MISSING THE MARK: IMPLICATIONS OF *SUNBEAM PRODUCTS, INC. V. CHICAGO AMERICAN MANUFACTURING* ON TRADEMARK LICENSES IN BANKRUPTCY

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INTRODUCTION

In the more than twenty years following the landmark decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*,[1] the issue of what happens to a trademark licensee's rights after a debtor licensor's bankruptcy remained static. Now, in the wake of two circuit court opinions—dicta in *In re Exide Technologies*,[2] and more notably, the holding in *Sunbeam Products, Inc. v. Chicago American Manufacturing*[3]—this topic has been brought back to the forefront of debate. These cases raise issues of whether other jurisdictions will follow suit and how these decisions affect the rights of licensors, licensees, and the public who rely on the quality of the trademarked products.

Part I of this Note provides background on the Fourth Circuit's decision in *Lubrizol*.[4] That controversial decision triggered Congress to enact the Intellectual Property Bankruptcy Protection Act.[5] Congress passed that Act to protect the rights of some intellectual property licensees, but did not explicitly safeguard trademark licensees.[6] This omission has caused courts confusion about how to handle trademark licenses in bankruptcy.

Part II discusses *Exide*—the case that foreshadowed the issue ultimately decided in *Sunbeam*: Licensees trademark usage rights continue even after the debtor rejects the contract in bankruptcy.[7] Although the decision in *Exide* was not determinative on the issue, the dicta in Judge Ambro's concurrence guided the Seventh Circuit's reasoning and ultimate decision in *Sunbeam.*[8]

Parts III and IV of this Note examine the Seventh Circuit's decision in *Sunbeam* and suggests that it is flawed. This discussion focuses on how trademarks differ from other forms of intellectual property and why protecting licensees' use of trademarks should remain outside Section 365(n) of the

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1. 756 F.2d 1043, 1048 (4th Cir. 1985).
2. 607 F.3d 957, 966-67 (3d Cir. 2010).
3. 686 F.3d 372, 377-78 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).
4. *Lubrizol*, 756 F.2d at 1048.
5. 134 CONG. REC. H9302, H9303 (daily ed. Oct. 3, 1988) (statement of Rep. Edwards).
6. Intellectual Property Bankruptcy Protection Act, Pub. L. No. 100-506, 102 Stat. 2538 (1988) (codified at 11 U.S.C. §§ 101(35A), 365(n) (2000)).
7. *Sunbeam*, 686 F.3d at 377.
8. *Id*. at 375.

Bankruptcy Code and, additionally, why their use should not be maintained after the debtor's rejection under Section 365(g).

Part V suggests that the Supreme Court should weigh in on how trademark licenses should be addressed in the event of the licensor's bankruptcy. This would provide much-needed guidance to courts struggling with this issue.

Finally, Part VI of this discussion proposes a solution to cases involving trademark licensees rights in bankruptcy. Bankruptcy courts have long used equity to resolve issues when there are interstices in the code.[9] This course is the one intended by Congress and is best suited to provide justice to non-debtor licensees while preserving the purposes of trademark and bankruptcy law.

I. HISTORICAL BACKGROUND:

A. Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.

To fully understand the evolution of how bankruptcy courts treat intellectual property, one must look to the Fourth Circuit's 1985 decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*[10] The court in *Lubrizol* held that a patent license was not protected when rejected by the licensor in bankruptcy.[11] On the heels of this startling decision, Congress amended the Bankruptcy Code to protect certain types of intellectual property.[12] Some worried that decisions like the one in *Lubrizol* "may have a chilling effect on transactions involving the licensing of intellectual property, and, correspondingly, on the development of new technology."[13] *Lubrizol* not only sparked a change in the bankruptcy code, but courts around the country looked to the decision to guide their analysis of cases involving trademark licenses in bankruptcy.[14]

In *Lubrizol*, the debtor, Richmond Metal Finishers (RMF), granted a nonexclusive patent license to Lubrizol for a metal coating process.[15] Less than a year after finalizing the contract and before Lubrizol began using the patent, RMF filed for bankruptcy pursuant to Chapter 11 and rejected the contract with Lubrizol so that it could sell the technology license unencumbered.[16]

Under the contract, RMF owed continuing obligations to Lubrizol to defend against infringement suits, indemnify Lubrizol for losses, and to reduce

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9. *See* United States v. Energy Res. Co., 495 U.S. 545, 549 (1990) (citing Katchen v. Landy, 382 U.S. 323, 327 (1966); U.S. Nat'l Bank v. Chase Nat'l Bank, 331 U.S. 28, 36 (1947); Pepper v. Litton, 308 U.S. 295, 303-04 (1939)).

10. 756 F.2d 1043, 1048 (4th Cir. 1985).

11. *Id*.

12. 134 CONG. REC. H9302, H9303 (daily ed. Oct. 3, 1988) (statement of Rep. Edwards).

13. *Id*.

14. *In re* HQ Global Holdings, Inc., 290 B.R. 507 (Bankr. D. Del. 2003); *In re* Blackstone Potato Chip Co., 109 B.R. 557 (Bankr. D.R.I. 1990).

15. *Lubrizol*, 756 F.2d at 1045.

16. *Id*.

Lubrizol's royalty rate if subsequent licensees received a better rate.[17] Lubrizol owed RMF the duty of submitting quarterly reports and paying royalties.[18] Because both parties had remaining obligations to one another of which "failure [to perform] would constitute a material breach,"[19] the court found that the contract was executory and, therefore, fell under the purview of Sections 365(a) and (g) of the Bankruptcy Code.[20]

Section 365(a) allows a bankruptcy trustee to assume or reject an executory contract with court approval,[21] and Section (g) states that rejection of such agreement constitutes a breach of contract.[22] The court declared that Lubrizol could seek monetary damages for RMF's breach of contract but could not request specific performance and retain usage rights of the patent.[23] However, the court noted,

> It cannot be gainsaid that allowing rejection of such contracts as executory imposes serious burdens upon contracting parties such as Lubrizol. Nor can it be doubted that allowing rejections in this and comparable cases could have a general chilling effect upon the willingness of such parties to contract at all with businesses in possible financial difficulty.[24]

Although the court conceded these points, it concluded that because Congress plainly provided how to deal with the rejection of executory contracts in bankruptcy, while knowing the consequences for intellectual property licensees, the court could not use equitable principles to resolve the matter.[25]

The court in *Lubrizol* also considered if RMF used sound business judgment in moving to reject the patent license agreement with Lubrizol.[26] The court found that RMF had, in fact, used sound judgment because its licensing agreement with Lubrizol represented its principal asset and its ability to reclaim the patent to sell or license on more profitable terms was RMF's best chance to regain success after

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17. *Id*.

18. *Id.* at 1046.

19. *Id*. at 1045 (quoting Gloria Mfg. Corp. v. Int'l Ladies' Garment Workers' Union, 734 F.2d 1029, 1022 (4th Cir. 1984) (quoting Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973))); *see also In re* Exide Techs., 607 F.3d 957, 962 (3d Cir. 2010) (citing *In re* Columbia Gas Sys. Inc., 50 F3d 233, 238 (3d Cir. 1995) (an executory contract is one "on which performance is due to some extent on both sides")).

20. *Lubrizol*, 756 F.2d at 1048.

21. 11 U.S.C. § 365(a) (2006).

22. *Id*.

23. *Lubrizol*, 756 F.2d at 1048.

24. *Id*.

25. *Id*.

26. *Id*. at 1047 (internal citation omitted) ("[T]he rule is that courts should defer to—should not interfere with—decisions of corporate directors upon matters entrusted to their business judgment except upon a finding of bad faith or gross abuse of their 'business discretion'").

its bankruptcy.[27] Accordingly, the court agreed with the bankruptcy court's decision allowing RMF to reject its patent licensing agreement with Lubrizol.[28]

B. Intellectual Property Bankruptcy Protection Act

The decision in *Lubrizol* inspired Congress to enact the Intellectual Property Bankruptcy Protection Act three years later.[29] Under this new provision, Section 365(n), licensees can continue to use the intellectual property when the licensor enters bankruptcy and rejects the agreement.[30]

> If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect—(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms . . . or (B) to retain its rights . . . under such contract, to such intellectual property . . . as such rights existed immediately before the case commenced.[31]

This Act did not provide clarity for trademark licenses, however, because the definition of "intellectual property" outlined in the Bankruptcy Code includes copyrights, patents, and trade secrets, but does not include trademarks.[32]

> The term 'intellectual property' means—(A) trade secret; (B) invention, process, design, or plant protected under title 35 [35 USCS §§ 1 et seq.]; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17 [17 USCS §§ 101 et seq.]; or (F) mask work protected under chapter 9 of title 17 [17 USCS §§ 901 et seq.]; to the extent protected by applicable non-bankruptcy law.[33]

Congress was reluctant to add trademarks to the definition of intellectual property without further research because of trademarks' unique characteristics, such as the need for the licensor's quality control over the trademark.[34]

This omission led to confusion about how to handle trademark licenses in bankruptcy. Because Congress omitted trademarks in its definition of "intellectual property" for bankruptcy purposes, many courts continued to use the reasoning applied in the Fourth Circuit's decision in *Lubrizol*[35] when deciding a

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27. *Id*.
28. *Id*. at 1048.
29. Intellectual Property Bankruptcy Protection Act §§ 101(35A), 365(n).
30. 11 U.S.C. § 365(n) (2006).
31. *Id*.
32. 11 U.S.C. § 101(35A) (2006).
33. *Id*.
34. S. REP. NO. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.
35. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985).

trademark licensee's rights in the event of the licensor's bankruptcy.[36]

II. *SUNBEAM'S* PRECURSOR—*IN RE EXIDE TECHNOLOGIES*

The next influential decision, albeit in dicta, to influence other courts in the disposition of trademark licenses in bankruptcy came over twenty years later in *In re Exide Technologies*.[37] However, because the Third Circuit's majority opinion in *Exide* relied on the notion that the contract at issue could not be rejected in bankruptcy because it was not executory, it did not give way to changing how courts assess executory trademark licenses in bankruptcy.[38] Judge Ambro's concurrence, however, did shed light on a different way to analyze these types of cases.[39] His dicta broke from the long held view that *Lubrizol* should be used in cases involving trademarks, and influenced the Seventh Circuit's decision in *Sunbeam Products, Inc. v. Chicago American Manufacturing*.[40]

A. Majority's Opinion

Exide, a global battery producer, licensed the majority of its industrial battery business to EnerSys, including use of its "Exide" trademark.[41] Exide granted EnerSys a royalty-free, exclusive trademark license to use for the industrial batteries.[42] Meanwhile, Exide continued to use its trademark on other products.[43]

Years later, Exide attempted to regain the use of the trademark to consolidate its company under one unified trademark and reenter the industrial battery market.[44] Despite Exide's desire to regain the trademark, EnerSys refused to agree.[45] As a result, Exide was unable to use its own trademark for this product and directly competed against EnerSys's product branded "Exide."[46] Nine years after the contract's inception, Exide filed for Chapter 11 bankruptcy and moved

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36. *See In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (bankruptcy deprives licensee of right to continue to use the trademark); *In re* HQ Global Holdings, 290 B.R. 507, 512-13 (Bankr. D. Del. 2003) (franchisees can no longer use trademarks upon debtor's rejection but only have a breach of contract claim and can sue for money damages); Raima UK Ltd. v. Centura Software Corp., 281 B.R. 660, 669-71 (Bankr. N.D. Cal. 2002) (holding that trademark licensee's rights are not protected under 11 U.S.C. § 365(n)); *In re* Blackstone Potato Chip, 109 B.R. 557, 562 (Bankr. D.R.I. 1990) (holding that debtor who filed Chapter 11 bankruptcy could reject trademark and trade name licensing agreement).

37. *In re* Exide Techs., 607 F.3d 957, 964-68 (3d Cir. 2010).

38. *Id.* at 964.

39. *Id.* at 964-68.

40. 686 F.3d 372, 377-78 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

41. *In re Exide*, 607 F.3d at 961.

42. *Id*.

43. *Id*.

44. *Id*.

45. *Id*.

46. *Id*.

to reject its agreement with EnerSys.[47]

The court in *Exide* held that the contract was "not an executory contract because it [did] not contain at least one ongoing material obligation for EnerSys."[48] EnerSys had used the trademark for ten years, paid the full purchase price, and assumed Exide's liabilities associated with its industrial battery business.[49] The court stated that EnerSys's continuing obligations to meet quality standards, use restrictions, and indemnity and further assurances obligations "did not outweigh the substantial performance rendered and benefits received by EnerSys."[50]

Because the debtor's agreement with the licensee of exclusive and royalty-free use of the trademark was not an executory contract, the court held that it could not be rejected in bankruptcy.[51] Since the Third Circuit found the contract was not executory, it did not address Section 365(a) of the Bankruptcy Code nor the *Lubrizol* decision.[52] Based on the court's reasoning why the contract was not executory,[53] this decision cannot easily be applied to non-exclusive contracts, where there is the potential to have substantial obligations remaining for both parties to fulfill.

B. Judge Ambro's Concurrence

Judge Ambro agreed with the majority's decision in *Exide,* but opined that the bankruptcy court's decision to rely on *Lubrizol* because of Congress' omission of trademarks in the Bankruptcy Code's definition of "intellectual property" was misguided.[54] Instead of drawing this negative inference, he suggested that courts look at a rejection in bankruptcy the same way as they do a rejection of an executory contract—that "it 'merely frees the estate from the obligation to perform' and 'has absolutely no effect upon the contract's continued existence.'"[55] Judge Ambro concluded that courts should not allow a licensor to "take back trademark rights it bargained away. This makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve."[56]

In addition, Judge Ambro reasoned that the court should apply equity when deciding trademark licensees' rights in the event of the licensor's bankruptcy.[57]

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47. *Id*.

48. *Id*. at 964.

49. *Id*.

50. *Id*. at 963.

51. *Id*. at 966-67.

52. *Id*. at 964.

53. *Id*. at 966-67.

54. *Id*. at 964-65.

55. *Id*. at 967 (quoting Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007) (internal citations omitted)).

56. *Id*. at 967-68.

57. *Id*. at 967.

He suggested that courts' use of equity would be a viable alternative to blindly applying *Lubrizol* to each case involving trademark licenses in bankruptcy.[58]

III. THE SEVENTH CIRCUIT'S SPLIT FROM *LUBRIZOL*— *SUNBEAM PRODUCTS, INC. V. CHICAGO AMERICAN MANUFACTURING*

The Seventh Circuit in *Sunbeam Products, Inc. v. Chicago American Manufacturing*[59] explicitly rejected as unpersuasive the Fourth Circuit's decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc*.[60] This landmark decision might pave the way for other courts to take a second look at how to treat cases involving trademark licenses in bankruptcy.

Lakewood Engineering and Manufacturing Co., a manufacturer of consumer goods, entered into an agreement with Chicago American Manufacturing (CAM) to allow CAM to use its patents and trademark on the manufacture and distribution of box fans.[61] Lakewood was struggling financially, and three months after its agreement with CAM, Lakewood's creditors filed an involuntary bankruptcy petition against it and the court assigned a trustee.[62]

Sunbeam Products, a direct competitor of Lakewood, wanted to purchase Lakewood's assets—including the patents and trademark, but did not want CAM to continue using the patents and trademark under its existing contract with Lakewood.[63] Invoking Section 365(a) of the Bankruptcy Code, the trustee moved to reject the contract between Lakewood and CAM.[64]

A. Bankruptcy Court

The bankruptcy court applied equitable principles and held that CAM could continue manufacturing and selling the Lakewood branded box fans.[65] Judge Hollis based the ruling based on the fact that CAM had invested considerable resources in manufacturing the fans.[66] Because of this equitable approach, the court did not address whether Section 365(a) of the Bankruptcy Code allowed the trademark licensee to continue to use the trademark upon the licensor's rejection in bankruptcy.[67]

The court was persuaded by Judge Ambro's reasoning in *Exide* which examined congressional reports showing Congress's intent to study trademark licenses further before including them in Section 365(n), and allowing bankruptcy courts, in the meantime, to apply equitable principles to cases involving

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58. *Id*.
59. 686 F.3d 372, 375-78 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).
60. 756 F.2d 1043, 1048 (4th Cir. 1985).
61. *Sunbeam*, 686 F.3d at 374.
62. *Id*.
63. *Id*.
64. *Id*.
65. Szilagyi v. Chi. Am. Mfg., LLC, 459 B.R. 306, 347 (Bankr. N.D. Ill. 2011).
66. *Id*. at 346.
67. *Id*. at 345.

trademark licenses in bankruptcy.[68] The bankruptcy court explained that

> It would not follow, in lockstep fashion, those few trial courts to have decided that the non-binding Lubrizol holding is the only possible outcome. Instead of bemoaning the 'chilling effect' Lubrizol might impose on licensees, the court will step into the breach, as it were, and begin the 'development of equitable treatment' Congress anticipated would occur.[69]

B. Seventh Circuit Court of Appeals

The Seventh Circuit Court of Appeals affirmed the bankruptcy's court decision, but disagreed with the lower court's use of equity to render its decision in favor of CAM because it concluded that the Bankruptcy Code provisions at issue trump the use of equity.[70] It reasoned that allowing courts to use equity would produce inconsistent and varying results.[71]

The court also refused to apply *Lubrizol* in the case.[72] It concluded that *Lubrizol* incorrectly focused on whether the contract at issue was executory and did not provide direction on whether rejection cancels the other party's rights.[73]

Although the court determined that the Bankruptcy Code's definition of "intellectual property" did not include trademarks, it found that was only an omission and was not determinative.[74] The court allowed CAM to continue using the Lakewood trademark and patents because of Section 365(g) of the Bankruptcy Code which describes, "[t]he rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease."[75] The court stated, "What §365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place."[76]

The court acknowledged that "bankruptcy law does provide means for eliminating rights under some contracts," including using avoidance powers under Sections 544 through 551 of the Bankruptcy Code, but that the trustee did not use any of those powers in this case.[77] The trustee argued for rejection of the

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68. *Id*. at 344 (citing *In re* Exide Techs., 607 F.3d 957, 966-67 (3d Cir. 2010) (quoting S. REP. NO. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204)).

69. *Id*. at 345.

70. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 375 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012) (citing Toibb v. Radloff, 501 U.S. 157, 162 (1991); *In re* Kmart Corp., 359 F.3d 866, 871 (7th Cir. 2004); *In re* Sinclair, 870 F.2d 1340 (7th Cir. 1989)).

71. *Id*. at 375-76.

72. *Id*. at 376 ("Like Judge Ambro [in *Exide*], we too think *Lubrizol* mistaken.").

73. *Id*. at 377.

74. *Id*. at 375.

75. *Id*. at 376-77.

76. *Id*. at 377.

77. *Id*.; *see also* 11 U.S.C. §§ 544-551 (2006).

contract under Section 365(a), which the court concluded did not eliminate the rights of CAM to use the trademark after rejection, but only relieved Sunbeam from further performance.[78]

Accordingly, the Seventh Circuit held that CAM's right to continue use of the trademark was preserved.[79] The Court distributed the *Sunbeam* opinion to all judges, but an *en banc* hearing was not favored.[80]

IV. WHY THE *SUNBEAM* DECISION IS FLAWED

There are several reasons why the Seventh Circuit's decision in *Sunbeam Products, Inc. v. Chicago American Manufacturing*[81] is wrong.[82] Because Congress excluded trademarks from the protections afforded by the Intellectual Property Bankruptcy Protection Act,[83] courts must find alternative ways to analyze these types of cases. However, using the reasoning of the *Sunbeam* decision offends the intent of Congress, the characteristics that make trademarks unique, the purposes of bankruptcy, and the ability of courts to make decisions based on equitable principles.

A. Rejection Under Section 365(g)

In *Sunbeam*, the Seventh Circuit Court of Appeals determined that Section 365(g) of the Bankruptcy Code, which states that "the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease,"[84] meant a licensee's rights remain in place even after the licensor rejects the contract in bankruptcy.[85] However, if courts interpret Section 365(g) to mean that rejection does not "vaporize" a licensee's rights to continue to use the trademark as the court in *Sunbeam* concluded,[86] then does that not obviate the need for Congress's enactment of Section 365(n), which allows licensees the right to use certain types of intellectual property after rejection? Doing so would simply duplicate Section 365(g) and, accordingly, would violate the statutory canon to avoid interpreting provisions to render the words superfluous. It is a long-held view that "a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant."[87]

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78. *Sunbeam*, 686 F.3d at 377 (citing NLRB v. Bildisco & Bildisco, 465 U.S. 513, 531 (1984); Midway Motor Lodge of Elk Grove v. Innkeepers' Telemanagement & Equip. Corp., 54 F.3d 406, 407 (7th Cir. 1995)).

79. *Id*. at 375-78.

80. *Id*. at 378.

81. *Id*.

82. *Id*.

83. Intellectual Property Bankruptcy Protection Act §§ 101(35A), 365(n).

84. 11 U.S.C. § 365(g).

85. *Sunbeam*, 686 F.3d at 377.

86. *Id*.

87. Duncan v. Walker, 533 U.S. 167, 174 (2001) (quoting Market Co. v. Hoffman, 101 U.S.

The court in *Sunbeam* even notes that "[t]he Bankruptcy Code standardizes an expansive (and sometimes unruly) area of law, and it is our obligation to interpret the Code clearly and predictably using well established principles of statutory construction."[88] If a court interprets Section 365(g) to mean that a licensee's rights continue after rejection even though Section 365(n) restates this very premise, it would clearly be in violation of the statutory interpretation canon to avoid surplusage.

Collier on Bankruptcy states that the Bankruptcy Code allows for certain "unique situations," such as Sections 365(h) and 365(i), which deal with property and land sales, respectively, as well as Section 365(n)—all of which "represent *special cases* in which the other party to the contract may be permitted, after rejection, to opt to retain most or all of its rights under the contact."[89] Because these situations are unique, this suggests that other rejections in bankruptcy that are not specially treated, do not allow the non-debtor to retain all the rights. Collier also makes clear that "rejection deprives the non-debtor party of a specific performance remedy that it might *otherwise have under applicable nonbankruptcy law* for breach of the contract or lease."[90] In addition, the Fourth Circuit in *Lubrizol* stated,

> Even though §365(g) treats rejection as a breach, the legislative history of §365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party . . . Allowing specific performance would obviously undercut the core purpose of rejection under § 365(a) [allows a bankruptcy trustee to assume or reject an executory contract with court approval], and that consequence cannot therefore be read into congressional intent.[91]

This demonstrates that rejection is not the same in bankruptcy as outside it as the *Sunbeam* court determined.[92]

Even the court in *Sunbeam* analogized the trustee's rejection of the trademark agreement with CAM to a bankrupt lessor who rejects a tenant's lease.[93] In that situation, the tenant's right to remain in possession is still preserved.[94] However, this is because property leases are one of the special cases, under Section 365(h),

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112, 115 (1879)); *see also* Babbitt v. Sweet Home Chapter, Cmtys. for Great Oregon, 515 U.S. 687, 698 (1995).

88. *Sunbeam*, 686 F.3d at 376 (citing RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 132 S. Ct. 2065, 2073 (2012)).

89. 1 COLLIER ON BANKRUPTCY ¶ 365.10 (16th ed. 2012) (emphasis added).

90. *Id*. (citing Nickels Midway Pier, LLC v. Wild Waves, LLC, 341 B.R. 486 (Bankr. D.N.J. 2006)).

91. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985) (citing H. REP. NO. 95-595, at 349 (1978), *reprinted in* 1978 U.S. Code Cong. & Ad. News 5963, 6305).

92. *Sunbeam*, 686 F.3d at 377.

93. *Id*.

94. *Id*.

that the Bankruptcy Code explicitly provides for to allow non-debtors to retain their rights under the contract.[95] Section 365(h) states, "(i) if the rejection by the trustee amounts to such a breach . . . then the lessee under such lease may treat such lease as terminated by the rejection; or (ii) if the term of such lease has commenced, the lessee may retain its rights under such lease."[96] Just as Section 365(n) specifically lays out protection for licensees rights for certain forms of intellectual property, so too does Section 365(h) lay out protection for property lessees.

The court in *Lubrizol* reasoned that the legislative history of Section 365(g) showed that Congress intended the provision to provide only a remedy of damages for the non-debtor in the event of breach by a debtor in bankruptcy.[97] This reasoning makes the most sense when examining why Section 365(n) was enacted in the first place—to protect licensees of intellectual property from losing their ability to use the license upon the licensor's rejection.[98] If Section 365(g) already provided for this, then Congress need not have acted at all and courts around the country would not be so confused about how to dispose of these cases.

B. Trademark Characteristics

Trademarks are fundamentally different from other types of intellectual property. Unlike patents and copyrights, trademarks are not created to foster the development of new creations; rather, they provide the public with assurance of a products quality and to discourage unfair competition.[99] Trademarks function "(1) as an indicator of the origin of the services which the mark represents; (2) as a guarantee of the quality of the services; or (3) as a medium for advertisement."[100] Because of a trademark's distinctive characteristics, this form of intellectual property presents unique problems in bankruptcy.

1. Protection of the Quality of the Trademark.—Another flaw in the Seventh Circuit's decision in *Sunbeam*[101] is the issue of whether the licensor will exercise quality control after rejection. Licensing a trademark requires that a licensor

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95. 11 U.S.C. § 365(h) (2006).

96. *Id*.

97. *Lubrizol*, 756 F.2d at 1048 (citing H. REP. NO. 95-595, at 349); *see also In re* HQ Global Holdings, Inc., 290 B.R. 507, 512 (Bankr. D. Del. 2003) (citing Raima UK Ltd. v. Centura Software Corp., 281 B.R. 660, 673 (Bankr. N.D. Cal. 2002) ("In the event of rejection of an executory contract, the holder of such contract is left with a claim for rejection damages unless section 365 provides additional protection.")).

98. 133 CONG. REC. S11653 (daily ed. Aug. 5, 1987) (statement of Rep. DeConcini).

99. *The Intersection of Intellectual Property and Bankruptcy Law*, 78 PAT. TRADEMARK & COPYRIGHT J. (BNA) 201, 207 (June 12, 2009).

100. Reddy Commc'ns, Inc. v. Envtl. Action Found., 477 F. Supp. 936, 944 (D.D.C. 1979) (citing 3 R. CALLMAN, UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 66.3 at 36 (3d ed. 1967)).

101. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 377 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

employ quality control measures over the use of the trademark.[102] When deciding to exclude trademarks from the protection afforded by Section 365(n) of the Bankruptcy Code, Congress stated, "[t]rademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products of services sold by the licensee."[103]

In *Sunbeam*, the Seventh Circuit stated, "After rejecting a contract, a debtor is not subject to an order of specific performance."[104] However, if this reasoning is followed, this raises a serious problem because if the debtor does not have to perform his part of the contract, he no longer has to provide quality control over the trademark.[105] Sunbeam's petition for writ of certiorari to the Supreme Court reflected this concern — "a licensee can subsequently affix the trademark to products without fear of liability, thus weakening the inherent value of the trademark and harming consumers who rely on the trademark."[106] If the licensor no longer provides control of the trademark, then others may consider the mark abandoned because the public has no assurance of the quality of the product that they have come to expect.[107] This can cause a problem referred to as "naked licensing."[108]

> Naked licensing occurs "when a trademark owner fails to exercise reasonable control over the use of a mark by a licensee" so that "the presence of the mark on the licensee's goods or services misrepresents their connection with the trademark owner since the mark no longer identifies goods or services that are under the control of the owner of the mark" and the mark can no longer provide 'a meaningful assurance of quality.[109]

"The intent of this [Lanham] Act is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce . . . to protect persons engaged in such commerce against unfair

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102. DONALD S. CHISUM ET AL., UNDERSTANDING INTELLECTUAL PROPERTY 522 (2d ed. 1992) (citing Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 366 (2d Cir. 1946)).

103. *In re* Exide Techs., 607 F.3d 957, 967 (3d Cir. 2010) (quoting S. REP. NO. 100-505, at 5).

104. *Sunbeam*, 686 F.3d at 377 (citing NLRB v. Bildisco & Bildisco, 465 U.S. 513, 531 (1984); Midway Motor Lodge of Elk Grove v. Innkeepers' Telemanagement & Equip. Corp., 54 F.3d 406, 407 (7th Cir. 1995)); *see also* Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985) (internal citation omitted).

105. *See* CHISUM ET AL., *supra* note 102.

106. Brief for Petitioner at 13, *Sunbeam*, 686 F.3d 372, *petition for cert. filed* (U.S. Oct. 5, 2012) (No. 12-431).

107. FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509 (9th Cir. 2010) (citing Barcamerica Int'l USA Trust v. Tyfield Importers, Inc., 289 F.3d 589, 595-96 (9th Cir. 2002)).

108. CHISUM ET AL., *supra* note 102.

109. *Id.* (quoting Tumblebus, Inc. v. Cranmer, 399 F.3d 754, 764 (6th Cir. 2005) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b (1995))).

competition."[110] One purpose of trademarks is to protect consumers from being misled about the quality of the product based on its trademark.[111] However, because the court cannot order the licensor to perform his part of the contract after rejection,[112] licensees are free to use the trademark uncontrolled.

In addition to quality control issues, the licensor no longer has a duty to defend against possible trademark infringements.[113] This creates a scenario ripe with the possibility that the public will be deceived about the source and quality of the products it purchases.

2. Effects of Trademark License Rejection.—The effect of having a patent license stripped away upon a licensor's rejection in bankruptcy can be much more debilitating to a business than the elimination of a licensee's ability to use a trademark. For example, if a business manufactures tires and has a *trademark* license that is rejected in bankruptcy, that business is not precluded from continuing to manufacture the tires; it just will not be able to place that trademark on the product. On the other hand, if the business has a *patent* license that is rejected by the licensor in bankruptcy, that business may potentially lose everything, including the money spent on tooling the factory as well as the ability to sell the product. This can be completely devastating for the company and may result in the company's reluctance to enter into a patent licensing agreement in the first place—particularly if the licensor is struggling financially.

When examining *Lubrizol's* effect on patent licenses, the court in *In re Qimonda AG Bankruptcy Litigation.* emphasized, "[B]ecause many businesses rely on intellectual property rights as a vital resource for survival, many businesses were faced with financial ruin due to the precedent which the *Lubrizol* case established."[114] As stated, this is certainly true for patents, but does not hold true for trademarks. In the case of trademarks, the licensee need only rename the product, but may continue to manufacture and sell the product. This would not result in "financial ruin" to the licensee, and the trademark licensee could sue the licensor for contractual damages for any losses incurred from the rejection of the trademark.[115]

Sunbeam discussed this difference between trademarks and patents in its reply brief to its certiorari writ to the Supreme Court.[116] "To be sure, licensees

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110. 15 U.S.C. § 1127 (2006).

111. CHISUM ET AL., *supra* note 102 (citing Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 163-64 (1995)).

112. 1 COLLIER, *supra* note 89 (citing Nickels Midway Pier, LLC v. Wild Waves, LLC, 341 B.R. 486 (Bankr. D.N.J. 2006) (regarding 11 U.S.C. § 365(g))); *id.* § 365(n)(1)(B) (2006) (precluding the right to specific performance).

113. *Id*.; 11 U.S.C. § 365(n)(1)(B) (2012) (precluding the right to specific performance).

114. *In re* Qimonda AG Bankr. Litig., 433 B.R. 547, 567 (E.D. Va. 2010) (citing David M. Jenkins, Comment, *Licenses, Trademarks, and Bankruptcy, Oh My: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 151-52 (1991)).

115. 11 U.S.C. § 365(n).

116. Reply Brief for Petitioner at 1, Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 372 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

can and do make substantial investments to practice a licensor's patent rights. But unlike changes required to practice patent rights, affixing a trademark is neither expensive nor difficult and can easily be discontinued after rejection."[117]

When introducing the Intellectual Property Bankruptcy Act to the Senate, Representative DeConcini stressed this variance in severity between the effects of rejection of trademarks versus the effects of rejection of other types of intellectual property. He stated,

> Licenses that involve patents, copyrights, and trade secrets are different from others because in this type of license, there is only one source—the company that owns the intellectual property. There is no alternative for the licensee. Thus losing the license may have enormous consequences, since there is nowhere else the company can go to get the technology or information it needs. We must make sure the 'executory' contract does not signal the execution of many businesses relying on intellectual property licenses for their livelihood.[118]

The difference between trademarks and other forms of intellectual property, particularly patents, further bolsters the idea that trademarks should be treated separately than those forms of intellectual property protected under Section 365(n) of the Bankruptcy Code.

3. Reorganization.—The principal purpose of the Bankruptcy Code is to grant a 'fresh start' to the 'honest but unfortunate debtor.'"[119] The problem with allowing licensees to continue to use the trademark after the debtor rejects the contract in bankruptcy is that this may interfere with the goal of bankruptcy—the debtor's ability to reorganize the business and become successful.[120] In *NLRB v. Bildisco & Bildisco*, the Supreme Court reasoned, "[T]he authority to reject an executory contract is vital to the basic purpose of a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization.[121]

The failure to reorganize successfully is exactly what occurred in *Exide*.[122] In that case, *Exide* granted several licenses, including a trademark license, to EnerSys for use in the industrial battery business.[123] As a strategic matter, Exide later wanted to unify its image and return to the industrial battery business by taking back its trademark.[124] After filing for bankruptcy, Exide attempted to

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117. *Id*.

118. 133 CONG. REC. S11653 (statement of Rep. DeConcini).

119. Marrama v. Citizens Bank, 549 U.S. 365, 367 (2007) (citing Grogan v. Garner, 498 U.S. 279, 286-87 (1991)).

120. *In re* Exide Techs., 607 F.3d 957, 962 (3d Cir. 2010) (quoting Nicholas v. United States, 384 U.S. 678, 687 (1966)) ("The policy behind Chapter 11 of the Bankruptcy Code is the 'ultimate rehabilitation of the debtor.'").

121. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984).

122. *In re Exide*, 607 F.3d at 961.

123. *Id*. at 960.

124. *Id*. at 961.

reject the contract with EnerSys.[125] As discussed *supra*, the court ruled that EnerSys could continue to use the trademark.[126]

This created an absurd result. Exide was forced to compete in the industrial battery market against its own name. It is not likely that Congress fully considered the possibility that a company who has worked hard creating its brand and earning customers who recognize the quality of its products through its trademark would then be forced to compete against itself in the marketplace. Courts have followed the principle that when an interpretation of statutory language produces an absurd result, the court should construe the statute in a way that avoids this absurdity.[127]

However, the trademark agreement in this case was exclusive and royalty-free and accordingly, found not to be executory.[128] This makes the court's ruling that the licensee could continue to use the mark more palatable; a licensee that has been granted perpetual and exclusive use of a mark should not have its business stripped away after a licensor decides to reject the agreement in bankruptcy. However, the same result could occur for non-exclusive license agreements. A business that has worked hard to make a name for itself should be allowed to exercise some control over its own trademark—at least to the extent of not having to directly compete in the same market with a company that is continuing to use its mark even after rejection in bankruptcy. This seems an unjust result and impedes the company's right to have a "fresh start."

Another problem that interferes with a business's ability to reorganize is the potential limitations a bankruptcy trustee has to sell the trademark assets for the benefit of creditors and the business. Under the reasoning set forth by the Seventh Circuit in *Sunbeam*,[129] a potential buyer may be reluctant to purchase the trademark because of the bankrupt licensor's previous trademark license agreement with another party. This agreement would prove too burdensome for a new purchaser who wants unencumbered rights to the trademark. "The Seventh Circuit's opinion . . . fundamentally undermines the ability of bankruptcy trustees to 'maximize the proceeds of collection and to distribute those proceeds as expeditiously as possible' as required by Section 704(a)(1)" of the Bankruptcy Code.[130]

4. Congressional Intent of the Intellectual Property Bankruptcy Protection Act.—Through Congress' enactment of Section 365(n) of the Bankruptcy Code, it 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

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125. *Id*.

126. *Id*. at 964.

127. Church of the Holy Trinity v. United States, 143 U.S. 457, 460 (1892).

128. *In re Exide*, 607 F.3d at 964.

129. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 375-78 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

130. Petition for Writ of Certiorari at 13, Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372 (2012) (No. 12-431), 2012 WL 4831638 (quoting *In re* C. Keffas & Son Florist, Inc., 240 B.R. 466, 474-75 (Bankr. E.D.N.Y. 1999)).

the license pursuant to Section 365 in the event of the licensor's bankruptcy."[131] Congress emphasized that Section 365(n)

> does not address the rejection of executor trademark, trade name, or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court and others . . . such contracts raise issues [such as quality control] beyond the scope of this legislation . . . Since these matters could not be addressed without more extensive study, it was determined to postpone action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.[132]

The Act's co-sponsor, Representative DeConcini, stressed that an exception was made to omit trademark licenses from protection under the bill because of the obligation of the licensor to provide continued quality assurance.[133] He emphasized that "if the trustee or debtor-in-possession is unable or unwilling to comply with that quality assurance program, the trademark owner's rights in the trademark are damaged at best or lost."[134]

Unlike the Third Circuit, the bankruptcy court in *Exide* used this congressional history in its analysis and held that Exide could reject the trademark license in bankruptcy. It properly reasoned that

> Congress certainly could have included trademarks within the scope of § 365(n)[,] but saw fit not to protect them. Therefore, the holding in [*Lubrizol v.*] *Richmond Metal* Finishers, as well as the holdings in the other pre and post § 365(n) trademark rejection cases . . ., still retain vitality insofar as they relate to trademark licenses. As a result, a trademark license is terminated upon rejections and the licensee is left only with a claim for damages.[135]

Congress made clear that trademarks were intentionally excluded from the protection afforded by Section 365(n).[136] Since 1988, Congress has not addressed the issue of trademark licenses in bankruptcy. As stated, this explicitly leaves courts to apply equitable principles in these cases.[137] Courts should take note of this Congressional intent and structure their judgments accordingly.

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131. *In re Exide*, 607 F.3d at 961 (quoting S. REP. NO. 100-505, at 1).

132. *Id.* at 966-67 (quoting S. REP. NO. 100-505, at 5).

133. 133 CONG. REC. S11653 (statement of Rep. DeConcini).

134. *Id*.

135. *In re Exide*, 607 F.3d at 966 (quoting *In re* Exide Techs., 340 B.R. 222, 250 (Bankr. D. Del. 2006)).

136. *Id*. at 966-67 (quoting S. REP. NO. 100-505, at 5).

137. *Id*.

V. SUPREME COURT

A. Importance of Making the Docket

On October 5, 2012, Sunbeam filed a petition for certiorari to the United States Supreme Court.[138] Given courts' confusion on whether to apply Sections 365(n) or (g) of the Bankruptcy Code to trademarks or, in the absence of an applicable Bankruptcy Code provision, to apply equitable principles to trademark cases, the Supreme Court should have addressed the issue. Unfortunately, while in the process of writing this Note, the Supreme Court denied Sunbeam's petition.[139] If the Supreme Court would have weighed in on this issue, its decision would have provided clarity and consistency among circuits and given trademark licensors and licensees assurance of their future if bankruptcy occurs.

In addition, the Supreme Court's decision would have provided much needed comfort to purchasers in bankruptcy that they are receiving the rights to trademarks for which they bargained.[140] Under *Lubrizol*, a trademark purchaser in bankruptcy would receive exclusive rights to the trademark, but under the Seventh Circuit's decision in *Sunbeam*, "purchasers like [Sunbeam] must share the trademark rights with a prior licensee where no privity of contract exists between the purchaser of the mark and the licensee, thus freeing the licensee to use the trademark in any way it sees fit without a policing of the mark."[141] Particularly in today's unpredictable economic climate, a definitive ruling from the Court could soothe concerns from businesses that are contemplating entering into trademark license agreements with other companies with less than stellar future outlooks.

B. Potential Outcome of a Future Supreme Court Decision

Looking at past Supreme Court decisions, the Court's reasoning in *NLRB v. Bildisco & Bildisco* proves informative about the possible outcome of a future Supreme Court decision on this issue.[142] In that case, Bildisco filed for Chapter 11 bankruptcy and subsequently rejected its collective bargaining agreement.[143] The National Labor Relations Board (NLRB) filed suit against Bildisco claiming that Bildisco's rejection of the collective bargaining agreement, before the bankruptcy court's approval, constituted unfair labor practice.[144] Bildisco argued that Section 365(a) of the Bankruptcy Code outlined special considerations for railroad contracts but not for contracts covered by the NLRB.[145] Because of

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138. Brief for Petitioner, Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

139. *Sunbeam*, 133 S. Ct. 790.

140. Brief for Petitioner at 13, *Sunbeam*, 686 F.3d 372.

141. *Id*.

142. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522-23 (1984).

143. *Id*. at 517-18.

144. *Id*. at 518-19.

145. Brief for Respondent at 24, *Bildisco*, 465 U.S. 513 (Nos. 82-818; 82-852).

Congress' silence on agreements contracts included under the NLRB, it intended those contracts to be treated as normal contracts.[146]

The Court agreed with Bildisco and drew a negative inference that because Congress did not provide for an exception for the NLRB, an exception was not within the intent of Congress.[147]

> Section 1167 . . . expressly exempts collective-bargaining agreements subject to the Railway Labor Act, but grants no similar exemption to agreements subject to the NLRA. Obviously, Congress knew how to draft an exclusion for collective-bargaining agreements when it wanted to; *its failure to do so in this instance indicates that Congress intended that § 365(a) apply* to all collective-bargaining agreements covered by the NLRA.[148]

Likewise, courts around the country have applied the reasoning in *Lubrizol* by negative inference to analyze trademark agreements in bankruptcy because of Congress' omission of trademarks in the Intellectual Property Bankruptcy Act.[149] For example, the court in *Raima UK Ltd. v. Centura Software Corp.* held that the licensee did not have any rights to the trademark after the licensor rejected the agreement in bankruptcy "because § 365(n) plainly excludes trademarks."[150] Similarly, the court in *In re HQ Global Holdings, Inc.* stated that "since 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."[151] If the Supreme Court once again used negative inference, it would conclude that trademark licensees rights are not retained after the licensor's rejection in bankruptcy.[152]

Alternatively, if the Court used a textualist approach (trademarks are not included in the definition of "intellectual property" and therefore cannot be protected under Section 365(n)), the reasoning in *Lubrizol* would win again.[153] Former Vanderbilt Law School professor and current Dean of the University of Southern California School of Law, Robert Rasmussen, estimated that between 1988 and 1993, the Supreme Court heard twenty-four bankruptcy cases and

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146. *Bildisco*, 465 U.S. 513.

147. *Id*. at 522-23.

148. *Id*. (emphasis added).

149. *In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 512-13 (Bankr. D. Del. 2003); *In re* Blackstone Potato Chip Co., 109 B.R. 557, 562 (Bankr. D.R.I. 1990).

150. Raima UK Ltd. v. Centura Software Corp., 281 B.R. 660, 674 (Bankr. N.D. Cal. 2002).

151. *In re HQ Global Holdings*, 290 B.R. at 513 (internal citations omitted).

152. *See Bildisco*, 465 U.S. at 522; *In re* Exide Techs., 607 F.3d 957, 966 (3d Cir. 2010) (Judge Ambro's concession that the Supreme Court used negative inference in cases involving § 365(a)).

153. John F. Manning, *Textualism and Legislative Intent*, 91 VA. L. REV. 419 (2005) (discussion of textualism and the Supreme Court).

decided nineteen to twenty of those using a textualist approach.[154] He opines that the Court does not strive to define a distinct bankruptcy policy, but tends to choose primarily bankruptcy issues in which the circuit courts are split.[155] "In the context of the [Bankruptcy] Code, the cases reveal that the Supreme Court is content to leave the bulk of the interpretative work to the lower courts."[156] This reasoning bolsters the idea that if the Supreme Court grants certiorari in a future case similar to *Sunbeam*, it will likely use a textualist approach again to determine the fate of trademark license rejections in bankruptcy.

If the Court decides to take up the issue in the future, regardless whether the Supreme Court draws a negative inference to the reasoning in *Lubrizol* or employs a textualist approach, the use of either method would overrule the Seventh Circuit's holding in *Sunbeam*.[157]

VI. EQUITABLE SOLUTIONS

A. Bankruptcy Court's Broad Powers Under Section 105

If there is a gap in the Bankruptcy Code, then equitable principles should apply.[158] Section 105(a) of the Bankruptcy Code provides that

> [t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title. No provision of this title providing for the raising of an issue by a party in interest shall be construed to preclude the court from, sua sponte, taking any action or making any determination necessary or appropriate to enforce or implement court orders or rules, or to prevent an abuse of process.[159]

Courts have interpreted this section to give bankruptcy courts the authority to exercise equitable principles when necessary.[160]

Additionally, the Supreme Court emphasized in *United States v. Energy Resources Co.* that Section 105(a) is "consistent with the traditional

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154. Robert K. Rasmussen, *A Study of the Costs and Benefits of Textualism: The Supreme Court's Bankruptcy Cases,* 71 WASH. U. L. Q. 535, 553 (1993).

155. *Id*. at 572-73.

156. *Id*. at 538.

157. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 378 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

158. *See* 1 COLLIER, *supra* note 89 (discussing the two interpretations of 11 U.S.C. § 105; one that the provision allows courts to use equity to fill the gaps in the bankruptcy code and the other that the section should be more narrowly read).

159. 11 U.S.C. § 105(a).

160. *See, e.g.*, Johnson v. Home State Bank, 501 U.S. 78, 84 (1991) (applying equity to a creditor's right to foreclose on a mortgage); Beaty v. Selinger, 306 F.3d 914, 922 (9th Cir. 2002) (internal citations omitted) ("a bankruptcy court is a court of equity and should invoke equitable principles and doctrines, refusing to do so only where their application would be 'inconsistent' with the Bankruptcy Code").

understanding that bankruptcy courts, *as courts of equity, have broad authority* to modify creditor-debtor relationships."[161] In that case, Energy Resources filed for reorganization through Chapter 11 bankruptcy and included a plan that disclosed that it would pay its tax debt over a number of years and that payments would be applied to trust fund tax debts.[162] The bankruptcy court approved this plan and the IRS appealed this order.[163] Because the Bankruptcy Code did not explicitly allow bankruptcy courts to do this, the Supreme Court looked to Section 1123(b)(5), which grants courts the authority to "modify the rights of holders of secured claims,"[164] and to Section 105(a) and held that bankruptcy courts could use "their broad power" to decide these issues.[165]

The Supreme Court in *Energy Resources* "signaled its desire to leave the crafting of substantive bankruptcy law to the lower courts."[166] Given Congress' omission of trademarks in the definition of "intellectual property," bankruptcy courts should exercise their "broad powers" under Section 105(a) and use their equitable powers to resolve these cases.

Likewise, in *Celotex Corp. v. Edwards*, the Supreme Court cited the powers available to bankruptcy courts in Section 105,[167] and held that the bankruptcy court had jurisdiction to issue an injunction preventing the Edwards, who had received personal injury awards against bankrupt Celotex, from collecting the judgment from the non-bankrupt surety.[168] "Given the broad mandate to bankruptcy courts generally to reorganize debtors, to afford a fresh start to debtors and to distribute funds equitably to creditors, an expansive construction [of Section 105] is justified. This is confirmed by the Supreme Court's decision in *Celotex*."[169]

B. Using Equity for Trademark Cases

In addition to the broad powers afforded to bankruptcy courts by Section 105 of the Bankruptcy Code,[170] Congress also stated when it enacted the Intellectual Property Bankruptcy Protection Act, that until it could more fully evaluate the implications of protecting trademarks, bankruptcy courts should use equity when making decisions concerning trademark licenses.[171] Likewise, Judge Ambro, in

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161. United States v. Energy Res. Co., 495 U.S. 545, 549 (1990) (internal citations omitted) (emphasis added); *see also* Rasmussen, *supra* note 154 (discussing the Supreme Court's desire to leave substantive bankruptcy law decisions to the lower courts).

162. *Energy Res*., 495 U.S. at 584-85.

163. *Id*. at 585.

164. 11 U.S.C. § 1123(b)(3) (2006).

165. *Energy Res*., 495 U.S. at 550-51.

166. Rasmussen, *supra* note 154.

167. Celotex Corp. v. Edwards, 514 U.S. 300, 310-11 (1995).

168. *Id*. at 301-02.

169. 1 COLLIER, *supra* note 89.

170. 11 U.S.C. § 105(a).

171. *In re* Matusalem, 158 B.R. 514, 516 (Bankr. S.D. Fla. 1993) (quoting S. REP. NO. 100-

his concurrence in *Exide*, espoused using equitable principles in cases involving trademark licensees' rights in bankruptcy in lieu of applying the reasoning set forth in *Lubrizol*.[172]

The court in *Sunbeam* reasoned, "The limited definition in § 101(35A) means that § 365(n) does not affect trademarks one way or the other.[173] However, the court went on to reject the notion that equity could be applied because doing so "supercede[s] the Code's provisions."[174] The court's reasoning seems disjunctive—if Section 365(n) does not apply one way or the other to trademarks, as the court declares [175] then equitable principles should apply.

The important aspects of what makes trademarks different from other forms of intellectual property—such as the need for quality control over the mark to preserve the public's faith in the product—can be preserved if courts do not impute Section 365(n) as including trademarks. If trademark licenses are not provided for under the Bankruptcy Code, then courts could be free to fashion equitable solutions in situations that warrant such decisions in accordance with their broad powers under Section 105 of the Bankruptcy Code.[176]

CONCLUSION

The Seventh Circuit Court's holding in *Sunbeam* that trademark licensee rights should be maintained after the licensor rejects the agreement in bankruptcy, has too many failings for other circuit courts to follow suit.[177] The court in *Sunbeam* dismissed the fact that trademarks are not included under the Bankruptcy Code's definition of "intellectual property,"[178] and merely explained, "an omission is just an omission."[179] However, this was not "just an omission" but rather a well-thought-out exclusion by Congress to allow time to research how best to treat trademarks, given their inherent uniqueness and challenges.[180] Well over twenty years have passed since Congress passed the Intellectual Property Bankruptcy Protection Act, and it still has not added trademarks to the definition.[181]

Moreover, the Seventh Circuit's interpretation of Section 365(g) of the

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505, at 5).

172. *In re* Exide Techs., 607 F.3d 957, 967 (3d Cir. 2010).

173. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 375 (7th Cir.), *cert. denied*, 133 S. Ct. 790 (2012).

174. *Id*. at 375-76 (citing RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 132 S. Ct. 2065, 2073 (2012)).

175. *Id*. at 375.

176. 11 U.S.C. § 105(a).

177. *Sunbeam*, 686 F.3d at 375-78; *see also In re Exide*, 607 F.3d at 964-65.

178. 11 U.S.C. § 101(35A).

179. *Sunbeam*, 686 F.3d at 375.

180. *In re Exide*, 607 F.3d at 966-67 (quoting S. REP. NO. 100-505, at 5).

181. Intellectual Property Bankruptcy Protection Act 11 U.S.C. §§ 101(35A), 365(n).

Bankruptcy Code means the licensee's rights continue after rejection.[182] This flawed reasoning renders Section 365(n),[183] which allows the same result, mere surplusage. Despite the court's reasoning, which essentially renders these two sections identical for intellectual property license purposes, Congress intended Section 365(g) to only provide for a damages remedy, as the Fourth Circuit Court in *Lubrizol* clearly explained.[184]

The Seventh Circuit's decision in *Sunbeam* also fails to delve into why trademarks are so different than other forms of intellectual property and, as a result, should be treated differently in bankruptcy. The licensor has duties to the licensee to provide quality control and to defend against infringement.[185] In addition, the effects of having a trademark license rejected are less damaging to licensees than having a patent or copyright license stripped away.[186]

The court's decision also inhibits the licensor's ability to reorganize successfully. At best, a decision like the one in *Sunbeam* means that a licensor's trademark assets are reduced, and at worst, means that the licensor is forced to compete against its own name in the marketplace.

The Supreme Court's failure to grant certiorari means that courts around the country lack much needed guidance on this controversial issue and will have to rely on existing case law and bankruptcy principles to determine these types of cases.[187] Hopefully in the near future the Supreme Court will decide to address this important issue, but in the meantime, instead of applying the Seventh Circuit's flawed reasoning,[188] courts should use equitable principles to resolve these cases, as espoused by the Supreme Court,[189] Congress,[190] and Section 105 of the Bankruptcy Code.[191]

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182. *Sunbeam*, 686 F.3d at 377 ("rejection of an executory contract . . . constitutes a breach of such contract").

183. 11 U.S.C. § 365(n).

184. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985) (citing H. REP. NO. 95-595, at 349).

185. *See* CHISUM ET AL., *supra* note 102.

186. *See, e.g.*, *In re* Qimonda AG Bankr. Litig., 433 B.R. 547, 567 (E.D. Va. 2010) (internal citations omitted).

187. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 133 S. Ct. 790 (2012).

188. Sunbeam Prods., Inc. v. Chi. Am. Mfg., 686 F.3d 372, 375 (7th Cir.), *cert. denied*, 133 S. Ct. 790.

189. United States v. Energy Res. Co., 495 U.S. 545, 549 (1990).

190. *In re* Exide Techs., 607 F.3d 957, 966-67 (3d Cir. 2010) (quoting S. REP. NO. 100-505, at 5).

191. 11 U.S.C. § 105(a).