain rights when a licensing agreement is rejected by a trustee or debtor-in-possession.88 These additions countered Lubrizol harsh result by reassuring licensees that certain rights would not be forfeited upon the debtor’s rejection.89 When a licensor elects to reject an executory agreement, § 365(n) provides licensees with two options: (1) treat the contract as terminated, if the contract would be considered terminated under non-bankruptcy law (treat as a breach and seek monetary damages) or (2) retain the right to enforce any exclusivity provision of the agreement, if such rights are granted in the language of the agreement (enforce clauses requiring specific performance as to use of the IP).90

83 Id.; see Giaccio, supra note 29, at 102 (citing 11 U.S.C. §§ 502, 504 (1988)).
84 Lubrizol, 756 F.2d at 1048; see Richard Lieb, The Interrelationship of Trademark Law and Bankruptcy Law, 64 AM. BANKR. L.J. 1, 36–37 (1990) (describing the court’s approach and arguing that trademark rights should not be revoked upon rejection of the agreement).
85 See Lubrizol, 756 F.2d at 1048 (“Lubrizol cannot rely on provisions within its agreement with RMF for continued use of the technology . . . upon breach by RMF.”); see also Giaccio, supra note 29, at 101–02 (discussing contract language having no effect on the rights of parties in bankruptcy).
86 See Nguyen, supra note 27, at 1289 (“Lubrizol’s harsh outcome led to the passage of the [IPBPA].”).
88 Id.
This change circumvents harsh judgments, as in Lubrizol, in situations where licensees contract to retain rights in bankruptcy and instead allows licensees to continue using the IP in their own operations.\textsuperscript{91} Allowing licensees to retain contractual rights to licensed IP does not undermine the goals of bankruptcy because the debtor will continue receiving royalty payments needed to reimburse creditors.\textsuperscript{92} This statutory addition also eliminated the licensee's fear of getting the "short end of the stick" during bankruptcy, thereby encouraging parties to use licensing agreements as a method of innovation and brand expansion.\textsuperscript{93}

One critical problem arising from the language of the IPBPA is found in § 101(35A), which defines the scope of protection afforded by the retention mechanism in § 365(n).\textsuperscript{94} IP licenses involving trade secrets, patents, patent applications, plant varieties, copyrights, and mask works are expressly covered under § 101(35A).\textsuperscript{95} However, Congress intentionally omitted several types of property commonly defined as "intellectual property," such as trademarks, trade names, and the right of publicity.\textsuperscript{96} Congress explained in the Senate Report that because trademark-licensing relationships depend on the quality control of products sold by the licensees, such protection was beyond the scope of the IPBPA until a more extensive study could be performed.\textsuperscript{97}

Until Congress conducts the more extensive study and reexamines trademark treatment under the IPBPA, trademark licensees remain subject to the same harsh results demonstrated in the Lubrizol holding. However, Congress specifically expressed hope that bankruptcy courts would develop "equitable treatment of this situation," pending further legislation.\textsuperscript{98} To date,

\textsuperscript{91} See Balfus, supra note 89, at 529 ("The IPBPA ... made clear that licensees were entitled to retain these rights."); S. REP. No. 100-505, at 5 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3203 ("[The change to 365] is intended to respond to a particular problem arising out of recent court decisions . . . .").

\textsuperscript{92} Giaccio, supra note 29, at 105.

\textsuperscript{93} S. REP. No. 100-505, at 3 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3202 ("Licensing of technology, which the bill is intended to protect and to facilitate, plays a substantial role in the process of technological development and innovation.").


\textsuperscript{95} Id.; Giaccio, supra note 29, at 106.


\textsuperscript{98} Id.; Balfus, supra note 89, at 529; Lieb, supra note 84, at 38.
no evidence suggests that the study alluded to in the Senate Report has taken place.\textsuperscript{99}

3. The “Bundle” Problem and the Lack of Equitable Treatment by Courts. Another issue, known as the “bundle problem,” has arisen from Congress’s omission of trademarks from the IPBPA definition. The problem arises in situations where a licensor grants ancillary rights to trademarks in conjunction with statutorily mentioned IP rights, such as patents or copyrights.\textsuperscript{100} When a licensee must use the entire bundle of IP rights in order to continue benefiting from marketing the product, the lack of trademark protection drastically reduces the value of the other IP rights to the licensee.\textsuperscript{101}

Several bankruptcy courts have addressed the bundle problem with varying results. One court suggested that the IPBPA’s legislative history should be invoked to protect licensees in situations where trademark licenses are bundled with other protected intellectual property.\textsuperscript{102} In \textit{In re Matusalem},\textsuperscript{103} the court did not actually explain details of the equitable test it would apply in a bundled IP rights situation because it held against the licensor on business judgment grounds; nevertheless, the court did allude to the situation being inequitable to the licensee, as it would “utterly destroy” the licensee’s business if trademark rights were not retained.\textsuperscript{104} The court in \textit{In re Centura Software Corp.}\textsuperscript{105} specifically addressed the treatment of trademarks bundled with expressly mentioned forms of IP under § 365(n) and explicitly rejected consideration of legislative history (equitable treatment of trademark licensees) because of the unambiguous nature of § 365(n).\textsuperscript{106} The \textit{Centura} court distinguished \textit{Matusalem} by highlighting when each licensee invoked protection: pre-rejection in \textit{Matusalem} and post-rejection in \textit{Centura}.\textsuperscript{107} The court left open the possibility of equitable considerations, depending upon when the licensee invokes protection, rendering unclear


\textsuperscript{100} See Giaccio, supra note 29, at 107–08 (“A problem arise [sic] when protected rights are granted in conjunction with rights that are excluded from the definition of intellectual property.”); see also Menell, supra note 8, at 774–76 (discussing bundled IP licenses).

\textsuperscript{101} See Giaccio, supra note 29, at 107–08 (explaining how the licensee’s benefits are greatly reduced without the entire bundle).

\textsuperscript{102} \textit{In re Matusalem}, 158 B.R. 514, 522 (Bankr. S.D. Fla. 1993).

\textsuperscript{103} Id.

\textsuperscript{104} Id.

\textsuperscript{105} Raima UK Ltd. v. Centura Software Corp. (\textit{In re Centura Software Corp.}), 281 B.R. 660 (Bankr. N.D. Cal. 2002).

\textsuperscript{106} Id. at 670; see also S. REP. NO. 100-505, at 5 (1988), reprinted in 1988 U.S.C.C.A.N. 3200, 3204 (discussing the possibility of equitable treatment under the statute).

\textsuperscript{107} \textit{Centura}, 281 B.R. at 672 (“What is before the court is only the application of § 365(n).”).
whether the court believed legislative history could ever be used to extend § 365(n) protection to trademark licensees.108

These two opinions cast doubt on whether equitable treatment should be considered. On one hand, Congress clearly intended courts to treat trademark cases “equitably,”109 but on the other hand, the statutory language plainly omits trademarks from the list of exceptions to § 365(a) treatment of executory contracts.110 The Centura opinion also left open the possibility for courts to equitably protect trademarks if the protection is sought pre-rejection but not to have the ability to weigh the equities after rejection has occurred.111 Subsequent decisions have split on whether to approach § 365 with a view toward the legislative history or the plain language of the statute. While multiple opinions have viewed the issue through the plain statutory language lens, leaving the licensee without any continued use rights,112 one notable concurring opinion from a Third Circuit case gives an in-depth discussion on legislative intent and equitable treatment as the preferred analysis for rejected executory trademark licensing agreements.113

In In re Exide Technologies,114 Exide filed for Chapter 11 bankruptcy and sought to reject various agreements arising from a 1991 contract with EnerSys.115 The agreements licensed Exide’s trademark for use in the industrial battery industry for an up-front fee.116 The central issue in Exide was whether the contract was executory,117 but in a concurring opinion, Judge Ambro discussed his view of the issues that Matusalem and Centura left unresolved.118

First, Judge Ambro clearly rejected the plain language approach that deprives trademark licensees of continued use of trademarks under a rejected executor agreement: “I believe a trademark licensor’s rejection of a trademark agreement . . . does not necessarily deprive the trademark licensee of its rights in

108 Menell, supra note 8, at 777–78 (contrasting Matusalem’s more receptive approach to equitable treatment from Centura).
111 Centura, 281 B.R. at 671–72.
113 In re Exide Tech., 607 F.3d 957, 967 (3d Cir. 2010) (Ambro, J., concurring).
114 Id. at 957.
115 Id. at 960.
116 Id. at 961.
117 Id. at 960.
118 Id. at 964–68.
the licensed mark.\textsuperscript{119} The concurring opinion continued by discussing the inadequate reasoning in prior trademark license rejection cases, such as Lubrizol, that negatively infer congressional intent from the plain statutory language and thus treat rejection as rescission.\textsuperscript{120} Judge Ambro stated that § 365 freed a bankrupt licensor from burdensome duties that hindered reorganization but that courts should not use § 365 to “take back trademark rights [the debtor] bargained away” because “[t]his makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve.”\textsuperscript{121} Judge Ambro believed that equitable powers should have been used to give Exide a fresh start through bankruptcy without stripping the licensee of its fairly procured IP rights.\textsuperscript{122}

The Third Circuit concurrence provided an interesting new perspective on the problems created by Lubrizol and § 365(n), but because the case was decided on other grounds, no circuit court had truly taken on the case precedent that unfavorably treated trademark licensees. The two important takeaways from Exide are its critical treatment of bankruptcy courts that rely on Lubrizol and its ratification of the Matusalem court’s dicta that equitable treatment should be considered in trademark license rejection cases. Shortly after Exide, another circuit court faced the same unresolved issue: whether Lubrizol still applied to a bankrupt licensor’s rejection of trademark agreements.\textsuperscript{123}

4. The Supreme Court’s Previous Statutory Interpretation of the Bankruptcy Code.

The methods of statutory interpretation used in Supreme Court precedents are important for circuit judges to consider when adjudicating issues of trademark licensee treatment under the Bankruptcy Code. The Supreme Court uses a variety of rules and canons when interpreting legislation but generally interprets statutes based on their plain meaning.\textsuperscript{124} These conventions assist the Court in determining whether legislative history should be considered.\textsuperscript{125} The Supreme Court has expressed the desire “that Congress be able to legislate against a

\textsuperscript{119} Id. at 965.

\textsuperscript{120} Exide, 607 F.3d at 967 (citing Michael T. Andrew, Executory Contracts Revisited, 62 U. COLO. L. REV. 1, 11 (1991)).

\textsuperscript{121} Id. at 967–68.

\textsuperscript{122} Id. at 967.

\textsuperscript{123} See Koroleva & Brougham, supra note 99, at 53 (discussing the Exide court’s treatment of Lubrizol and the remaining question of whether Lubrizol was still applicable after § 365(n)).

\textsuperscript{124} See James Lawniczak, James M. Lawniczak on Statutory Interpretation in Bankruptcy Matters, 2009 EMERGING ISSUES 3542 (explaining the current plain meaning approach to statutory interpretation used by the Supreme Court).

background of clear interpretative rules, so that it may know the effect of the language it adopts.\textsuperscript{126} However, statutory interpretation is rarely predictable, and the Court has a variety of canons at its disposal in order to reach virtually any desired interpretation of an ambiguous statute.\textsuperscript{127}

Courts interpret the Bankruptcy Code using the same established principles of statutory construction employed in other areas of law.\textsuperscript{128} The initial determination in bankruptcy statutory interpretation is whether “the plain language of the Bankruptcy Code disposes of the question before [the Court].”\textsuperscript{129} When the interpretation of a federal law, such as the Bankruptcy Code, “turns on a statute and the intention of Congress, [the Court] look[s] first to the statutory language and then to the legislative history if the statutory language is unclear.”\textsuperscript{130} “[I]n interpreting a statute a court should always turn first to one, cardinal canon before all others…[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there.”\textsuperscript{131} In determining whether a statute is ambiguous, the “judicial inquiry is complete” after applying this first canon.\textsuperscript{133}

Legislative history may be used to resolve determined ambiguities, but only where the history indicates “a ‘clearly expressed legislative inten[t]…contrary…’ to the plain language of [the Bankruptcy Code].”\textsuperscript{134}

\begin{thebibliography}{99}
\bibitem{127} See \textit{Kim}, supra note 125 (“[T]here is some overlap and inconsistency among these rules and conventions….”).
\bibitem{128} See RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 132 S. Ct. 2065, 2073 (2012) (“[I]t is our obligation to interpret the Code…using well established principles of statutory construction.”).
\bibitem{129} Toibb v. Radloff, 501 U.S. 157, 160 (1991); \textit{see id. at} 160–61 (finding the plain language of the Code to be controlling even in the face of legislative intent pointing to a contrary interpretation).
\bibitem{132} United Savs. Ass'n v. Timbers of Inwood Forest Assocs., 484 U.S. 365, 371 (1988) (“Statutory construction…is a holistic endeavor. A provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme….”) (citing Sorenson v. Sec'y of Treasury, 475 U.S. 851, 860 (1986))).
\bibitem{133} \textit{Conn. Nat'l Bank}, 503 U.S. at 254 (quoting Rubin v. United States, 449 U.S. 424, 430 (1981)).
\bibitem{134} Toibb, 501 U.S. at 162 (alteration in original) (quoting Consumer Prod. Safety Comm'n v. GTE Sylvania, Inc., 447 U.S. 102, 108 (1980)) (discussing situations where legislative history
\end{thebibliography}
Even when the language is not ambiguous, there are “rare cases [in which] the literal application of a statute will produce a result demonstrably at odds with the intentions of its drafters.”

Another relevant canon is *expressio unius est exclusio alterius*, which functions as a negative inference against items not included in a statutory list of exceptions to a general prohibition. Where Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of a contrary legislative intent. Context is critical when applying negative inferences, as the canon only has force when the items listed “are members of an ‘associated group or series.’” Only then can an exclusion justify the negative inference that items not mentioned were deliberately excluded. The Court has previously endorsed the use of negative inferences in the context of § 365(a) of the Bankruptcy Code. The Court held that § 365(a) “includes all executory contracts except those expressly exempted . . . .” Prior to 2011, courts resolved the treatment of trademark licensees in bankruptcy proceedings as a matter of statutory interpretation, but an alternative resolution, discussed below, would soon emerge.

5. The Seventh Circuit’s Resolution: Sunbeam. In 2011, the Northern District of Illinois Bankruptcy Court heard a dispute between Lakewood Engineering and Chicago American Manufacturing (CAM) regarding a licensing agreement to produce twenty-inch box fans. Lakewood outsourced the production of box fans to CAM in 2008, which included rights to use certain intellectual property, including the Lakewood trademark. In early 2009, Lakewood was the subject includes conflicting statements preventing that history from being used to interpret ambiguous statutory language).

136 Id.
139 Barnhart, 537 U.S. at 168 (quoting United States v. Vonn, 535 U.S. 55, 65 (2002)).
140 Id.
142 Id. at 521.
144 In re Lakewood, 459 B.R. at 313.
of an involuntary Chapter 7 bankruptcy proceeding. The agreement between CAM and Lakewood allowed CAM to sell any inventory that Lakewood could not purchase and to use any remaining raw materials to make more of the box fans in order to recoup its out-of-pocket expenses. During the agreement period, CAM produced tens of thousands of fans bearing Lakewood’s marks that Lakewood could not afford to purchase under the terms of the agreement.

After Lakewood entered into bankruptcy, CAM began selling the marked fans to third parties to recoup manufacturing expenses, as stipulated in the agreement. Lakewood planned to reject the agreement with CAM and auction company assets, including the rights to the Lakewood trademark. Lakewood’s trustee subsequently rejected the agreement between Lakewood and CAM and sought to stop CAM from selling Lakewood-branded fans.

Sunbeam, a company looking to capitalize on Lakewood’s financial struggles, won the auction of Lakewood’s assets. Fearful of losing the contractual status quo, CAM objected to the auction, arguing that selling and manufacturing box fans was not affected by the trustee’s rejection of the original manufacturing agreement. The bankruptcy court held that CAM’s license to use Lakewood’s trademarks, although not covered under the Bankruptcy Code, survived rejection of the supply agreement. “[T]his court must make its determination on equitable grounds, and avoid a situation that ‘let[s] a licensor take back trademark rights it bargained away.’” The court was persuaded by the argument made by Judge Ambro in his Exide concurrence, stating that the reasoning “must give a court pause before it mechanically follows the line of cases which state that Lubrizol controls on the effect of rejection of a license to use trademarks.” The bankruptcy court decided to begin the “‘development of equitable treatment’ that Congress anticipated would occur.”

145 Id. at 320.
146 Id. at 315–16.
147 Id. at 321–22.
148 Id. at 322–23.
149 Id. at 323–26.
150 Id. at 323.
151 Id. at 325.
152 Id.
153 Id. at 343–46.
154 Id. at 345 (quoting In re Exide Techs., 607 F.3d 957, 967 (3d Cir. 2010)).
155 Id. at 343.
156 Id. at 345; supra note 98.
The case was appealed and came before the Seventh Circuit Court of Appeals with a new name, *Sunbeam*. Chief Judge Frank Easterbrook authored the relatively short opinion, affirming the bankruptcy court’s holding that the rejection of a trademark license does not terminate the licensee’s contractual rights. Easterbrook’s analysis was unique because he affirmed the lower court’s holding on grounds other than equitable treatment. The Seventh Circuit agreed with the bankruptcy court’s reading of the contract but chose to further examine the effect of the trustee’s rejection on the parties’ supply agreement. The Seventh Circuit expressly agreed with the portion of the *Exide* holding that negative inferences, from Congress’s passage of § 365(n) and the omission of trademarks from § 101(35A), do not codify *Lubrigol*: “an omission is just an omission.” The court also held that “[t]he limited definition [of intellectual property] in § 101(35A) . . . does not affect trademarks one way or the other.” The court mentioned the Senate Report’s reference to a subsequent study, stating that “[t]he subject seems to have fallen off the legislative agenda” but concluding that such lack of re-visitation by Congress did not codify *Lubrigol*.

After delivering what seemed to be a pro-equitable-treatment discussion of the law, the Seventh Circuit took a drastic turn. The court discussed a then-recent Supreme Court opinion, *RadLAX*, which emphasized that Bankruptcy Code provisions cannot be superseded by equitable arguments based on the Code’s legislative history or wise public policy. The Seventh Circuit characterized the basis of the bankruptcy court’s decision as “untenable” but not requiring reversal, setting the stage for a new analysis that protects trademark licensees. The court then set out “to determine whether *Lubrigol* correctly understood § 365(g), which specifies the consequences of rejection under § 365(a).” The relevant excerpt from § 365(g) that the court examined

---

158 Id. at 378.
159 Id. at 375–76.
160 Id. at 375.
161 Id. ("Some bankruptcy judges have inferred from the omission that Congress codified *Lubrigol* with respect to trademarks, but an omission is just an omission.").
162 Id.
164 See *Sunbeam*, 686 F.3d at 376 (citing RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 132 S. Ct. 2065, 2073 (2012) (assuming that equitable arguments grounded in legislative history or public policy are not included in “well established principles of statutory construction”)).
165 Id.
166 Id.
is the very first sentence: "[R]ejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract..."167 The court interpreted this provision to classify a rejection as a breach under the Bankruptcy Code and established that such a breach is treated the same, inside or outside of the bankruptcy context.168 Specifically, the court analogized to the licensee’s hypothetical rights following a breach under Article II of the Uniform Commercial Code and argued that § 365(g)’s treatment of rejection as breach should establish the same rights in bankruptcy as a breach would establish outside of bankruptcy, concluding that the non-breaching party’s rights remained in place.169 The court opinion stated, “nothing about this process implies that any rights of the other contracting party have been vaporized.”170

The Seventh Circuit bolstered its argument by analogizing a trademark licensee’s rights in rejection to a lessee’s rights upon rejection of a lease agreement.171 The court reasoned that just as a lessor could not end a tenant’s right to possession by reacquiring the premises, a trademark licensor could not completely rescind the license.172 The court further criticized the Lubrizol court’s treatment of rejection as rescission.173 The court implemented a contract law analysis as a mechanism to produce equitable results without the confusion associated with statutory interpretation or the use of equitable principles.174

Finally, the Seventh Circuit concluded by stating that Lubrizol was not persuasive and that creating a circuit split was justified based on the lack of interest from other judges within the circuit to hear the matter en banc.175 The holding rejected equitable treatment under the Bankruptcy Code, circumvented an equitable treatment analysis, used § 365(g) to treat rejection as breach, and treated the breach as distinct from avoidance of rights.176 The Seventh Circuit’s holding represented a clear split from the Fourth Circuit’s holding in Lubrizol.
and was the court’s attempt to move away from the statutory interpretation debate, toward an alternate basis for finding in favor of trademark licensees.\textsuperscript{177}

III. ANALYSIS

Prior to \textit{Sunbeam}, resolving which rights were retained by licensees upon rejection of trademark agreements in bankruptcy appeared to be a choice between two alternatives: (1) equitable treatment by the bankruptcy court per legislative intent or (2) affirmation of \textit{Lubrizol}'s plain meaning assessment of the Bankruptcy Code.\textsuperscript{178} Regardless of the path chosen, the issue appeared to turn on statutory interpretation.\textsuperscript{179} However, a third new solution emerged when Judge Frank Easterbrook authored the Seventh Circuit’s opinion that circumvented statutory interpretation and based its outcome on contract law.\textsuperscript{180} In December 2012, the Supreme Court declined to hear the \textit{Sunbeam} case.\textsuperscript{181} The Court may, however, eventually return to and resolve the circuit split; therefore, a careful analysis of each alternative solution’s pros and cons should be considered.

If the Supreme Court does resolve the circuit split, the Court will have at least three viable options to consider while deciding this case: (1) affirm the legislative history and equitable treatment line of cases, (2) reject the \textit{Sunbeam} analysis and reinstall \textit{Lubrizol}, which plainly interprets the Bankruptcy Code language, or (3) affirm \textit{Sunbeam}'s contract law analysis. The advantages and disadvantages of each option are discussed below. Ultimately, if the Supreme Court grants certiorari on this circuit split in the future, it should affirm the contract analysis set forth in \textit{Sunbeam}. Such an affirmation would reach a fair result without compromising established statutory interpretation precedent.

A. EQUITABLE TREATMENT APPROACH: THE ATTEMPT OF JUDGE AMBRO AND LAKEWOOD TO FURTHER LEGISLATIVE INTENT

When the IPBPA was passed into law, Congress clearly intended bankruptcy courts to use equitable treatment when deciding trademark license rejection

\textsuperscript{177} Id. at 372.
\textsuperscript{178} See Menell, \textit{supra} note 8, at 777 ("To a significant degree, the issue boils down to whether the relatively clear language of the statute—excluding trademarks from the definition of ‘intellectual property’—allows a court to look to the legislative history at all.").
\textsuperscript{179} Id.
\textsuperscript{180} \textit{Sunbeam}, 686 F.3d at 377–78.
\textsuperscript{181} Id. at 372, cert. denied, 133 S. Ct. 790 (2012).
cases. Judge Ambro’s concurrence in Exide was the first unambiguous application of equitable treatment in such a case. Ambro’s lead was followed shortly thereafter in Lakewood by an Illinois bankruptcy court that factored equitable treatment into its analysis for trademark license rejection and allowed the licensee to retain its right to use the trademark. Lakewood’s holding marked the first time a bankruptcy court used congressional intent to treat trademark cases equitably as the basis of its holding; however, the decision was overturned on appeal in the Seventh Circuit and subsequently was denied review by the Supreme Court. The problem with adopting Lakewood’s equitable treatment holding is that it conflicts with stare decisis.

While equitable treatment of trademark licensees may arguably further Congress’s intent in enacting the IPBPA, statutory interpretation precedent suggests that such treatment will not be read into the language of the statute. The Supreme Court prefers a plain meaning approach, which is a reading of the entire statute and a determination of treatment based on statutory language, when interpreting statutes. If the Court ruled on the issue, it would likely first turn to the cardinal canon of statutory interpretation, which presumes that the legislature says what it means in a statute. The Court would then determine whether the statutory language of § 365(n) or § 101(35A) contains an ambiguity in order to read legislative intent into the statute. Finding an ambiguity would be unlikely because the entire statute is silent on trademarks. Section 101(35A) lists specific IP licenses in which the licensee may elect to retain rights under § 365(n), but the list does not mention trademarks.

Silence can be deemed an ambiguity; however, such a finding is not proper in this instance because the negative inference suggests, and legislative history confirms, that Congress intentionally excluded trademarks from protection under § 365(n). Section 101(35A) expressly lists exceptions to the general treatment of executory contracts under § 365(a), and the Court has emphasized: “[w]here Congress explicitly enumerates certain exceptions to a general

183 In re Exide Techs., 607 F.3d 957 (3d Cir. 2010).
185 Id.
186 See Blum v. Stenson, 465 U.S. 886, 896 (1984) (“[W]e look first to the statutory language and then to the legislative history if the statutory language is unclear.”).
prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." While the "contrary legislative intent" language suggests an applicable loophole, one must consider exactly what Congress intended. Congress expressly stated that trademark rejection was not addressed in the bill because "such contracts raise[cl] issues beyond the scope of th[e] legislation" and therefore "determined to postpone congressional action in th[e] area . . . ." Congress intended for executory trademark agreements to fall outside of the list of exceptions in the IPBPA and for bankruptcy courts to treat the situation equitably. Alternatively, a plain reading of the statute does not extend protection to trademarks, as they are never mentioned within the Code.

Supporters of equitable treatment may point to a Supreme Court decision allowing legislative history to be used as extrinsic evidence when a "literal application of [the Bankruptcy Code would] produce a result demonstrably at odds with the intentions of its drafters." No ambiguity in the plain language of the IPBPA exists, so considering congressional intent would be both improper and inconsistent with the principle of stare decisis. Both the Lubrizol court and Congress acknowledged the potential negative effects of not protecting IP; nevertheless, when drafting the bill to address the problem, Congress chose neither to extend protection to trademarks nor to mention trademarks in the statute in light of the fact that future plain meaning interpretation by courts was probable. The canon stating that the Court will not enforce the plain meaning if enforcement would lead to an "absurd or odd result" is not likely to trump the plain meaning presumption in this scenario because of the quality control concerns cited by Congress in excluding trademarks from the protected forms of IP, as well as the acknowledgement that trademarks are beyond the scope of the IPBPA. Congress had every opportunity to include trademark protection, or at the very least to include an express statutory requirement that trademarks are to be treated equitably, but it declined to take such steps. Further, in over twenty years since the IPBPA was

192 Id.
enacted, Congress has not revisited the issue as courts continually have effectuated the plain meaning interpretation of the statute.

The lone decision based on legislative intent, \textit{Lakewood}, was determined by the Seventh Circuit to be a proper result with an untenable rationale.\textsuperscript{197} The licensee deserved protection, and equity favored allowing CAM to retain its rights under the agreed upon terms; however, the dispute with \textit{Lakewood}'s holding rests in how the result was achieved. Authored by Judge Easterbrook, who is known for his statutory interpretation scholarship, the \textit{Sunbeam} holding agreed that the trademark licensee deserved protection. Easterbrook likely realized that legislative intent arguments were not the best mechanisms for reaching this result and would be unlikely to survive the Supreme Court's statutory interpretation review. Easterbrook proposed an alternative solution, discussed in further detail below, that allows courts to consider contract terms when determining whether rights can be retained after rejection of a trademark license.

B. \textit{LUBRIZOL} APPROACH: AN INCONSISTENT STATUTORY INTERPRETATION OF THE BANKRUPTCY CODE

The \textit{Lubrizol} approach interprets the Code in two conflicting ways: the interpretation is part plain meaning and part legislative intent. The Fourth Circuit determined that trademark licensees are not protected under the IPBPA based on the absence of trademarks from the definition of IP.\textsuperscript{198} Next, the court discussed Lubrizol's remedies and applied a common law (legislative intent) reading to another portion of the Bankruptcy Code in denying Lubrizol's request for specific performance.\textsuperscript{199} Several bankruptcy court decisions viewed the subsequently-enacted IPBPA as codifying \textit{Lubrizol}'s negative inference canon of statutory interpretation, whereby the courts denied protection to trademarks and other unlisted forms of IP.\textsuperscript{200} The court in \textit{Lubrizol}, while recognizing the strong policy concerns of unfairness in its holding and the potentially chilling effect on parties reaching IP agreements, followed through with a plain meaning reading of the pre-IPBPA Bankruptcy Code, despite the "obvious adverse consequences."}\textsuperscript{201}

\textsuperscript{199} Id. at 1048.
\textsuperscript{200} See In re Exide, 607 F.3d at 966 (citing multiple cases that for follow Lubrizol's negative inference approach).
\textsuperscript{201} Lubrizol, 756 F.2d at 1048.
Proponents of Lubrizol argue that its holding is consistent with statutory interpretation principles and practices under the Code, as discussed earlier in this Note, and correctly places the burden on Congress, instead of the courts, to carve out exceptions to longstanding bankruptcy procedures. Congress has the ability to alter the text of the statute to explicitly provide for equitable treatment (or whatever degree of protection it desires) of trademarks, but Congress has yet to revise the definition of “intellectual property” since enacting the IPBPA in 1988. While Congress is in the best position to take remedial steps, cases involving trademark rejection in bankruptcy have been relatively infrequent since the IPBPA was codified, making it unlikely that Congress will consider the issue in the near future. Going forward, Congress may be forced to revisit the statute as trademark licensing becomes more prevalent and more cases are heard in court.

Another critical aspect of Lubrizol’s holding, treating rejection of an executory agreement as recission, should be explicitly rejected by the Supreme Court. In Lubrizol, the court determined that under § 365(g), the licensee was able to treat the rejection as a breach but was unable to retain its contractual rights through specific performance, which would be available outside of the Bankruptcy Code.202 The court argued, under this portion of their analysis, that the legislative history clearly limited the available remedies to damages, which effectively treats rejection as rescission.203 In reaching this conclusion, the Fourth Circuit used two contradicting methods of statutory interpretation for two unambiguous portions of the same statute. The plain language of § 365(g) allows rejection of an executory contract to constitute a breach of the contract but does not include any limitation of remedies in the statute.204 The Supreme Court should decline to accept either position taken by the Fourth Circuit in Lubrizol, as the statutory interpretation analysis is unnecessary to resolve the problem. If the Court does decide to rule based on statutory interpretation, however, no rationale should deviate from the plain meaning precedent by reading legislative intent into the unambiguous language of § 365(g). While the plain meaning aspect of Lubrizol’s holding is unfavorable to licensees and is unlikely to yield equitable results in many circumstances, it is on more solid legal ground than is the limited remedy aspect of the holding that abandons the plain meaning interpretation of the Code. Rejecting Lubrizol in its entirety does not

202 Id.
203 Id.; see Sunbeam Prods., Inc. v. Chicago Am. Mfg., LLC, 686 F.3d at 376–77 (discussing Lubrizol’s approach to § 365(g) and why such an approach is a mistake).
hinder the application used by the Seventh Circuit, which should also be adopted by the Supreme Court, as discussed below.

C. SUNBEAM APPROACH: CONTRACT ANALYSIS AS THE BEST SOLUTION

The Supreme Court should adopt the view taken by the Seventh Circuit in *Sunbeam* if the Court ever chooses to resolve the circuit split. In *Sunbeam*, the Seventh Circuit disagreed with the negative inference rationale; instead, the court held that the IPBPA is not a codification of *Lubrizol* with respect to trademarks and that the omission of trademarks from the IPBPA is "just an omission." Regarding statutory interpretation, the *Sunbeam* court argued that the omission of trademarks from the statutory language has no positive or negative effect on trademarks, citing Congress's intent to leave trademarks out of the scope of the bill. This approach requires the court to ignore the *expressio unius est exclusion alterius* canon regarding the definition of IP and to treat trademarks as outside of the scope of the IPBPA, as Congress desired. The Court must also be willing to overlook the canon that specific statutes trump general statutes because the specific IP statute included in the Code supports the negative inference that trademarks were specifically excluded. The Supreme Court unpredictably applies interpretative canons, and considering that nearly every canon has a counter-canon that leads to an opposite interpretation, the Supreme Court could focus on interpreting the statute in its entirety to support Easterbrook's contractual remedy basis.

Prior to *Sunbeam*, no court had explicitly set out to challenge *Lubrizol*'s holding that monetary damages were the only allowable remedies under § 365(g). The Seventh Circuit correctly challenged existing precedent related to § 365(g) and held that a plain meaning interpretation applies to remedies upon breach of contract by a debtor-licensor. Judge Easterbrook, who was well-acquainted with contracts and statutory interpretation, properly determined that statutory interpretation arguments were not the clearest way to resolve disparaging treatment to trademark licensees. Like Judge Ambro, the Seventh

205 *Sunbeam*, 686 F.3d at 375.
206 Id.
208 See Karl N. Llewellyn, Remarks on the Theory of Appellate Decision and the Rules or Canons About How Statutes are to be Construed, 3 VAND. L. REV. 395 (1950) ("Hence there are two opposing canons on almost every point.").
209 *Lubrizol Enters., Inc.*, 756 F.2d at 1045.
210 *Sunbeam*, 686 F.3d at 376.
211 See generally Frank H. Easterbrook, Pragmatism's Role in Interpretation, 31 HARV. J.L. & PUB. POL'y 901 (2008); Frank H. Easterbrook, Contract and Copyright, 42 HOUS. L. REV. 953 (2005);
Circuit opines that the *Lubrizol* court was mistaken in treating rejection like avoidance under § 365(g).²¹² Reading the plain language of the statute, the court correctly determined that a rejection of a trademark agreement under § 365(g) is subject to the same contractual remedies, including retention of rights of the non-breaching party, found outside of the Bankruptcy Code.²¹³

A potential criticism of the contract analysis solution is the requirement that licensees carefully draft agreements by including terms to govern the parties' rights under bankruptcy. The burden of drafting more comprehensive agreements that encompass bankruptcy rights will add time and expense to all parties. However, the burden is best-suited for the contracting parties. The parties will anticipate their duty to include language governing bankruptcy rights, and the costs associated with the extra burden will decrease as standard clauses for trademark licensing agreements emerge. Adopting *Sunbeam* also avoids the "chilling effect" that accompanies holdings such as *Lubrizol's*, while providing certainty that both parties will get what they bargained for and that no party will be able to take advantage of the Code to gain a windfall, despite contradicting contractual provisions.

Interpreting § 365(g) exclusively, while ignoring the other interpretation issues, is the least troublesome resolution. By following this approach, the Supreme Court will avoid legislative intent while affording much needed equitable protection for trademark licensees. By adopting *Sunbeam's* analysis, the Court can maintain its plain meaning precedent while allowing licensees to retain bargained-for protection under trademark agreements. The Court can provide the best long-term solution by avoiding both *Lakewood* and *Lubrizol's* statutory interpretation alternatives and by upholding the Seventh Circuit's contract analysis as the framework for bankruptcy courts to follow.

IV. CONCLUSION

The goals of bankruptcy law, trademark law, and contract law are at odds when combined into the same dispute. No situation better illustrates such inconsistency as the recent circuit split involving trademark licensees seeking to retain their contractual rights against a bankrupt licensor who rejected the

---

²¹² *Sunbeam*, 686 F.3d at 376.

²¹³ Id. at 377 (making analogies to the Uniform Commercial Code Article 2 and lessor/lessee rights upon breach).
original agreement. Of the three solutions examined in this Note, the most recent solution offered in *Sunbeam* provides the best long-term solution to fairly treat non-debtor trademark licensees. *Sunbeam* reexamined the remedies available under the Bankruptcy Code and focused on a contractual analysis that allows the licensee to rely on terms of the trademark licensing agreement, enabling the licensee to take advantage of remedies other than monetary damages. If the Supreme Court grants certiorari in a future case to resolve the circuit split on the issue, it should affirm *Sunbeam*'s contract law holding. *Sunbeam*'s holding avoids inequitable recession of rights bargained for by the licensee, circumvents stare decisis problems for the Court regarding statutory interpretation, and eliminates discrepancies among the many competing areas of law by placing the burden on the parties to bargain as they see fit.