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Retaining the Hope That Rejection Promises: Why Sunbeam is a Light That Should Not Be Followed

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RETAINING THE HOPE THAT REJECTION PROMISES: WHY *SUNBEAM* IS A LIGHT THAT SHOULD NOT BE FOLLOWED

ABSTRACT

Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC *incorrectly altered the remedies available to a trademark licensee after a debtor licensor has rejected the license. Decided in July 2012, this decision by the U.S. Court of Appeals for the Seventh Circuit conflicts with decisions going back more than twenty-five years, when the U.S. Court of Appeals for the Fourth Circuit decided* Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc. *During that span of time, licensees had a single remedy upon rejection of the license: damages in the way of an unsecured prepetition claim. Licensees were not granted specific performance, and were not permitted to continue using the trademark or retain any other rights under the license, save for the claim for damages. Congress had granted guaranteed specific performance to the licensee of a patent, copyright, or trade secret through 11 U.S.C. § 365(n). However, when Congress enacted § 365(n) in 1989, Congress explicitly and unequivocally excluded trademark licenses from the protection of that provision.*

In July 2012, the Seventh Circuit held in Sunbeam *that because trademark licensees are not protected by § 365(n), the Bankruptcy Code is silent as to the rejection of a trademark license. A licensee was granted the right to continued use of the trademark, just as that remedy would be available outside of bankruptcy. Ideal as this holding may be, this Comment argues it is contradictory to a careful examination and interpretation of the law as it applies, and historically has been applied. Fundamentally, allowing a trademark licensee to retain its rights is a de facto order of specific performance on a trademark owner, but when that owner is a debtor in bankruptcy, specific performance should not be available against it. In short,* Sunbeam *should not be given any weight going forward. A licensee should be limited to a prepetition claim for damages, only.*

INTRODUCTION

Rejection. The overwhelming majority of the time, rejection is not a concept that fills a person with hope.[1] Most of the time, it conjures up the exact opposite, a sense of despair. The exception is a debtor in bankruptcy. Within that realm, rejection can mean new life, the essence of hope. For a trademark licensor, however, that hope seems to have been quashed by *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC.*[2] *Sunbeam* has already garnered significant attention, and some bankruptcy experts are lauding this decision as a welcome step forward in the evolution of bankruptcy. *Sunbeam* first held the Bankruptcy Code (Code) was silent as to trademarks in particular, and Congress's failure to address trademarks was not to be interpreted as a codification of an earlier case, *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc*.[3] It then held that because the Code was silent as to trademarks, under nonbankruptcy law a breach by the licensor did not cut off the licensee's rights to continue using the trademark.[4]

Sunbeam's holding flies in the face of established bankruptcy jurisprudence and precedent. Prior to *Sunbeam*, the generally accepted rule had been that when a trademark licensor enters bankruptcy and rejects the license as an executory contract, the only remedy available to the non-debtor licensee was an unsecured prepetition claim against the debtor, as set forth in *Lubrizol*.[5] The licensee was not entitled to seek specific performance in the way of retaining its rights under the license to continue using the trademark.[6] For over twenty-five years, this was the accepted practice, until *Sunbeam*.

Although the holding in *Sunbeam* is arguably more equitable, especially for the licensee, the *Sunbeam* court itself noted that "[w]hat the [] Code provides, a judge cannot override by declaring that enforcement would be inequitable."[7] That was not what the Seventh Circuit *claimed* it did, of course. Instead, it held that Congress failed to address trademarks within the Code.[8] Thus, because the Code is silent, nonbankruptcy law will control.[9] Even if the court's first

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1 Imagine if the original *Star Wars* film was entitled: Star Wars: Episode IV – A New Rejection.

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

3 *Id.* at 375; Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985).

4 *Sunbeam*, 686 F.3d at 376–77.

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

6 *Id.*

7 *Sunbeam*, 686 F.3d at 375 (internal quotation marks omitted).

8 *Id.*

9 *Id.* at 377–78.

premise that Congress's omission means silence and nothing more is correct, the Code is anything but silent on executory contracts.[10] Sections 365(a) and (g) specifically provide that a debtor can reject executory contracts and that rejection is treated as a breach of the contract.[11] In almost all instances, the sole remedy that has actually been granted to the non-rejecting party is an unsecured, prepetition claim against the debtor, except where the Code provides specific carve-outs to guarantee specific performance for a very limited scope of executory contracts.[12] Because there is no carve-out for trademark licenses,[13] even if *Sunbeam* does not directly contradict the Code, it should not be followed by the other circuits, and should be limited to a very narrow reading.

This Comment concedes that the Seventh Circuit sees a significant number of chapter 11 cases, and Judge Easterbrook has played a key part in developing other areas of bankruptcy law.[14] Further, this is not just Judge Easterbrook's opinion, but was decided by a three-judge panel of Seventh Circuit judges.[15] Even further, this opinion was circulated to the entire circuit, and no judges favored a hearing en banc, including other well-respected jurists such as Richard Posner and Diane Wood.[16] This is to point out that this decision is not easily dismissed or disregarded, and this Comment does not lightly challenge the Seventh Circuit's reasoning. Nonetheless, this Comment argues that it should not be followed.

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[10] ELIZABETH WARREN & JAW LAWRENCE WESTBROOK, THE LAW OF DEBTORS AND CREDITORS 525 (6th ed. 2009) ("[S]ection 365 is one of the longest and most detailed in the Code.").

[11] *See* 11 U.S.C. § 365(a), (g) (2012).

[12] These are for real property leases, time-shares, and "intellectual property" licenses. *See* 11 U.S.C. § 365(h), (i), (n).

[13] This Comment acknowledges that the proposed Innovation Act might include such a carve-out, providing the legal backing upon which *Sunbeam* could have relied, but that legislation has only passed the House, still has to go through the Senate, and could quite easily still be changed before passage. *See* Bob Eisenbach, *Innovation Act, Passed by the House, Would Make Major Changes to Section 365(n)'s IP Licensee Protections*, IN THE RED (Dec. 17, 2013), http://bankruptcy.cooley.com/2013/12/articles/business-bankruptcy-issues/innovation-act-passed-by-the-house-would-make-major-changes-to-section-365ns-ip-licensee-protections/.

[14] *See In re* Kmart Corp., 359 F.3d 866 (7th Cir. 2004); Randolph v. IMBS, Inc., 368 F.3d 726 (7th Cir. 2004); Kham & Nate's Shoes No. 2, Inc. v. First Bank of Whiting, 908 F.2d 1351 (7th Cir. 1990); Levit v. Ingersoll Rand Fin. Corp. (*In re* Deprizio), 874 F.2d 1186 (7th Cir. 1989); Bonded Fin. Servs., Inc. v. European Am. Bank, 838 F.2d 890 (7th Cir. 1988); *In re* Xonics, Inc., 813 F.2d 127 (7th Cir. 1987); *In re* TCI Ltd., 769 F.2d 441 (7th Cir. 1985).

[15] Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 374 (7th Cir. 2012), *cert. denied* 133 S. Ct. 790 (2012).

[16] *Id.* at 378.

In Part I, this Comment provides the framework for understanding the rejection of a trademark license in bankruptcy. That includes an examination of the different kinds of intellectual property, especially what makes trademarks unique. It also examines the elements and treatment of executory contracts. Part II begins with the decision in *Lubrizol*. Then, it explores the official intersection of intellectual property law and the Code, and the trend of cases following *Lubrizol*. In Part III, this Comment begins its analysis of *Sunbeam* and its supporters. Finally, Part IV finishes the analysis of *Sunbeam*, namely, that the Code does not support *Sunbeam* and that *Sunbeam* does not even support itself. This Comment explains how the difference in trademarks from other forms of intellectual property, and the fundamental policies of bankruptcy also do not support *Sunbeam*. This Comment concludes that *Sunbeam* should not be followed going forward. Trademark licensees should be limited to a prepetition claim for damages and should not be allowed to obtain specific performance post-rejection.

I. INTELLECTUAL PROPERTY AND EXECUTORY CONTRACTS

Before beginning substantive analysis of trademark licenses within bankruptcy, this Comment lays out the basic principles of two types of legal concepts. First, it will provide a basic background on the types of intellectual property and explain how trademarks are different. Following that will be a brief definition of executory contracts, and finally, the general treatment of executory contracts within bankruptcy will be explained.

A. Intellectual Property Background

"Intellectual property" is a term often used as a simplistic substitute for a complicated body of laws and rights. But, like many things, it is more complicated than it seems. Intellectual property encompasses patents, copyrights, trademarks,[17] and trade secrets.[18] In many respects, patents and copyrights are fundamentally different from trademarks. The most fundamental differences in this context are: (1) the foundation from which these rights arise and their societal purpose, (2) the lifetime of those rights, (3) the nature of

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[17] For the purposes of this Comment, the term trademark includes trademarks, trade dress, service marks, certification marks, collective marks, and all other types of marks generally included within the scope of the Lanham Act and common law.

[18] For the purposes of this Comment, it is unnecessary to explore the foundations of trade secrets or their treatment in bankruptcy.

what those rights are embodied in, and (4) the quality-control aspects of trademarks.

1. *Foundational Support and Purpose*

Federal patent and copyright law is grounded in more direct, explicit constitutional support whereas the legal basis for federal trademark is inferred from the Commerce Clause, but never explicitly mentioned anywhere in the Constitution.[19]

Patent and copyright rights have their basis in the Patent and Copyright Clause of the Constitution, for the purpose of "promot[ing] the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[20] Thus, their collective purpose is to encourage scientific and artistic development, for the benefit of society.[21] To that end, the Constitution grants Congress the power to give inventors a limited monopoly of rights as an incentive to create,[22] which Congress has done through Titles 35 and 17, respectively.[23]

Alternatively, trademark rights began in the common law, primarily arising out of unfair competition and trade practices law. Rights in trademarks were not intended to provide an incentive for progress and development.[24] Their main purposes are to identify the source of goods[25] and to protect consumers

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19 *In re* Trade-Mark Cases, 100 U.S. 82, 95 (1879).

20 U.S. CONST. art. I, § 8, cl. 8.

21 Roger E. Meiners & Robert J. Staaf, *Patents, Copyrights, and Trademarks: Property or Monopoly?*, 13 HARV. J.L. & PUB. POL'Y 911, 918 (1990) ("[T]hese services are useful to society. . . . Industrial progress is desirable to society. . . . This can best be done by granting exclusive patent rights to the inventor in return for public disclosure of his invention." (citing Fritz Machlup & Edith Penrose, *The Patent Controversy in the Nineteenth Century*, 10 J. ECON. HIST. 1, 7–9 (1950))).

22 *Id.* at 913 ("The standard argument for a patent [and copyright] system is that innovators will not have sufficient incentive to produce innovations unless they have a monopoly (exclusive) right to the economic returns.").

23 *See generally* 17 U.S.C. §§ 101–1332 (2012); 35 U.S.C. §§ 1–390 (2012).

24 *In re* Trade-Mark Cases, 100 U.S. 82, 93–94 (1879) ("Any attempt, however, to identify the essential characteristics of a trade-mark with inventions and discoveries in the arts and sciences, or with the writings of authors, will show that the effort is surrounded with insurmountable difficulties."); *see also* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984) ("We have consistently rejected the proposition that a similar kinship [as between patents and copyrights] exists between copyright law and trademark law . . . .").

25 *Trade-Mark Cases*, 100 U.S. at 92 ("The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons . . . .").

by reducing their search costs.[26] Currently, trademark protection stems from a combination of common law, state statutes, and a federal statute, the Lanham Act.[27] The Lanham Act draws its Constitutional support from the Commerce Clause, not from the Patent and Copyright Clause.[28]

2. *The Lifetime of IP Rights*

A second essential difference is in the duration of rights and protections. Because the protection and monopoly given to patent and copyright owners is just a necessary evil to promote progress and culture, those monopolies are limited in duration. Patents receive up to twenty years of protection,[29] and copyrights can range from the life of the author plus 70 years to 120 total years.[30] Also, at the natural end of patent or copyright protection, the owner is still able to take advantage of that patent or copyright, but it can just no longer prevent others from using it too.[31]

Conversely, trademark rights have no restrictions on duration and can last for centuries, even millennia theoretically, so long as various requirements within the mark owner's control are met and maintained, such as use in

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[26] Armen Alchian and William Allen, two UCLA economists, posited,

> Brand names and trademarks become associated with expectations of a particular quality. Reputations based on consistent past performance economize on the costs of information about the anticipated performance of a good. Thus consumers will sensibly use the brand name or reputation of the maker as a basis for choice. The greater are the possible losses from poor performance of a good, the greater is the value of that brand name as a predictor of quality of performance. Without brand names or other means of identifying makers, consumers would face larger risks and incur greater costs of information.

A. ALCHIAN & W.R. ALLEN, EXCHANGE AND PRODUCTION: COMPETITION, COORDINATION, AND CONTROL 193 (2d ed. 1977). Another school of thought says it was never really about protecting the consumer so much as protecting the producer from lost sales. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1916 (2007). Technically the protections against trademark dilution are to protect the brand equity that the owner has in a mark; this Comment would argue that brand equity is protected because of the overall value to consumers for mark owners to make that investment in their brand.

[27] Common law laid the foundation, and then the statutes have strengthened and modernized the protections, though have not preempted the common law entirely. *See* Meiners & Staaf, *supra* note 21, at 929.

[28] Trademarks identify the source of goods, and those goods are used in commerce, and therefore the support for the regulation of trademarks stems from the Commerce Clause. *See Trade-Mark Cases*, 100 U.S. at 95.

[29] *See* 35 U.S.C. § 154(a)(2) (2012). There are different lengths for the different types of patents, and it also varies on other factors, but such a discussion is not relevant for the purposes of this Comment. The fundamental concept to grasp is that patent rights are limited in duration.

[30] *See* 17 U.S.C. §§ 301–305 (2012). Just as with patents, the length of time varies for different types and classifications of copyrightable material, but such a discussion is not relevant for the purposes of this Comment. The fundamental concept to grasp is that copyrights are limited in duration, at least in theory.

[31] *See, e.g.*, *id.*

commerce and registration renewals.[32] Thus, trademark rights and protections, unlike patents and copyrights, can continue in perpetuity.[33] If a trademark owner has granted an exclusive license without an explicit time limit, or has granted a naked license essentially transferring complete ownership to the licensee, it is conceivable that the trademark owner will never reacquire the right to use its own mark.

3. Physical Object vs. Intangible Goodwill

A third difference is that some intellectual property rights, especially patents and copyrights, are treated as intangible, quasi property rights[34] though many question whether these rights are actually based in property, contract, or other areas.[35] With patents and copyrights, however, there is also a physical thing, an object, a piece of actual property, in which those rights are based, at least in theory.[36] With trademarks, there is no physical object, nor does it technically protect ideas or concepts; rather, it is the goodwill embodied and earned in that idea or concept in which the rights are based.[37] Most

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32 The grounds for cancelling the registration of a mark include abandonment by the owner, becoming generic, or having been obtained fraudulently. 15 U.S.C. § 1064(3) (2012).

33 There is the argument that because of the efforts of Disney and others, copyright protection keeps being extended, constructively amounting to protection in perpetuity, but according to statute, copyright protection is limited in duration.

34 The term quasi property comes from a Supreme Court case on copyrights. *See* Int'l News Serv. v. AP, 248 U.S. 215, 236 (1918) ("it must be regarded as *quasi* property . . .").

35 *See generally, e.g.*, Richard A. Epstein, *A Clear View of the Cathedral: The Dominance of Property Rules*, 106 YALE L.J. 2091 (1997); Michael A. de Gennaro, *The "Public Trust" Servitude: Creating A Policy-Based Paradigm for Copyright Dispute Resolution and Enforcement*, 37 TEX. TECH L. REV. 1131, 1171 (2005); Henry Hansmann & Reinier Kraakman, *Property, Contract, and Verification: The Numerus Clausus Problem and the Divisibility of Rights*, 31 J. LEGAL STUD. S373, S378–79 (2002); Thomas W. Merrill & Henry E. Smith, *The Property/Contract Interface*, 101 COLUM. L. REV. 773 (2001); Jeffrey E. Stake, *Toward an Economic Understanding of Touch and Concern*, 1998 DUKE L.J. 925 (1988).

36 With patents, the "physical object" need not be actually constructed for the creation of rights; those rights are still based in the theoretical object as if it had been physically produced. *See* Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 66 (1998) ("[I]t does not follow that proof of reduction to practice is necessary in every case. . . . [O]ne can prove that an invention is complete and ready for patenting before it has actually been reduced to practice.").

With copyrights, one core principle is that although copyright protects ideas, those ideas must be produced in a fixed medium, and thus technically can be linked to a physical object. *See* 17 U.S.C. § 102 (2012).

37 Roger E. Meiners and Robert J. Staaf explain how the trademark right is tied to property thusly:

> The property in a trademark lies with its use; it is nothing more than a privilege, valuable because of its exclusivity. In adopting it one takes nothing from, and in abandoning it returns nothing to, any store of common or public property. It is not an article of commerce in the sense that it may be consumed by the purchasing public. It is property only when used to indicate the origin or

importantly, the public links that idea or concept with the source of a particular good used in commerce. But note that the trademark right applies to that concept of earned trust and goodwill, not to the actual idea, nor to that good, which would potentially be the subject of copyright or patent rights.

4. *Quality-Control Aspects of Trademarks*

Finally, a fourth core difference, and maybe the most important to this debate, between patents, copyrights, and trademarks is the quality-control aspect of trademarks that is absent from the others.[38] Trademark rights are lost if the trademark is deemed to have been abandoned.[39] One way in which a trademark can be abandoned if the mark's owner does not continually monitor, or at least have the right, the trademark's use by licensees to ensure that the quality of the goods provided under the mark is maintained; a license that fails to include quality control provisions is a "naked" one that can result in the loss of the licensor's rights.[40] Neither patents nor copyrights have a similar monitoring requirement to maintain those rights and protections.

5. *Hypothetical Examples*

The following two hypotheticals illustrate the difference between copyrights and patents, and trademarks. For copyrights, imagine that The Walt Disney Co. ("Disney") licensed the broadcast rights of its animated film, *Snow White*,[41] to HBO to air for a month. Now, suppose that instead of actually

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> ownership of goods. It is property only in the sense that trade reputation or goodwill is a property right. A trademark is merely an instrumentality for the protection of that property right.

Meiners & Staaf, *supra* note 21, at 929–30.

[38] Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 198 (1985) ("National protection of trademarks is desirable, Congress concluded, because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.").

[39] 15 U.S.C. § 1064(3) (2012) (providing that a trademark may be cancelled if "the registered mark . . . has been abandoned.").

[40] Eva's Bridal Ltd. v. Halanick Enters., 639 F.3d 788, 789–90 (7th Cir. 2011) ("[Licensor] abandoned the [trade]mark by engaging in naked licensing. . . . The written agreement did not require [the licensee] to operate the [business] in any particular way and did not give the licensor any power of supervision over how the business was conducted."); *see also* Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995) ("When a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor." (quoting First Interstate Bancorp. v. Stenquist, No. C-89-4106, 1990 U.S. Dist. LEXIS 19426, at *7 (N.D. Cal. July 13, 1990) (internal quotation marks omitted))).

[41] For the purposes of this hypothetical, assume that Disney still has a copyright in the original version of *Snow White*, despite how long it is has been available to the public. It probably still does, because Disney seems to be a master at keeping things out of the public domain, but that is an entirely different subject for a different comment.

airing *Snow White* as Disney recorded and provided, HBO instead aired an amateur production that was filmed in someone's basement, as the original Disney production. Even if unchallenged, such an act would not cause Disney to lose its copyright protection in the original production of *Snow White*. The same would be true regarding patents. If a patent holder licensed the right to manufacture its patent, "Product X," to another party, and that party made something else, "Product Y," but marketed and sold it as "Product X", the patent holder's rights in "Product X" would not be affected.

Trademarks are different. Suppose a man named Enzo Ferrari has acquired a trademark in the name "Ferrari," and the reputation that "Ferrari" cars are top-of-the-line machines. Enzo has spent 100 years building this brand, and that quality is what the consuming public now has learned to expect when it purchases a Ferrari. Now, suppose that Enzo decides he does not actually want to manufacture his cars anymore, and licenses the use of the name Ferrari to a manufacturer in Georgia, but does not have a provision allowing him to inspect the quality of the goods being sold under his trademark.[42] Unfortunately, that manufacturer is unscrupulous, and uses only the cheapest parts, held together by glue. The consuming public does not know this, however, and relying on the reputation of the name Ferrari, buys these new Ferraris, and all the cars fall apart. If Enzo did not retain the right to force his licensee to take corrective actions, this would provide a basis for Enzo to actually lose all his trademark rights and protections in Ferrari.

Likewise, let's say that the Walt Disney Co. has acquired a trademark in the name "Disney Co." associated with producing high quality animated films. Then, after decades of producing these high quality films, and building its reputation, it licenses the use of the name Disney Co. to a couple who make really poor amateur films in their basement. By allowing this couple to produce bad movies under the name Disney Co. and not monitoring the quality of those films, The Walt Disney Co. would lose its trademark rights in the name Disney Co. This is a crucial difference between copyrights and patents, on the one hand, and trademarks on the other.

A lack of Constitutional support, non-property-based rights, quality-control requirements, and the duration of those rights all make trademarks fundamentally different from patents and copyrights despite all generally being grouped together within the category of intellectual property. Regardless of the basis for those rights, a trademark owner may license the use of those rights to

[42] I.e., a naked license.

others.[43] For the purposes of this Comment, courts have considered trademark license agreements executory contracts.[44]

B. Executory Contracts

One of the most complicated issues in bankruptcy is how to treat executory contracts.[45] There is significant disagreement as to what constitutes an executory contract, which will be explored below. Ultimately, once a contract has been deemed executory, bankruptcy allows the debtor, with the approval of the bankruptcy court, to assume or reject it, which raises additional questions.

1. What Is An Executory Contract?

To begin, determining what "executory" means is not clear, leading to great debate and a split of authority among the circuits.[46] There are three generally accepted definitions, only one of which is relevant to this Comment. That definition, the earliest and most commonly used of the three, comes from Professor Vern Countryman in a *Minnesota Law Review* article.[47] Professor Countryman defined an executory contract as "a contract under which the obligation of both [parties] 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" (the "Material Breach Test").[48] This was adopted by virtually all courts almost immediately, but has received

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43 *See* 15 U.S.C. § 1060(a)(1) (allowing assignment of a trademark).

44 There is some debate about when trademarks are not executory contracts. *Compare In re* Exide Techs., 607 F.3d 957, 964 (3d Cir. 2010), *with In re* Interstate Bakeries Corp., 690 F.3d 1069 (8th Cir. 2012). *See infra* Part III.A.

45 WARREN & WESTBROOK, *supra* note 10.

46 *Compare Exide Techs.*, 607 F.3d at 964, *with Interstate Bakeries*, 690 F.3d 1069. *See infra* Part III.A.

47 *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973). There are two other definitions of "executory" that have evolved since this definition, commonly referred to as the "Some Performance Due Test" and the "Functional Test." *See* H.R. REP. NO. 95-595, pt. 4 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6303 ("Though there is no precise definition of what contracts are executory, it generally includes contracts on which performance remains due to some extent on both sides."); *see generally* Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN. L. REV. 227, 231 (1989) [hereinafter *A Functional Analysis*]; *see also* Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding Rejection*, 59 U. COLO. L. REV. 845 (1988) [hereinafter *Executory Contracts in Bankruptcy*]; Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. Colo. L. Rev. 1 (1991) [hereinafter *Executory Contracts Revisited*]. However, since this Comment focuses on the remedies available to a licensee after rejection, which assumes it is executory in the first place, the focus will be on the Material Breach Test as the basis for determining that a license remains executory, but note that this question is the subject of a split of the circuits. *Compare Exide Techs.*, 607 F.3d at 964, *with Interstate Bakeries Corp.*, 690 F.3d 1069. *See infra* Part III.A.

48 Countryman, *supra* note 47.

criticism in the years since.[49] Whenever a debtor is a party to an executory contract, the debtor or trustee[50] must either assume or reject the contract.[51]

2. *Assuming or Rejecting an Executory Contract*

It is initially the trustee's decision to assume or reject an executory contract, and that decision is subject to what is called "the business judgment rule."[52] The business judgment rule is a general rule applied under corporate law, which gives deference to a decision made by a business entity, such as a corporation. A court should generally defer to decisions of the company, and not substitute the court's "business judgment" for that of the company.[53] Occasionally, those decisions should be overruled, "to avoid the possibility of fraud and to avoid the temptation of self-interest."[54] Courts applying the business judgment rule will generally defer to a company's[55] decision unless that decision was made in bad faith or constituted a breach of the duty of loyalty.[56] These are very difficult standards to satisfy, and business judgments are rarely overruled.[57]

Executory contracts pose both risks and rewards to the debtor, in the form of liabilities and assets.[58] On the one hand, an executory contract can represent a liability to the estate for any performance the debtor owes to the non-debtor party, or for any assets that are encumbered by that executory contract, and

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49 *A Functional Analysis*, *supra* note 47.

50 When filing for bankruptcy under Chapter 11, a trustee may be appointed to manage the debtor's company and/or estate, or the debtor may remain in possession in lieu of an appointed trustee and have all of the powers that would have been granted to a trustee. *See* 11 U.S.C. § 1107–1108 (2012). For the purposes of this Comment, trustee is interchangeable with debtor in possession.

51 *See* 11 U.S.C. § 365(a).

52 NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523 (1984). *Bildisco* stands for the proposition that the traditional test for a decision of a debtor is the business judgment rule, though in that particular case, the court adopted a slightly higher standard for rejecting a collective bargaining agreement, which is outside the scope of this Comment. *Id.*

53 In general, most of the law around the business judgment rule does not come from the context of bankruptcy, and therefore such cases and rules usually refer to directors and board members of corporations, or partners in a partnership. However, for the purposes of this Comment as related to bankruptcy, when stating a rule, "trustee" will be substituted for the traditional corporate nomenclature, but note that the rules from these cases do not use the term trustee.

54 Brehm v. Eisner (*In re* Walt Disney Co. Derivative Litig.), 906 A.2d 27, 62 (Del. 2006).

55 Or trustee, in the case of bankruptcy. *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc. 756 F.2d 1043, 1046–47 (4th Cir. 1985).

56 *See Brehm*, 906 A.2d at 62.

57 For a more complete discussion showing that this is a high threshold to meet, see generally DENNIS J. BLOCK, NANCY E. BARTON & STEPHEN A. RADIN, THE BUSINESS JUDGMENT RULE 64–94 (4th ed. 1993).

58 *See* 3 COLLIER ON BANKRUPTCY ¶ 365.03[2] (Alan N. Resnick and Henry J. Sommer, eds., 16th ed. 2011).

thus not available to the estate.[59] On the other hand, it can also represent an asset of the estate for any performance owed to the debtor, or assets received under it.[60] Thus, there are benefits, but also potential risks, from either assuming or rejecting it.[61]

The decision to reject has a relatively simple standard to meet to satisfy the business judgment rule. The rejection must be, in some way, advantageous to the estate.[62] Because the trustee makes the initial decision, it is within the trustee's discretion to decide if rejection will be advantageous. That decision is subject to the business judgment rule, which, as stated above, is a relatively difficult standard for a party asking the court to overcome and overrule the decision of the trustee.[63]

As a general rule, under § 365(g), rejection of an executory contract is treated as a breach.[64] Although § 365(g) is silent on remedies, § 502(g)(1) treats the claim for damages as a prepetition claim, providing that, "[a] claim arising from the rejection, under section 365 . . . shall be allowed . . . as if such claim had arisen before the date of the filing of the petition."[65] Even though rejection is something that, by definition, occurred post-petition and would not otherwise be allowed, § 502 provides this special exception as a way of compensating the non-rejecting party.[66] But, this also protects the debtor, because, by allowing this to be treated as a prepetition claim, § 502(g)(1) allows the debt to be discharged like any other prepetition debt in bankruptcy.[67] Without § 502(g)(1), a claim based on rejection would be treated as a postpetition claim, meaning the debt would not be a part of the debtor's estate and not be dischargeable,[68] which brings its own problems.[69]

Thus, rejection is a powerful tool in the trustee's belt[70] and can be essential for serving the two overarching purposes of bankruptcy: by giving the debtor a

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59 *See id.*

60 *See id.*

61 *See id.*

62 Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1047 (4th Cir. 1985).

63 *See* 3 COLLIER ON BANKRUPTCY, *supra* note 58.

64 *Lubrizol*, 756 F.2d at 1048 (citing 11 U.S.C. § 365(g) (2012)).

65 11 U.S.C. § 502(g)(1).

66 *See id.*; *see also Lubrizol*, 756 F.2d at 1048; H.R. REP. NO. 95-595, pt. 4, at 354 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

67 *See* 11 U.S.C. § 502(g)(1).

68 *See id.* at § 523(a)(3).

69 *See* 4 COLLIER ON BANKRUPTCY, *supra* note 58, at ¶ 501.01[d].

70 *See A Functional Analysis*, *supra* note 47, at 232.

fresh start, [71] and by giving the creditors equal treatment and the greatest value for their claims and interests.[72]

II. *LUBRIZOL* AND THE FOLLOWING DECADES

The Code did not specifically define or address intellectual property until after, and in reaction to, *Lubrizol*.[73] This is not to say that bankruptcy cases had not involved intellectual property matters before. Simply, Congress had not addressed intellectual property in the Code but rather left it up to the common-law system.[74]

A. The Facts of Lubrizol

The United States Court of Appeals for the Fourth Circuit handed down the seminal decision on intellectual property license rejections in bankruptcy in *Lubrizol*.[75] In August of 1983, a company called Richmond Metal Finishers (Richmond) filed for bankruptcy under chapter 11 of the Code.[76] Richmond was the owner of a patent for a metal-coating-process technology.[77] In July of 1982, thirteen months before it filed for bankruptcy, it had entered into a nonexclusive license with Lubrizol Enterprises that granted Lubrizol use of Richmond's patent and trademark.[78]

The issue was that after filing for bankruptcy and as debtor in possession under § 1107(a) of the Code, Richmond wanted to reject that license pursuant

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71 *See* Marrama v. Citizens Bank of Mass., 549 U.S. 365, 367 (2007) ("[T]he principal purpose of the [] Code is to grant a fresh start to the honest but unfortunate debtor." (citing Grogan v. Garner, 498 U.S. 279, 286, 287 (1991))); Hanover Nat'l Bank v. Moyses, 186 U.S. 181, 192 (1902); *see also* United States v. Whiting Pools, Inc., 462 U.S. 198, 203 (1983) ("[T]he assets of the debtor would be more valuable if used in a rehabilitated business than if 'sold for scrap.' "); 1 COLLIER ON BANKRUPTCY, *supra* note 58, at ¶ 1.01[1].

72 *See* Katchen v. Landy, 382 U.S. 323, 328 (1966) (quoting *In re* William Christy, 44 U.S. 292, 292, 312 (1845)); *see also* Union Bank v. Wolas, 502 U.S. 151, 161 (1991) ("[Serving] the prime bankruptcy policy of equality of distribution among creditors of the debtor." (quoting H.R. REP. NO. 95-595, pt. 2, at 177–78 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6138)); 1 COLLIER ON BANKRUPTCY, *supra* note 58, at ¶ 1.01[1].

73 *See* Jonathan C. Balfus, *Exide Inside Out: New Third Circuit Decision Preserves Trademark Licensee's Rights Following Licensor's Rejection Under Bankruptcy Code § 365*, 31 CAL. BANKR. J. 523, 528 (2010) ("To counter [the *Lubrizol* decision], Congress enacted . . . the Intellectual Property Bankruptcy Protection Act of 1988 (IPBPA).").

74 *See* S. REP. No. 100-505, at 2–3 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201–02.

75 Mary A. Moy, *The Intellectual Property Bankruptcy Protection Act: An Unbalanced Solution to the International Software Licensing Dilemma*, 11 U. PA. J. INT'L BUS. L. 151, 155 (1989).

76 Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985).

77 *Id.*

78 *Id.*

to § 365(a).[79] Richmond argued that rejecting Lubrizol's license would increase the value of the company.[80] Section 365(a) provides, in pertinent part, "the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor."[81] The Code, however, does not define executory contract but instead leaves the definition for the courts, as discussed earlier.[82] Once a court has determined that a contract is executory, § 365 allows the court to approve the rejection if it is advantageous to the debtor.[83]

1. *The License in Lubrizol Was Still Executory*

First, the *Lubrizol* court applied the Material Breach Test and considered whether either party had any remaining performance due under the contract.[84] Under the license agreement, Richmond was obligated to give Lubrizol notice of any patent infringement suits against it and to indemnify it from such suits.[85] This duty applied during the entire term of the license, and a material breach would have occurred if Richmond failed to indemnify Lubrizol even one day before the end of the license.[86] Therefore, the court determined this obligation qualified as substantial performance remaining due by Richmond.[87]

Additionally, even though the license was non-exclusive, Richmond was still obligated to inform Lubrizol if it licensed the patent to any other entities, and, if it did so at a lower royalty rate than Lubrizol was paying, to reduce Lubrizol's rate accordingly.[88] Just as the duty to give notice and indemnify were duties that ran the length of the contract, this too had a similar lifespan. Richmond not notifying Lubrizol of other licenses or lowering the royalty accordingly would constitute a material breach.[89] Therefore, Richmond still owed substantial performance to Lubrizol.[90] Thus, it stands to reason that any licensor of a license that is exclusive, or is non-exclusive but has a notice and

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[79] *Id.*; *see* 11 U.S.C. § 365(a) (2012).

[80] *Lubrizol*, 756 F.2d at 1047.

[81] 11 U.S.C. § 365(a). Furthermore, § 1107(a) allows the debtor in possession in a chapter 11 filing all the powers and responsibilities granted to a trustee under any other chapter. *See* 11 U.S.C. § 1107(a).

[82] *Lubrizol*, 756 F.2d at 1045 (citing NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522 n.6 (1984)).

[83] *Id.* (citing *Bildisco*, 465 U.S. at 523–24).

[84] *Id.* at 1045–46.

[85] *Id.* at 1045.

[86] *Id.* at 1046.

[87] *Id.*

[88] *Id.* at 1045.

[89] *Id.* at 1045–46.

[90] *Id.*

royalty adjustment requirement, would have substantial performance remaining due for the life of the license.[91]

Under the Material Breach Test, the court next looked at whether Lubrizol still owed any substantial performance.[92] The court acknowledged that if Lubrizol simply owed a flat-rate royalty, that would not have been enough substantial performance remaining.[93] However, because Lubrizol used a percentage-based royalty scheme and was obligated to provide periodic accounting, Lubrizol still owed Richmond substantial performance.[94]

Because both Richmond and Lubrizol still had substantial performance remaining due the other, the court held that this license agreement was still executory.[95]

2. *An Executory Contract May Be Rejected if Advantageous to the Debtor*

The court next turned to whether the trustee's decision that rejection would benefit the estate would survive judicial scrutiny.[96] The court applied the business judgment rule to the decision as the correct standard for that scrutiny.[97] The court placed the burden of proof on Lubrizol, the party requesting that the trustee's decision to reject be overruled.[98] Lubrizol presented no evidence of bad faith to overcome the business judgment rule.[99] Neither did Lubrizol demonstrate that the rejection was a breach of the duty of care by the debtor in possession.[100]

Richmond provided evidence that the patent was Richmond's principal asset, that the patent would be the primary source of funds for Richmond's

91 The court noted that even if the license is exclusive, the licensor has a duty of forbearance to not sell or re-license the property, and that duty of forbearance alone constitutes a remaining substantial performance due. *Id.*

92 *Id.* at 1046.

93 *Id.* (citing H.R. REP. NO. 95-595, pt. 4, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305).

94 *See id.*

95 *See id.*

96 *See id.* at 1046–47.

97 *Id.* at 1046 (citing NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523–24 (1984); Grp. of Inst'l Invs. v. Chi., Milwaukee, St. Paul & Pac. R.R. Co., 318 U.S. 523, 550 (1943); Control Data Corp. v. Zelman (*In re* Minges), 602 F.2d 38, 43 (2d Cir. 1979); Carey v. Mobil Oil Corp. (*In re* Tilco, Inc.), 558 F.2d 1369, 1372–73 (10th Cir. 1977)).

98 *Lubrizol*, 756 F.2d at 1047; *see* Brehm v. Eisner (*In re* Walt Disney Co. Derivative Litig.), 906 A.2d 27, 66 (Del. 2006).

99 *See generally Lubrizol*, 756 F.2d 1043.

100 *Id.* at 1047.

fresh start, and that it would be more valuable unencumbered.[101] The bankruptcy court held that the decision to reject was a sound business decision based on its findings of fact, a conclusion upheld by the Fourth Circuit.[102]

3. *The Remedy in Lubrizol for Rejection*

At that time, there were no provisions specifically governing the rejection of IP licenses in the Code, so the court used the general provision of § 365(g).[103] On its face, § 365(g) merely recites that a rejection shall be treated as a breach, with no mention of the appropriate remedy.[104] The court also noted, however, that Congress had addressed certain types of licenses, leases, and executory contracts, giving them special treatment with individually addressed provisions, along with the guaranteed remedies available.[105] Since intellectual property licenses did not get such guaranteed remedies, "[t]hey share the general hazards created by § 365 for all business entities dealing with potential bankrupts . . . ."[106] The court recognized that there was a general rule that applied to all executory contracts, § 365, and then there was a carve-out providing extra remedies to a select few types of executory contracts, and IP licenses were not one of those few.[107]

Lubrizol argued for specific performance as a remedy, but the court said that this would defeat the purpose of § 365(a).[108] The court acknowledged that there was a provision that explicitly allowed a remedy of specific performance for the non-rejecting party, but noted that it was distinctively limited to control *only* the rejection of an unexpired lease of real property.[109] However, if any non-rejecting party could ask for specific performance as the remedy in any situation, then there would be a much more limited purpose in trying to reject an executory contract in the first place, rendering § 365(a) and the rejection power almost superfluous.[110]

In the court's words, "Lubrizol would be entitled to treat rejection as a breach and seek a money damages remedy; however *it could not seek* to retain

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[101] *Id.*
[102] In fact, it was reinstated by the Fourth Circuit after being reversed first by the district court. *See id.*
[103] *Id.* at 1048.
[104] *See* 11 U.S.C. § 365(g) (2012).
[105] *Lubrizol*, 756 F.2d at 1048.
[106] *Id.*
[107] *Id.*
[108] *Id.*
[109] *Id.* (emphasis added).
[110] *See id.*

its contract rights by specific performance *even if that remedy would ordinarily be available* upon breach of this type of contract."[111] This means that even if outside of bankruptcy a non-breaching party would be able to request specific performance and retain its rights, within bankruptcy that option is foreclosed.[112] Thus, the court allowed damages in the form of a prepetition claim against the debtor as the only remedy.[113]

The court acknowledged that the hardship this might cause the licensee, and the potential ramifications it might have on the future of IP licensing as a whole, but also felt that under bankruptcy law it was not allowed to act upon those types of equitable considerations.[114] There are academics and courts that have criticized this holding, and said that *Lubrizol* really missed the boat on remedies, but that will be explored further in Part III.D.[115] First, Congress's response will be addressed.

B. Congress Responds to Lubrizol

In 1988, Congress enacted the Intellectual Property Bankruptcy Protection Act ("IPBPA") as a direct response to the holding in *Lubrizol* and cases that followed it.[116] This act added two provisions to the Code: (1) a definition of intellectual property and (2) a provision governing the rejection of intellectual property licenses.[117] Noticeably *and intentionally* absent from IPBPA is anything relating to trademarks.[118]

1. Sections 101(35A) and 365(n) Were Added to the Code

The first addition of IPBPA was the definition of intellectual property at 11 U.S.C. § 101(35A).[119] This definition includes six enumerated types of

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111 *Id.* (emphasis added). The *Sunbeam* court and its supporters have argued that a licensee retaining its rights is not specific performance because it does not require any affirmative performance obligations of the debtor. *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 377 (7th Cir. 2012). However, as explained much more extensively below, this argument overlooks the fact that injunctions and duties of forbearance are just as much specific performance as affirmative obligations. *See infra* Part IV.C.3.

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

113 *Id.*

114 *Id.*

115 *See infra* Part III.D.; s*ee also, e.g.*, *Executory Contracts in Bankruptcy*, *supra* note 47, at 916–19.

116 S. REP. NO. 100-505, at 1–2 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201–02.

117 *See generally id.* at 8–13.

118 *See id.* at 7.

119 *See* 11 U.S.C. § 101(35A) (2012). At the time, it was actually enacted as § 101(52)–(53) but has since been consolidated and re-designated as 35A. *Compare* S. REP. NO. 100-505, at 7–8 (1988), *with* 11 U.S.C. § 101(35A).

intellectual property that can broadly be categorized as types of patents, copyrights, and trade secrets.[120]

Section 365(n) was also added to govern the rejection of intellectual property licenses.[121] Section 365(n) was structured based on two other provisions of § 365, specifically § 365(h) and (i).[122] Section 365(h)(1)(A)(i) provides that upon rejection of a real property lease, a non-rejecting, non-debtor lessee may elect to consider the contract terminated and receive damages.[123] If the lessee wants to remain in possession of the leased property, however, § 365(h)(1)(A)(ii) guarantees the lessee that right, as a matter of law.[124] Section 365(h)(2) is very similar, except that it applies to timeshare leases as opposed to leases of real property.[125] Section 365(i) is virtually identical as to the net effect as relates to the sale of real property or a timeshare interest if the non-debtor party is already in possession of the property, but the contract is still executory.[126]

Similarly, § 365(n) provides a licensee with two choices: (1) terminating the contract and accepting damages, or (2) retaining its rights under the license and essentially receiving guaranteed specific performance to enforce the contract, as a matter of law.[127] In exchange, the licensee will continue to make

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[120] They are: "(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17." 11 U.S.C. § 101(35A). (B), (C), and (D) are patents, and (E) and (F) are copyrights.

[121] *Id.* § 365(n).

[122] *Compare id.*, *with id.* § 365(h)–(i).

[123] *Id.* § 365(h)(1)(A)(i).

[124] *Id.* § 365(h)(1)(A)(ii). There are some exceptions as to what will be enforced, such as a debtor-landlord's duty to make repairs under a real property lease. *See id.* § 365(h)(1)(B) (stating that the lessee "may offset . . . the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor.").

[125] *Compare id.* § 365(h)(1), *with id.* § 365(h)(2).

[126] *See id.* § 365(i).

[127] *Id.* § 365(n)(1)(B). There is an alternative argument about the purpose of § 365(h), (i), and (n). Outside of bankruptcy, if a party breaches a contract and decides not to perform, the non-breaching party can decide to continue performing and sue the breaching party for damages for the breaching party's non-performance. Additionally, if the breaching party owes a continuous duty to perform, and does not do so, the non-breaching party can allow the damages to keep accumulating as long as it continues to perform on its obligations. The alternative argument about the purpose § 365(h), (i), and (n) is not to guarantee specific performance, but rather to cut off the non-rejecting party from claiming the debtor's continuing non-performance after rejection as damages. But this is not entirely accurate, because under § 365(h), after rejection, a landlord-debtor is excused from its performance obligations including making repairs, and the tenant cannot make a claim against the landlord for damages for the lack of repairs, *but* the tenant *can* offset his rent owed to the landlord for those damages so that is the functional equivalent, just not in name. *See id.* § 365(h)(1)(B). Even if that is the overall purpose, one effect of these three provisions, nonetheless, is the guarantee of specific performance,

royalty payments and will waive any claims for setoff or administrative expenses.[128]

2. The IPBPA Intentionally Excluded Trademarks

Congress was worried that the decision in *Lubrizol* would significantly hamper the licensing of intellectual property, just as the Fourth Circuit observed.[129] In fact, Congress predicted, inaccurately to date, that the decision in *Lubrizol* could end all future intellectual property licensing.[130] However, in the legislative history behind the enactment of § 365(n), Congress explained that it was intentionally excluding trademarks:

> *Finally, the bill does not address the rejection of executory trademark, trade name, or service mark licenses by debtor-licensors*. While such rejection is of concern . . . such contracts raise issues beyond the scope of this legislation. . . . [T]hese matters could not be addressed without more extensive study, [so] *it was determined to postpone congressional action in this area . . . .*[131]

In the twenty-six years since 1988, Congress has not officially conducted any further studies or addressed trademark license rejection in subsequent litigation, despite many courts following the decision in *Lubrizol* as applied to trademark licenses.[132] Those courts have treated rejection as limiting the remedies available to the licensee to damages only and not allowing specific performance.[133]

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and that is what this Comment will focus on, regardless of any other potential intended purposes. *See* Raima UK Ltd. v. Centura Software Corp. *(In re* Centura Software Corp.), 281 B.R. 660, 669–71 (Bankr. N.D. Cal. 2002) ("[Section] 365(n) dictates what happens after rejection. The court has little choice at that point.") (citations omitted). Special thanks to Professor Rafael I. Pardo for pointing out this potential counterargument and talking through its nuances.

128 11 U.S.C. § 365(n)(2)(B)–(C).

129 *See* S. REP. NO. 100-505, at 3 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3201–02.

130 *Id.*

131 *Id.* at 5 (emphasis added).

132 *See infra* Part II.C.

133 S*ee* Rte. 21 Assocs. of Belleville, Inc. v. MHC, Inc., No. 12 Civ. 5361, 2012 WL 6625280 (S.D.N.Y. Dec. 19, 2012) (citing Moglia v. Pac. Emp'rs. Ins. Co. of N. Am., 547 F.3d 835, 837 (7th Cir. 2008); *see also In re* Continental Airlines, 125 F.3d 120, 133–36 (3d Cir.1997); Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985); *In re* A.J. Lane & Co., 107 B.R. 435, 439 (Bankr. D. Mass. 1989); *In re* Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985); *In re* Waldron, 36 B.R. 633, 642 n.4 (Bankr. S.D. Fla. 1984)).

C. Courts Have Generally Followed Lubrizol *as Applied to Trademark Licenses*

Lubrizol has continued to be applied to trademark license rejections by debtor-licensors, with the sole exception to date being *Sunbeam*.[134] IP licenses generally continue to be considered executory contracts.[135] The decision to reject the license continues to be within the scope of the business judgment rule.[136] Courts have followed the statement in the legislative history behind the IPBPA, interpreting the plain language of § 365(n) to exclude trademark licenses[137] and holding that trademark licensees are not protected by § 365(n).[138] Across the board, the *sole* remedy granted to the licensee after rejection has been a claim for damages, starting with the Southern District of New York.[139]

1. In re Chipwich, Inc.

First, a bankruptcy court in the Southern District of New York applied the holding in *Lubrizol* and treated rejection as a claim for damages.[140] In that case, *In re Chipwich, Inc.*,[141] the court unequivocally held that rejection

134 *See infra* Part II.C.

135 *In re* Buildnet, Inc., No. 01-82293, 2002 WL 31103235, at *3 (Bankr. M.D.N.C. Sept. 20, 2002). This is a gross simplification; there is a debate and circuit split over executoriness, and whether to apply the Material Breach Test, the Some Performance Due Test, or the Functional Test to determine if a trademark license is still executory and whether it is even relevant. *Compare In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010) (holding that the trademark license was no longer executory), *with* Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 375 (7th Cir. 2012) (holding without really questioning that the license was still executory), *cert. denied* 133 S. Ct. 790 (2012), *and In re* Interstate Bakeries Corp., 690 F.3d 1069 (8th Cir. 2012) (holding that the license was still executory on almost the same facts as *Exide*). For a further discussion of *Exide*, see *infra* Part III.A–B.

136 Blackstone Potato Chip Co. v. Mr. Popper, Inc. *(In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561 (Bankr. D.R.I. 1990).

137 Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 669–70 (Bankr. N.D. Cal. 2002); *see also Sunbeam*, 686 F.3d at 375; *In re* Old Carco L.L.C., 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009).

138 *In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003) (allowing the trustee to reject the license and cut off the licensee's ability to continue using the trademark); *Centura Software*, 281 B.R. at 669–70; *see also In re* Davidson Hydrant Technologies, Inc., BR 11-13349-WHD, 2012 WL 987620, at *8 (Bankr. N.D. Ga. Jan. 10, 2012); *Old Carco*, 406 B.R. at 211; *In re* Exide Techs. (*Exide I*), 340 B.R. 222, 249 (Bankr. D. Del. 2006) *vacated and remanded by In re* Exide Techs. (*Exide II*), 607 F.3d 957 (3d Cir. 2010); *Blackstone Potato Chip*, 109 B.R. at 561–62; *In re* Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985).

139 *See Chipwich*, 54 B.R. at 431; *see also Old Carco*, 406 B.R. at 211; *HQ Global Holdings*, 290 B.R. at 513; *Centura Software*, 281 B.R. at 669–70; *Blackstone Potato Chip*, 109 B.R. at 561–62.

140 *Chipwich*, 54 B.R. 427.

141 *Id.*

"constitutes a breach of the contract and gives the other contracting party a claim for damages."[142] The court did not say that rejection "gives . . . *an option* to make a claim for damages," it just says "gives . . . a claim for damages."[143] For support, the court cited to § 365(g).[144]

The court also quoted *Lubrizol*, referring to the "general hazards created by § 365."[145] The trademark licensee "will be entitled to treat rejection as a breach and *will have an allowable claim* for damages under 11 U.S.C. § 365(g)(1) and § 502(g)."[146] Note again, there was no language that said the licensee would have had the option of damages or requesting to retain its rights through specific performance.[147] The concept that damages is the *only* remedy available is indisputably confirmed in the opinion because the court explicitly noted that rejection would prevent the licensee from continuing to use the trademark.[148]

2. In re Blackstone Potato Chip Co.

Next, a Rhode Island bankruptcy court held in *In re Blackstone Potato Chip Co.* that the claims of trademark licensees after rejection can be treated as a general unsecured claim.[149] The court here also addressed damages as the remedy.[150] Normally, § 502(g)'s treatment would have meant that the remedy for rejection would create an unsecured prepetition claim.[151] Based on the special facts of this case, however, the court changed that claim into a priority administrative expense claim under § 503(b)(1).[152]

However, at no point did the court explore the possibility of specific performance as a remedy, nor even mention it a single time.[153] It is possible that the non-rejecting party did not request this. Another possible reason is that the court was tacitly acknowledging that a claim for damages was the only appropriate remedy and specific performance did not need discussion.

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142 *Id.* at 429.
143 *Id.*
144 *Id.*
145 *Id.* at 431.
146 *Id.* (emphasis added).
147 *See generally id.* at 429–31.
148 *Id.* at 431 ("[B]y rejecting the two licenses the debtor will deprive [the licensee] of its right to use the . . . trademark for its products.").
149 Blackstone Potato Chip Co. v. Mr. Popper, Inc. (*In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561–62 (Bankr. D.R.I. 1990).
150 *Id.*
151 *Id.*; *see also supra* Part I.B.2.
152 *Blackstone Potato Chip*, 109 B.R. at 561–62.
153 *See generally id.*

3. In re Centura Software Corp.

Following the Rhode Island bankruptcy court's decision in *Blackstone*, the Northern District of California decided *In re Centura Software Corp.*[154] Here, one of the issues facing the bankruptcy court was whether the rejection of a trademark license should be governed by § 365(n).[155] When laying out the options of how to apply the law, this court followed the cases above and unequivocally stated, "If the court determines that § 365(n) does not protect [the licensee]'s trademarks rights, [the licensee] *will not be able to use* [the trademarks]. . . . [I]t will be *left with but a § 365(g) claim* for damages resulting *from being unable to use* the trademarks in its business."[156] The court denied the licensee the ability to retain its rights post-rejection if § 365(n) did not govern.[157]

In its analysis, the court first points out that by its plain language, § 365(n) excludes trademarks, so there was no need to do any further analysis.[158] If more analysis was needed though, the legislative history generally supported this interpretation.[159] On the other hand, the court recognized that the legislative history might suggest that Congress did intend to allow for specific performance as a remedy for trademark licenses like the rest of § 365(n). The plain language of the statute was clear, nonetheless, and meant that the legislative history was superfluous and should be ignored.[160]

The licensee tried to use a case, *In re Matusalem*,[161] in which the court denied the debtor's request to reject the contract in question.[162] Though never explicitly stated in *Matusalem*, the natural result from denying the rejection was to enforce the terms of the contract, effectively granting specific performance to the licensee.[163] The court in *Centura* found that distinguishable because the rejection was denied on account of the debtor acting in bad faith, and thus the entire issue of damages after rejection was never considered

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154 Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660 (Bankr. N.D. Cal. 2002).
155 *Id.* at 669.
156 *Id.* (emphasis added) (footnotes omitted).
157 *Id.*
158 *Id.*
159 *Id.* at 669–70.
160 *Id.* at 670.
161 *In re* Matusalem, 158 B.R. 514 (Bankr. S.D. Fla. 1993).
162 *Id.* at 523.
163 *See generally id.*

because there was no rejection.[164] *Centura also* found *Matusalem* distinguishable on other grounds which this Comment will explore in more depth below.[165]

After its analysis, the court in *Centura* again stated, unambiguously,

> Because § 365(n) is controlling post-rejection and it does not protect trademarks, the court holds that [the licensee] cannot retain any trademark rights under the rejected [license]. It cannot continue to use [the] Trademarks . . . but . . . it is entitled to file an unsecured [prepetition] claim for damages.[166]

The court recognized that while this is a "harsh holding . . . equitable considerations may not be indulged by the courts."[167]

4. In re HQ Global Holdings, Inc.

A bankruptcy court in the District of Delaware decided to weigh in as well, and once again, post-enactment of the IPBPA, the issue of rejection of a trademark license was litigated.[168] In *In re HQ Global Holdings, Inc.*,[169] the court started with the proposition that damages are the only appropriate remedy for rejection unless § 365 explicitly provides otherwise.[170] It then echoed the court in *Centura*, holding that the plain language of § 365(n) excludes trademarks.[171] Following *Centura*, this court held that the licensee was not entitled to retain its rights to use the trademarks.[172] The licensee was left with a damages claim as the sole remedy available.[173]

HQ Global was the first to overtly note the irrelevance of the debate over termination or breach.[174] It is generally undisputed that rejection relieves the debtor of its performance obligations.[175] The previous courts had framed the

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164 *Centura Software*, 281 B.R. at 671.

165 *See infra* Part IV.B.2.a.

166 *Centura Software*, 281 B.R. at 673.

167 *Id.* at 673–74 (quoting Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985)) (internal quotation marks omitted).

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

169 *Id.*

170 *Id.* at 512.

171 *Id.* at 513 (citing *Centura Software*, 281 B.R. 660).

172 *Id.*

173 *Id.*

174 *See id.*

175 *Id.* ("[T]he familiar maxim that rejection does not terminate or repudiate a contract but simply relieves the estate from its obligation to perform."); *see also* Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 377–78 (7th Cir. 2012), *cert. denied* 133 S. Ct. 790 (2012).

issue as asking whether allowing the licensee to continue using the trademark was a matter of the licensee retaining its rights.[176] Rejection was seen as *terminating* those rights of the licensee, not as directly related to any performance obligations of the debtor.[177]

The court reframed the issue by calling the right to allow the licensee to continue the use of the trademark an affirmative obligation of the debtor.[178] The debtor had a performance obligation to allow the licensee to use the trademark, and a second performance obligation to refrain from suing the licensee for that use.[179] Because rejection relieves the debtor from its performance obligations, those obligations were excused by rejection.[180] Therefore, it did not matter whether rejection was considered to be a termination or a breach, because either way the debtor was excused from its obligations of allowing the licensee to use the trademark.[181]

5. In re Old Carco, LLC

After *HQ Global*, the Southern District of New York returned to the debate with its decision in *In re Old Carco, LLC*.[182] Trademark licenses were only a minor part of this opinion, addressed in a total of five sentences.[183] As was the general trend in the cases above, here the court stated that the licensee only retains its rights if the Code explicitly allows it.[184] Section 365(n) excludes trademarks.[185] Therefore, the court held that the licensees were not entitled to retain their rights to continued use of the trademarks.[186] The licensees were left with only damages in the form of prepetition claims against the debtor.[187]

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176 *See supra* Part II.C.1–3.; *see also, generally*, Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985).

177 *See* Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 674 (Bankr. N.D. Cal. 2002); Blackstone Potato Chip Co. v. Mr. Popper, Inc. (*In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561 (Bankr. D.R.I. 1990); *In re* Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985); *Lubrizol*, 756 F.2d at 1048.

178 *HQ Global Holdings*, 290 B.R. at 513.

179 *Id.*

180 *See id.*

181 *See id.*

182 *In re* Old Carco L.L.C., 406 B.R. 180 (Bankr. S.D.N.Y. 2009).

183 *See id.* at 211.

184 *Id.* (citation omitted).

185 *Id.* (citing 11 U.S.C. § 101(35A) (2012)).

186 *Id.*

187 *Id.*

All of these cases were decided "on the front line," so to speak, at the federal district court or bankruptcy court level, until 2010.[188] The Third Circuit stepped into the discussion, but then side-stepped out by deciding a case on the grounds of the license not being executory.[189]

III. *EXIDE II*, FOLLOWED BY *SUNBEAM*, CHALLENGE *LUBRIZOL*

Until the Third Circuit's 2010 opinion in *In re Exide Technologies* ("*Exide II*"),[190] no decision by a United States Court of Appeals challenged *Lubrizol* in the arena of trademark licenses. Even then, *Exide II* did not challenge *Lubrizol* on the grounds of the remedy of a rejection being a prepetition claim against the debtor. It preempted that question by challenging *Lubrizol* on the test and standard used for determining whether a trademark license is an executory contract.[191] There is a concurrence in *Exide II* that does address the possibility of allowing the licensee to obtain specific performance but was just dicta.[192] Finally, in 2012, *Lubrizol* was confronted head-on by the Seventh Circuit in *Sunbeam*.[193]

A. Some Trademark Licenses Might Not Be Executory

The Third Circuit held in *Exide II* that the license could not be rejected because it was no longer executory.[194] The court reasoned that the material obligations had been substantially performed by both parties, reversing the bankruptcy court's decision.[195]

The licensee's rendered performance outweighed its remaining performance due by paying the entire purchase price and operating under the license for a decade.[196] While the debtor had a duty of forbearance not to use the mark, the court did not find this to be a substantial performance owed because of a grant of an exclusive license to the licensee.[197] Even though it was an obligation, this was not a *material* obligation because the court found it was

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188 *See supra* Part II.C.

189 *In re* Exide Techs. (*Exide II*), 607 F.3d 957, 963–64 (3d Cir. 2010).

190 *Id.*, 607 F.3d 957; *see* Balfus, *supra* note 73, at 533–34.

191 *Exide II*, 607 F.3d 957.

192 *Id.* at 965–67 (Ambro, J., concurring).

193 Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 377–78 (7th Cir. 2012), *cert. denied* 133 S. Ct. 790 (2012).

194 *Exide II*, 607 F.3d at 964.

195 *Id.* at 963–64.

196 *Id.* at 963.

197 *Id.* at 963–64.

not directly related to the purpose of the license, which was to allow the licensee to use the trademark and related assets and liabilities.[198] Although the debtor had included a provision in the license requiring the licensee to observe a quality standards provision, the facts showed that the debtor never exercised or provided any quality standards to the licensee in the first place.[199] Therefore, there was no actual obligation.[200] Finally, the debtor's duty to indemnify the licensee expired prior to the bankruptcy and thus was fully performed.[201]

Because the licensee had substantially performed under the contract, the contract was not executory, and could not be rejected.[202] Therefore, the majority opinion did not address the implications of a rejection, though one judge in this case could not remain entirely silent on it.[203]

B. Judge Ambro's Concurrence

The majority successfully skirted the issue of what rights belong to a licensee if a trademark license is rejected as an executory contract in bankruptcy.[204] In a concurring opinion, however, Judge Ambro did opine about those rights.[205]

He said that § 365(n) is silent as to trademark licenses, and that this silence is not a valid basis for the negative inference that trademark licensees are not entitled to retain their rights under the license.[206] He also stated that the court in *Lubrizol* mischaracterized the nature of rejection.[207] A rejection is not an abandonment, rescission, avoidance, or termination and, as such, does not terminate the rights of the other party.[208] Being just a concurring opinion on a

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198 *Id.* at 964.
199 *Id.*
200 *Id.*
201 *Id.*
202 *Id.*
203 *See id. at* 965–67 (Ambro, J., concurring).
204 This determination laid the groundwork for what might be considered a different circuit split as to when a trademark license is properly categorized as executory. *Compare id.* at 964 (majority opinion) (holding that the trademark license was no longer executory), *with In re* Interstate Bakeries Corp., 690 F.3d 1069 (8th Cir. 2012) (holding that the trademark license was still executory). This Comment will only address what happens upon rejection of a trademark license as an executory contract, and will not explore this split.
205 *Exide II*, 607 F.3d at 965 (Ambro, J., concurring).
206 *Id.* at 966.
207 *Id.* at 967.
208 *Id.*

question rendered moot by the majority's holding, Judge Ambro's concurrence was addressed only in academic circles until *Sunbeam*.[209]

C. Sunbeam Challenges Lubrizol

The licensee won a battle when the Seventh Circuit challenged *Lubrizol* as to trademark licenses in *Sunbeam*.[210] In *Sunbeam*, the debtor rejected a license that contained both patents and trademarks. Neither party contested that the licensee could continue using the patent, but the debtor wanted to cut off the licensee's rights to continued use of the trademarks post-rejection.[211] Nor did either party contest that the license was still executory at the time the debtor filed for bankruptcy.[212] The only issue was determining the rights of the licensee with respect to the trademark license after rejection.[213]

First, the court examined § 365(n) and its legislative history.[214] Agreeing with Judge Ambro, the court determined that the omission of trademarks from §§ 101(35A) and 365(n) is just an omission, and that the IPBPA neither codifies nor rejects *Lubrizol* as applied to trademarks.[215] The fact that Congress has not gone back to address trademarks in the last quarter century is not a de facto codification of *Lubrizol*.[216] Rather, trademarks in bankruptcy were just suffering from a legislative agenda drought, and the failure to include trademark licenses within the scope of § 365(n) should not be interpreted as Congress's tacit approval of a trademark licensee's rights being cut off.[217] The idea that § 365(n) is inapplicable conforms with all the cases that have come before it.[218]

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209 *See generally, e.g.*, Balfus, *supra* note 73.

210 Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372 (7th Cir. 2012) (Easterbrook, J.), *cert. denied* 133 S. Ct. 790 (2012). This Comment will first lay the groundwork of the opinion in *Sunbeam* in this Part, and then will explore parts of the opinion more thoroughly below in Part IV.

211 *Id.* at 374–75. As an interesting side note, the plaintiff in this action, Sunbeam Products, was not the debtor, but a third party who purchased the assets of the debtor after the debtor rejected the license. The issue, however, was what the rights of the licensee are after rejection, and whether it is the debtor or a subsequent buyer of the asset does not make a difference in the analysis. The court only mentions it to introduce the parties, and then the rest of the opinion focused on the rejection.

212 *Id.* at 374. This may be because of the fact that the debtor entered bankruptcy proceedings following an involuntary petition filed against it 3 months after the license began. *Id.*

213 *Id.* at 375.

214 *Id.*

215 *Id.* (citing *In re* Exide Techs. (*Exide II*), 607 F.3d 957, 967 (3d Cir. 2010) (Ambro, J., concurring)).

216 *Id.*

217 *Id.*

218 *See supra* Part II.C.

Next, since § 365(n) was moot, the court examined what would have happened outside the bankruptcy context.[219] This is where the Seventh Circuit started to diverge from the other courts. According to the Seventh Circuit, and Judge Ambro, upon rejection, the debtor was excused from performing, and the non-rejecting party could treat that non-performance as a breach.[220] However, a breach by the rejecting party did not affect the rights of the non-rejecting party. The non-breaching party could choose either to treat the contract as terminated and collect damages, or not to treat the contract as terminated and elect to continue under the contract, with the understanding that the rejecting party is excused from its performance obligations.[221]

Section 365(g) on its face is the vehicle used only to equate rejection with breach, not to determine what remedies are available or prohibited.[222] Through § 502(g), that breach from non-performance is turned into damages in the form of a prepetition claim against the debtor, but it does not affect the rights of the non-rejecting party.[223] The court gave several examples, including one of a debtor-lessor rejecting a lease, to illustrate that the tenant can elect to stay, and have a prepetition claim as a substitute for the lessor's obligation to make repairs, but the lessor cannot evict the tenant.[224]

Because rejection did not affect the non-rejecting party's rights, the court determined that the licensee was able to continue using the licensed mark even after the rejection.[225] The bankruptcy court did not decide whether the rejection terminated the rights of the licensee, but rather granted the licensee the ability to continue using the mark "on equitable grounds."[226] The Seventh Circuit affirmed the bankruptcy court's decision to allow the licensee to continue to use the trademark per the license, but on different grounds.[227] The court acknowledged that bankruptcy judges are not allowed to decide an issue on

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219 *Sunbeam*, 686 F.3d at 376.

220 *Id.* at 376–77.

221 *See id.* at 377 ("It merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence." (quoting Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007))).

222 *Id.*

223 *Id.*

224 *Id.* This Comment goes into more details about these examples shortly. *See infra* Part IV.B.2.

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

226 *Id.* (quoting *In re* Lakewood Eng'g & Mfr. Co., 459 B.R. 306, 345 (Bankr. N.D. Ill. 2011)). For example, the license provided that if the licensor failed to purchase the goods under the trademark back from the licensee, the licensee was allowed to sell those goods on the market and recoup its investment without infringing on the licensor's trademark rights. *Lakewood*, 459 B.R. at 346–47.

227 *Sunbeam*, 686 F.3d at 377–78.

equitable grounds if their decision contradicts a law.[228] According to the Seventh Circuit, though, the Code's silence on remedies for rejection of a trademark license means state law governs.[229] State law allows a non-breaching party to retain its rights post-breach if it so elects.[230] Accordingly, the bankruptcy court's decision was correct, but only because it was supported by nonbankruptcy contract law.[231]

D. *Initial Reactions to Sunbeam*

This decision quickly shook the foundations of twenty-four years of judicial consistency. Courts around the country had been relying on *Lubrizol* with no direct challenges.[232] Academics quickly began to question how this decision might play out, but the question is, what exactly did *Sunbeam* hold are the remaining rights of the licensee?[233] Some say that, at least in the Seventh Circuit, trademark licensees will always be able to retain their rights in spite of a rejection.[234] One commentator has argued that while there are measures that a debtor can take that will limit the scope or length of a licensee's rights, there is nothing a debtor can do to completely cut off a licensee's rights at and through rejection.[235] But is that really true? Perhaps this is extending *Sunbeam* beyond the scope of what the Seventh Circuit intended.

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228 *Id.* at 375–76.

229 *Id.* at 377–78.

230 *Id.* at 377.

231 *Id.* at 377–78. Something to point out now that will be questioned below in this Comment is that the court recognized that post-rejection, "a debtor is not subject to specific performance," but the licensee retaining its rights is different than an order of specific performance imposed on debtor. *Id.* (internal quotation marks omitted) (citation omitted) (holding that rejection "merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence"). The court does not explain how forcing the trademark owner to allow the licensee to use the trademarks is not an order of specific performance being imposed on the trademark owner.

232 There were some who agreed with Judge Ambro and published law review articles calling for this judicial activism. *See, e.g.*, Balfus, *supra* note 73.

233 *See* Alison Bauer, *Rejection Revisited: 7th Circuit Hold Rejection Does Not Terminate Right to Use Trademark*, 9 NO. 10 WESTLAW J. BANKR. 1 (2012); Ronald Gellert, *Sunbeam—Seventh Circuit Decision, Where Rejected Trademark Licenses Never Die* 7 (Aug. 30, 2012) (American Law Institute – American Bar Association C.L.E.); Jay Indyke et al., *Circuit's Bankruptcy Ruling is Big Win for Trademark Licensees*, 24 NO. 10 INTELL. PROP. & TECH. L.J. 3 (2012); Lana Koroleva et al., *Seventh Circuit Hands Victory to Trademark Licensees*, AM. BANKR. INST. J., Sep. 2012, at 52.

234 *See* Bauer, *supra* note 233, at 4; Todd A. Denys et al., *Sunbeam Prods., Inc. v. Chicago Am. Mfg, LLC* 11, 13 (Aug. 30, 2012) (American Law Institute – American Bar Association C.L.E.); Gellert, *supra* note 233.

235 Denys, *supra* note 234.

Others believe it is possible that this has created a split worthy of Supreme Court attention, but are not sure exactly what *Sunbeam* means.[236] The Supreme Court, however, has recently denied certiorari on *Sunbeam*, so for the moment the split will remain unresolved.[237] If the *Sunbeam* holding is extended, and rejection will not cut off a licensee's rights, there might be an increase in trademark owners attempting to sell the mark under § 363, the free and clear provision.[238] It is unlikely that these attempts will be successful, however, because § 363 does not directly apply to licenses.[239]

In the Seventh Circuit, at least, most believe that there is nothing a debtor can do to cut off a licensee's rights. But even the Seventh Circuit can misinterpret the law. Even if it did not, this Comment will, in the following Part, clearly demonstrate that *Sunbeam* should not be given much precedential value.

IV. THE DEATH OF A DEBTOR'S ABILITY TO REJECT A LICENSE AND SUCCESSFULLY CUT OFF A LICENSEE'S RIGHTS BY *SUNBEAM* IS GREATLY EXAGGERATED

A careful reading of *Sunbeam* reveals that a licensee's ability to retain its rights is not automatic even under that opinion.[240] What the opinion says directly is that while bankruptcy will treat rejection as a breach, under § 365(g), that breach does not change any of the rights of the non-breaching party.[241] The opinion then uses examples to illustrate why the licensee is allowed to continue using the trademark.[242] By its reasoning from those examples, the court granted the licensee the right to continue using the trademark.[243]

A. The Right Retained Is the Ability to Request Specific Performance

Under *Sunbeam*, the right that is being retained is *the ability to sue* for specific performance, not *an automatic remedy* of specific performance.[244]

236 Indyke, *supra* note 233, at 6.

237 *See* Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 133 S. Ct. 790 (2012) (granting the International Trademark Association's motion to file an amicus brief in support of licensor, and denying certiorari).

238 *See* Bauer, *supra* note 233, at 4; Gellert, *supra* note 233, at 10.

239 *See* 11 U.S.C. § 363(f) (2012); *see also* Gellert, *supra* note 233, at 10.

240 *See Sunbeam*, 686 F.3d at 377–78.

241 *Id.*

242 *See id.*

243 *See id.* at 378.

244 *See id.* at 377–78.

Under general contract law principles, specific performance is an equitable remedy and is only available if legal remedies are insufficient.[245] Granting specific performance happens rarely, even if a contract explicitly provides for it in the event of a breach.[246] The rare occasions when specific performance regularly is granted are limited to a few specific circumstances, such as unique goods, real property, and if damages would be hard to compute.[247] Even when parties have shown that the legal remedies are insufficient, courts still have refused to order specific performance for a variety of reasons, including inadequacy of consideration and the difficulty in supervision.[248]

The procedural posture of *Sunbeam* was that the bankruptcy court granted the licensee the right of specific performance "on equitable grounds."[249] The licensee prevailed on appeal, and the judgment was affirmed, because the court held that outside of bankruptcy the licensee would have been within its power to retain its rights as a non-breaching party as a remedy.[250]

Since § 365(n) was silent on trademarks, the Code simply did not address the situation beyond treating the rejection as a breach, according to a plain reading of § 365(g).[251] The court stated, "nothing about this process implies that any rights of the [non-breaching licensee] have been vaporized."[252] The court also cited to an Eleventh Circuit case involving a copyright license, which held, "rejection is not the functional equivalent of a rescission, rendering void the contract and requiring that the parties be placed back in the positions they occupied before the contract was formed."[253] Therefore, the court affirmed the bankruptcy judge's grant of specific performance, based on the grounds of non-bankruptcy contract law remedies.[254]

245 RESTATEMENT (SECOND) OF CONTRACTS § 359(1) (1981); *see also* Alan Schwartz, *The Case for Specific Performance*, 89 YALE L.J. 271, 272 (1979) ("Under current law, courts grant specific performance if they perceive that damages will be inadequate compensation. Specific performance is deemed an extraordinary remedy, awarded at the court's discretion.").

246 Schwartz, *supra* note 245, at 271.

247 *See id.* at 272–73.

248 *See id.* at 273.

249 *See Sunbeam*, 686 F.3d at 375 (emphasis added) (quoting *In re* Lakewood Eng'g & Mfg Co., 459 B.R. 306, 345 (Bankr. N.D. Ill. 2011)).

250 *See id.* at 376.

251 *See id.* at 377–78.

252 *See id.* at 377.

253 *See id.* (internal quotation marks omitted) (citing Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007)).

254 *See id.* at 377–78.

B. Sunbeam Goes Too Far and Incorrectly Interprets the Code

Outside of bankruptcy, the Seventh Circuit is correct about its application of contract law, what the result of a rejection would be, and the remedies available in such a case. However, bankruptcy has the power to substantively change other areas of law, the most significant and obvious being the ability to not pay unsecured creditors 100% of the debt owed to them.[255]

1. Legislative History and Statutory Interpretation

Another clear example of a special bankruptcy rule is § 105, which grants a bankruptcy judge the wide discretion to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title."[256] Congress gave bankruptcy judges this very broad grant of discretion because it recognized that sometimes bankruptcy calls for special rules that would not be available outside of the bankruptcy context.[257]

Treatment of executory contracts is another example of an arena of special rules inside of bankruptcy.[258] An entire section of the Code is devoted solely to executory contracts, beginning with the rule that a trustee or debtor may reject an executory contract, which is treated as a breach.[259] Starting with *Lubrizol*, several courts have pointed to the legislative history behind the enactment of § 365(g) to show that Congress intended that a claim for damages would be the sole remedy.[260]

a. Section 365(g)'s Legislative History

The language in the legislative history behind § 365(g) that is often cited to says, "[t]he purpose is to treat rejection claim [sic] as prepetition claims."[261]

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255 *See, e.g.*, 11 U.S.C. §§ 105, 363, 365 (2012).

256 *Id.* at § 105(a).

257 *See* John F. Lomax, Jr., *Future Electric Utility Bankruptcies: Are They on the Horizon and What Can We Learn from Public Service Co. of New Hampshire's Experience?*, 12 BANKR. DEV. J. 535, 573 (1996).

258 *See* 11 U.S.C. § 365.

259 *Id.* § 365(g).

260 *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985); *see also In re* Old Carco L.L.C., 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003); Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 669–70 (Bankr. N.D. Cal. 2002); Blackstone Potato Chip Co. v. Mr. Popper, Inc. (*In re* Blackstone Potato Chip Co.), 109 B.R. 557, 561–62 (Bankr. D.R.I. 1990); *In re* Chipwich, Inc., 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985).

261 H.R. REP. NO. 95-595, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305. The full language from the legislative history behind § 365(g) does not contradict this:

Admittedly absent from the language is exclusionary language like "only" or "sole." The argument can be made that this should only be interpreted to mean a claim is treated as a *prepetition* claim as opposed to a *postpetition* claim. While that is one interpretation of this legislative history, and this Comment supports that distinction, there is no rule of interpretation that a sentence can have only a single meaning. It can mean the above distinction, *plus* a limitation on remedies to damages. Noticeably absent is any discretionary language like "may," "choice," or "option." There is nothing about treating rejection as preserving the available nonbankruptcy remedies.[262] It actually does the opposite.

Without § 365(g) treating rejection as a breach and § 502(g) treating that breach as a prepetition claim, rejection would otherwise just be a postpetition breach and thus outside the realm of the bankruptcy estate.[263] Sections 365(g) and 502(g) change the status quo, and transform the remedy from a postpetition claim to a prepetition claim, and on their face do not seem to leave it in the court's discretion.[264] The language is worded in the affirmative, "the *purpose* [of § 365(g)] *is to treat* rejection claim as prepetition claims."[265] Without something like "if the non-rejecting party elects damages but not if it elects to retain its rights," the plain language supports an interpretation that the intention was for damages to be the sole remedy, as many courts have interpreted the rejection power over the last few decades, at least in regards to trademark licenses.[266] But this is not the only path to this conclusion.

> Subsection (g) defines the time as of which a rejection of an executory contract or unexpired lease constitutes a breach of the contract or lease. Generally, the breach is as of the date immediately preceding the date of the petition. *The purpose is to treat rejection claim [sic] as prepetition claims.* The remainder of the subsection specifies different times for cases that are converted from one chapter to another. The provisions of this subsection are not a substantive authorization to breach or reject an assumed contract. Rather, they prescribe the rules for the allowance of claims in case an assumed contract is breached, or if a case under [c]hapter 11 in which a contract has been assumed is converted to a case under [c]hapter 11 in which a contract has been assumed [sic] is converted to a case under [c]hapter 7 in which the contract is rejected.

Id. (emphasis added).

262 *See generally* H.R. REP. NO. 95-595, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

263 *See* 11 U.S.C. § 523(a)(3).

264 *See* H.R. REP. NO. 95-595, at 349, 354.

265 *Id*. at 349.

266 *See supra* Part II.C.

b. Canons of Statutory Interpretation

The interpretation that an award of damages is ordinarily the only remedy available post-rejection is supported on other grounds. The normal canons and doctrines of statutory interpretation and construction also support that interpretation. A canon is a general principle or rule that courts will utilize if deciding a case based on an ambiguous statute or regulation.[267] Canons and doctrines can range from "'clear-statement' principles [to] background understandings."[268]

One such doctrine is e*xpressio unius est exclusio alterius* (*expressio unius*), which roughly states that whatever a statute does not specifically include is excluded.[269] Another is the Whole Act Rule, under which a statute should be read holistically; that is, a statute should be read not just piecemeal, one provision at a time, but both in light of the rest of the statute and the rest of the Code.[270] Another doctrine is preemption, which means that a statute will override common law in the event of a conflict. A fourth canon, a simple reading of the plain language of the statute, can also be revealing.[271]The fifth and final canon this Comment will explore[272] is the Superfluous Language Canon, which states that statutes should be interpreted so as not to contain meaningless words.[273]

i. Expressio Unius

One theory of legal interpretation, *expressio unius*, is based on the concept that if Congress says an idea once, then clearly it knows how to express that idea and if it is included in one place and not included in another, that

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267 *See generally* Cass R. Sunstein, *Interpreting Statutes in the Regulatory State*, 103 HARV. L. REV. 405, 452–53 (1989).

268 *Id.*

269 The Latin translates as "the express mention of one thing excludes all others."

270 This refers to both the intratextual and the intertextual arguments. *See* WILLIAM N. ESKRIDGE, JR., PHILLIP P. FRICKEY & ELIZABETH GARRETT, LEGISLATION AND STATUTORY INTERPRETATION 271–72 (2d ed. 2006).

271 *See* Richard A. Posner, *Statutory Interpretation—In the Classroom and in the Courtroom*, 50 U. CHI. L. REV. 800, 807 n.30 (1983).

272 At this junction, this Comment will actually only explore these first four canons, and will address the Superfluous Language Canon in Part IV below. *See infra* Part IV.C.4.

273 *See* Corley v. U.S., 556 U.S. 303, 304 (2009) ("[A] statute should be construed [to give effect] to all its provisions, so that no part will be inoperative or superfluous, void or insignificant.") (internal quotation marks omitted) (citations omitted).

exclusion is purposeful.[274] As applied to § 365, *expressio unius* would go one step further than simple rules of logic. Under these rules of logic, stated as "if → then" statements, § 365(n)[275] would be interpreted as stating that "if the license is an intellectual property license, then the licensee is guaranteed the defined remedies, such as specific performance." The negative inference from that would be if specific performance or other special remedies are not guaranteed, then the license must not be an intellectual property license.[276]

But under the doctrine of *expressio unius* there is an additional inference that must be made. Because specific performance is a remedy that is explicitly listed for only intellectual property licenses,[277] it is excluded as a remedy for any other type of executory contract. *Expressio unius* complements another doctrine of statutory interpretation, the Whole Act Rule.

ii. The Whole Act Rule

The doctrine of the Whole Act Rule is the premise that each section and provision is not drafted in a vacuum, but should be read in the context of the entire statutory scheme or act.[278] Applying that to the Code, §§ 365(g), (h), (i), (n) and 502(g) should be read as one holistic document. That reading supports the interpretation that damages are the exclusive remedy for the rejection of most executory contracts.

Reading §§ 365(h), (i), and (n) in light of this rule supports the interpretation that the choice of remedies outside of these three contexts is limited to only a claim for damages.[279] Because these provisions explicitly state that the non-rejecting party is not required to treat the contract as terminated and receive damages, the implication is that such a party has the option, at least, of choosing that if it desires. These are the only provisions under which the Code explicitly lists the remedies available to the non-rejecting party. Read in isolation, they would not appear to have any impact on

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274 *See* ESKRIDGE, JR., ET AL., *supra* note 270, at 263 (citing Keene Corp. v. U.S., 508 U.S. 200, 208 (1993). Worthy of notice is that Easterbrook and Posner, on the Seventh Circuit, employ this canon when needed, even though some criticize its reliability. *See id.* at 263 n.18 (citing *In re* Am. Reserve Corp., 840 F.2d 487 (7th Cir. 1988) (Easterbrook, J.)); JUDGE RICHARD POSNER, THE FEDERAL COURTS: CRISIS AND REFORM 282 (1985)).

275 Along with 11 U.S.C. § 365(h)–(i) (2012).

276 Technically, this is called a "modus tollens" under those formal rules.

277 And real property leases and timeshares. *See* 11 U.S.C. § 365(h)–(i).

278 *See* ESKRIDGE, JR., ET AL., *supra* note 270.

279 *See* 11 U.S.C. § 365(h), (i), (n).

any other type of executory contract. But they were written in the context of §§ 365(g) and 502(g).

Admittedly, § 365(g) does not, by itself, either limit remedies or even make mention of them; but it provides a necessary middle step. By providing that rejection shall be treated as a breach, § 365(g) allows § 502(g) to treat that breach as a prepetition claim against the debtor.[280] If each was to be read in isolation, neither would have much effect, because they rely on each other.[281]

A holistic reading of the Code, and especially these provisions, show that first, Congress provided a framework for the non-debtor to bring a prepetition claim for damages against the debtor for a rejected executory contract.[282] Then, Congress carved out an extra remedy, guaranteed specific performance, for a few special types of executory contracts.[283] While these three provisions are technically silent on any other type of executory contract, it would be going too far to argue that because these three individual provisions do not address trademark licenses, the Code does not apply at all to trademark licenses. Sections 365(g) and 502(g) still control, and provide that a non-debtor may bring a prepetition claim for damages against the debtor.[284] Indisputably, trademark licenses technically do not qualify for the extra remedy as carved out specifically by § 365(n).[285] Therefore, the remedy for a trademark licensee is limited to only a claim for damages.

The counterargument can be made that the focus of § 365(n) should be on the guarantee, not on the concept of specific performance alone. What is excluded under this focus is that, guarantee or not, Congress knew how to include specific performance as a remedy in the statute but did not make any mention or reference to it in the provisions for most executory contracts.[286] In fact, § 365(i)(2)(B) goes even beyond simply allowing the licensee to retain its

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280 *See id.* §§ 365(g) and 502(g).

281 *See id.*

282 *See id.*

283 *See id.* § 365(h), (i), (n).

284 *Id.* §§ 365(g), 502(g).

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

286 *Compare* 11 U.S.C. §§ 365(g), 502(g), *with* § 365(h)–(i), (n). Sections 365(g) and 365(h) were enacted at the same time, so it also cannot be argued that including specific performance was something Congress thought of *after* it enacted §§ 365(g) and 502(g). *See* H.R. REP. NO. 95-595, at 349, 355 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

rights, this section imposes an actual affirmative obligation upon the debtor to produce and deliver title to the licensee.[287]

Congress presumably knew how to draft the statute to include options for all non-debtor parties to an executory contract, but all Congress actually included for the bulk of executory contracts was the statutory language that "the rejection . . . constitutes a breach,"[288] and that the purpose of § 365(g) is to treat this breach due to rejection as a prepetition claim for monetary damages against the debtor.[289] The argument that the focus should be on the guarantee and not the remedy itself is a red herring. A holistic reading shows that Congress knew how to provide for specific performance, and explicitly did so for some executory contracts but not others.

When reading the Code in light of *expressio unius* and the Whole Act Rule, the only remedy available to a trademark licensee after rejection is a prepetition claim for damages against the debtor. Because the Code does specifically provide a framework for a remedy, the doctrine of preemption must then apply.

iii. Preemption

Under the doctrine of preemption, if Congress has directly addressed an issue, neither state statutes nor common law may supersede that, unless such a federal statute or provision is unconstitutional. As demonstrated above, Congress has directly spoken as to what should happen upon the rejection of all types of executory contracts, not just certain ones. Therefore, in the arena of a rejection of an executory contract of any type, the state statutory or common law remedies are irrelevant. Therefore, on the basis of preemption, the Seventh Circuit exceeded its authority in applying common law remedies in *Sunbeam*. Even beyond these formal or semi-formal canons and doctrines, the plain language of the statute and rules of logic also support this Comment's argument.

iv. Plain Language

The Seventh Circuit is not alone in this interpretation on the effect of rejection; many bankruptcy practitioners and academics across the board

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287 *See* 11 U.S.C. § 365(i)(2)(B).
288 *Id.* § 365(g).
289 H.R. REP. NO. 95-595, at 349.

believe exactly as it does.[290] However, another mistake made by many is in the dispute over terminology—the difference between termination and breach.

The common argument is that § 365(g) uses the term "breach" and not "termination" to describe what is happening to the contract.[291] The proponents of the *Sunbeam* position uniformly declare that rejection is not a termination. But, §§ 365(e), (h), (i), and (n) all use the word "terminated."[292] Section 365(e) provides that an executory contract "may not be terminated" because another party to that contract becomes insolvent, files for bankruptcy, or has a trustee appointed before bankruptcy.[293] While this relates to the non-debtor party attempting to terminate the contract, and not the debtor attempting to reject it, this does still seem to imply that an executory contract may be terminated in other ways or situations; otherwise why say that it may *not* be terminated in one of these scenarios? Similarly, § 365(h) provides that the non-debtor "may treat such lease as *terminated*."[294] Section 365(i) provides that the non-debtor "may treat such contract as *terminated*."[295] Section 365(n) provides that the licensee may "treat such contract as terminated."[296] The plain language of the statute clearly shows that Congress did contemplate and believe that rejection has "termination" power.

Legislative history and rules of statutory interpretation do not provide the sole support for the position that a licensee's sole remedy is damages. *Sunbeam* should not be followed because the three examples the court uses to support its grant of specific performance do not actually apply to trademark license rejections in Bankruptcy.

2. *The Three Examples Used in Sunbeam Do Not Support Its Holding*

If you imagine the three examples that the court uses to support its grant of specific performance to the licensee as legs of a tripod, none of those three "legs" are able to bear the weight of that holding, and the "tripod" collapses.

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290 *See* Balfus, *supra* note 73; *A Functional Analysis*, *supra* note 47; *see generally Executory Contracts in Bankruptcy*, *supra* note 47; *Executory Contracts Revisited*, *supra* note 47.

291 *Executory Contracts Revisited*, *supra* note 47, at 8 (internal quotation marks omitted) ("[R]ejection is not some mystical power to cause contracts to vanish, nor a power to terminate, cancel, or repudiate them."); *see also* Balfus, *supra* note 73, at 534 (stating that rejection does not have avoidance, rescission, or termination power); *A Functional Analysis*, *supra* note 47, at 239 (rejection is not an avoidance power).

292 11 U.S.C. § 365(e), (h)–(i), (n).

293 *Id.* § 365(e)(1).

294 *Id.* § 365(h)(1)(A)(i).

295 *Id.* § 365(i)(1).

296 *Id.* § 365(n)(1)(A).

The first example the court used was the common law rights that would be available for any ordinary breach of the license.[297] The second example was based on a non-debtor tenant leasing real property from a debtor-landlord. The third example was based on a copyright license case, *Thompkins v. Lil' Joe Records, Inc.*[298] For the following reasons, none of them is technically applicable in the context of executory trademark licenses in bankruptcy.

a. Common Law Remedies

The first example is the court's illustration involving the debtor's obligation to provide patented parts essential for the finished, patented product licensed to the licensee, and the debtor's obligation to pay for the completed products.[299] The court then hypothesized that the debtor had failed to provide those parts, thereby breaching the contract.[300] The licensee would be able to buy the required parts from a competitor and then sue the debtor for reimbursement under substitution principles of contract law, and the debtor could not prevent that or the continued sale of the completed products.[301] However, patents are covered in one of the specific carve-outs from the limitation on remedies granted by Congress to non-rejecting parties.[302]

When enacting the IPBPA, Congress said that patents are different from trademarks, and it specifically amended the Code to include § 365(n) to protect patents and to prevent a rejection from ending the rights of a licensee to continue using the licensed patent.[303] Since Congress has specifically said that § 365(n) applies to patents and does not apply to trademarks, the use of an example based on a patent license is therefore inapplicable in the context of trademark licenses.[304]

This example is admittedly ambiguous and open to some interpretation. A counterargument would be that, as drafted, the point that can be inferred even though not explicitly stated was the licensee's ability to sell the patented products *under the trademark*. Unfortunately, the example confusingly goes

297 Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 376–77 (7th Cir. 2012), *cert. denied* 133 S. Ct. 790 (2012).

298 Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294 (11th Cir. 2007).

299 *See Sunbeam*, 686 F.3d at 376–77. The completed product was a box fan, and the part in question was the motor for the fans. *Id.*

300 *Id.*

301 *See id.* at 377.

302 11 U.S.C. § 365(n) (2012).

303 *See* S. REP. NO. 100-505, at 5, 7 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.

304 *See id.*

back and forth between discussing this as a patent or trademark issue. The example starts with, "[s]uppose [the debtor failed] to provide the motors. . . . [The licensee] could have covered in the market by purchasing motors and billed [the debtor] for the extra cost."[305] This clearly relates to the patent (the motors and the fans) and not the trademark, not to mention that the end result is a monetary damages claim against the debtor. The next sentence does mention the licensee "bargained for the security of being able to sell [trademark]-branded fans."[306] That obviously invokes trademarks, but does it mean that he can sell the fans under the brand, or that the licensee negotiated for the monetary value of that by being able to sell the fans unbranded and then recover the difference as a damages claim? At a minimum, it is ambiguous.

This ambiguity is not cleared up in the next sentence either, which just mentions that outside of bankruptcy, the licensor could not stop the licensee from selling the fans, but again there is no reference to the trademark or the fans being branded.[307] This question of whether Judge Easterbrook meant to refer only to the patented material or both that and the trademark may seem like a small, insignificant point, a distinction without a difference. But because of the protection that § 365(n) provides to patents but not to trademarks, this distinction makes an indisputable difference. Furthermore, other courts have noted this type of difference before.[308]

As introduced above in Part I.C.3, in *Matusalem*, a bankruptcy court in the Southern District of Florida held that a trademark license could not be rejected.[309] In *Matusalem*, the license at issue included both a trademark and a trade secret.[310] Instantly, the court recognized that regarding the trade secret, § 365(n) clearly protected it.[311] Moving on to the trademark portion of the license, the court denied the debtor's attempt to reject the license.[312] This is one of the relatively rare instances in which the business judgment rule was overcome, and the court overruled the action of the debtor.[313]

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305 *Sunbeam*, 686 F.3d at 376–77.
306 *Id.*
307 *Id.* at 377.
308 *See In re* Matusalem, 158 B.R. 514, 515 (Bankr. S.D. Fla. 1993); Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 672 (Bankr. N.D. Cal. 2002).
309 *Matusalem*, 158 B.R. at 521–23; *see supra* Part II.C.3.
310 *Matusalem*, 158 B.R. at 515.
311 *Id.*
312 *Id.* at 522.
313 *Id.*

The rejection was denied because, based on its findings of facts, not only was there no benefit to the estate from rejection, it would subject the debtor to another claim, deepening its debt.[314] The result was that instead of rejecting the license, the debtor was forced to assume it.[315] The effect is that while the licensee was able to retain its rights as to both the trade secret and the trademark, those holdings were on different grounds.[316] What is important about the two independent justifications is that while the licensee would have been granted specific performance as to the trade secret even if the rejection was valid, the licensee was able to continue using the trademark because the debtor was forced to assume the contract.[317] It was not because specific performance was a valid remedy after rejection of a trademark license.

Nearly a decade later, the licensee in *Centura* unsuccessfully argued that the holding in *Matusalem* meant that even if the trademark license were rejected, the licensee would still be able to retain its rights.[318] Unfooled by this attempt, the court in *Centura* recognized the distinction that the trademark license was not rejected in *Matusalem*¸ nor was any suggestion made that § 365(n) should extend to trademarks.[319] Instead, the court in *Centura* observed that *Matusalem* held that the licensee would be able to retain its rights as to the trade secret despite rejection.[320] As to the trademarks, *Matusalem* "did not mention that the licensee could retain any rights. In fact, later, [*Matusalem*] even stated that the rejection would make the Debtor potentially liable for a rejection claim, implying that the licensee would be entitled to file a breach claim for losing its trademark rights."[321]

In *Centura*, the attempt to use intellectual property protected by § 365(n) to justify granting specific performance to a trademark licensee was fundamentally meritless.[322] Similarly, the use of a patent in the first example of the *Sunbeam* opinion is comparable to the licensee's attempted use of a trade secret in *Centura*. Thus, whether the court meant for the example to be about the patent or the trademark is important, and the way it was drafted was

314 *Id.*
315 *See id.*
316 *See generally id.*
317 *See id.* at 522.
318 Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 672 (Bankr. N.D. Cal. 2002).
319 *Centura Software*, 281 B.R. at 671–72.
320 *Id.* at 672.
321 *Id.* at 672–73 (internal quotation marks omitted) (citations omitted).
322 *See id.* at 672.

ambiguous. If the court intended to illustrate the remedies available to a patent licensee, then its reasoning is just as inapplicable to its own holding as the reasoning in *Matusalem* was inapplicable in *Centura*. The other two legs of the *Sunbeam* tripod are even shakier than the first.

b. Leases of Real Property

The second "leg" the court used to support its "tripod" was a comparison of rejection of a license to the rejection of a tenant's lease.[323] This is another comparison that does not actually support the Seventh Circuit. Even before *Lubrizol*, Congress had granted a carve-out for rejections of a tenant's lease.[324] This is another area that Congress specifically addressed and said was different from the rejection of all other executory contracts and warranted special treatment.[325] This is the same unsuccessful argument attempted by the licensee in *Centura*, when it cited to *Matusalem*, except as applied to executory contracts protected by § 365(h) instead of § 365(n).[326] Therefore, the use of a rejection of a tenant's lease to illustrate why a licensee of a trademark retains its rights to continue using the trademark after rejection has no weight.

c. Thompkins

The third and final "leg" that the court relied on was the Eleventh Circuit decision in *Thompkins*.[327] *Thompkins* involved the rejection of a copyright license that the court denied because it was no longer "executory."[328] In dicta, the court also defined rejection as different from both rescission and the avoidance powers of bankruptcy.[329] However, just as the first two legs proved unsturdy, neither can this leg bear the weight of holding up *Sunbeam*.

The analysis in *Thompkins* is just as inapplicable as the other two pieces of support used for the following two reasons.[330] To begin, copyrights are

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

324 *See* 11 U.S.C. § 365(h) (2012).

325 *See* H.R. REP. NO. 95-595, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

326 *See supra* Part IV.B.2.a. *Compare* 11 U.S.C. § 365(h) (protecting tenants' interests in real property leases), *with id.* § 365(n) (protecting licensees interests in patent, copyright and trade secret licenses).

327 *Sunbeam*, 686 F.3d at 377 (citing Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007)), *cert. denied* 133 S. Ct. 790 (2012).

328 *Thompkins*, 476 F.3d at 1308 (holding that this was actually a sale, not a license and that other than an obligation to pay royalties "[t]he transfer of the copyrights was fully executed . . . .").

329 *Id.* at 1312.

330 Technically, the posture of the parties is different as well—it was the licensee who was the debtor and rejected the contract, not the IP owner as was the situation in *Sunbeam* and all the other cases mentioned in this

protected by § 365(n).[331] Quite simply, for the same reason that using patents or real property leases is inapplicable above, any reference to protection or rights granted to a copyright licensee is inapposite.[332]

The second reason the analysis from this case does not apply is that in *Thompkins* the court held that the contract at issue was not really a license so much as it was a complete sale of the asset in question.[333] Further, this was a completed sale, leaving the IP owner "not even so much as a contingent interest in the copyrights."[334] Due to its completion, the disputed contract was no longer "executory" because there was no substantial performance remaining due.[335] To support this, the court cited to several cases that treated already-performed obligations differently from any *remaining performance owed*, in the context of rejection of an executory contract.[336] The net effect was that the contract was not executory, and it could not be rejected, the court labeling it a rejection notwithstanding.[337] Any remedies granted in *Thompkins* were not remedies from a valid rejection, just as *Matusalem* did not involve a valid rejection either.[338] *Thompkins* has no real bearing on the issue of the rejection of a trademark license, for the same reason *Centura* gave no credence to *Matusalem*.

Therefore, the *Thompkins* court's definition of rejection should be taken in the context of the sale of a copyright, with substantial performance already completed and a contract that was not rejectable.[339] Because of this crucial difference in the contract's status, the *Sunbeam* court inappropriately gave *Thompkins* weight regarding a trademark license that remains executory.

Comment, though that seems to be a distinction without a difference for the relevant analysis here. *See generally id.*

331 11 U.S.C. § 365(n).

332 *See supra* Part IV.B.2.a–b.

333 *Thompkins*, 476 F.3d at 1308.

334 *Id.* What is a little confusing is that the court also said that when the licensee rejected the contract, it was relieved of its obligation to continue paying the IP owner royalties, which does seem to imply that the IP owner did have some shred of interest remaining prior to rejection. *See id.* at 1313 ("[U]pon its rejection of the contract, [the licensee] was no longer obliged to pay royalties."). *But see* Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1046 (4th Cir. 1985) (acknowledging that if the only performance remaining due was an obligation to pay a royalty, the contract was no longer executory and citing H.R. REP. NO. 95-595, at 349 (1977), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305).

335 *Thompkins*, 476 F.3d at 1308.

336 *Id.* at 1307–08.

337 *See id.*

338 *Compare id.* (holding that this was really a fully completed sale and not a license and thus no longer executory), *with In re* Matusalem, 158 B.R. 514, 522–23 (Bankr. S.D. Fla. 1993) (holding that the parties had substantially performed and that the license was no longer executory).

339 *See Thompkins*, 476 F.3d at 1308.

Simply, the Seventh Circuit strayed beyond the bounds of the Code and overreached in allowing the licensee to retain the rights to use the trademark despite the rejection of the license by the trustee. The court's examples of a breach of the patent aspects of the license, the comparison to the rejection of a tenant's lease, and the use of a definition coming from *Thompkins* are inapplicable given that Congress directly addressed executory contracts as a whole and created carve-outs for very specific categories of those contracts. The use of these three examples only makes *Centura* all the more applicable, that using an example of a patent, copyright or trade secret license explicitly protected by § 365(n) is meaningless in the current context of rejection of a trademark license.[340] Even going beyond the legislative history, statutory interpretation, and the invalidity of the examples *Sunbeam* used to justify its holding, there is other support for the position that a prepetition claim for damages is the sole remedy available after rejection of a trademark license.

C. *Other Reasons Why Trademark Licensees Should Not Retain Rights After Rejection*

There are four other reasons why the rejected trademark licenses should only leave the licensee with a prepetition general unsecured claim. First, the fundamental differences between trademarks and other kinds of intellectual property warrant different treatment for the rejection of that license in bankruptcy. Second, the two general policies underlying bankruptcy support such treatment. Third, specific performance is already a rarely awarded remedy and should not be granted in this situation. Finally, following the line of reasoning in *Sunbeam* to its logical conclusion could make the rejection power meaningless.

1. *Trademarks Warrant Treatment Different from Other Intellectual Property*

Several of the differences between trademarks and the other two main types of intellectual property, patents and copyrights, have a direct bearing on the rejection of a license in bankruptcy. Patents and copyrights have a limited duration of rights, but trademarks can last forever.[341] Perhaps most

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340 Raima UK Ltd. v. Centura Software Corp. (*In re* Centura Software Corp.), 281 B.R. 660, 672–73 (Bankr. N.D. Cal. 2002) (holding the fact that a licensee could use § 365(n) to continue using one type of intellectual property despite rejection did not mean that the licensee could continue using a trademark).

341 *Compare* 35 U.S.C. § 154(a)(2) (2012) (lasting approximately twenty years for most patents), *and* 17 U.S.C. §§ 301–305 (2012) (lasting 120 years or the life of the author plus 70 years), *with* 15 U.S.C. §§ 1051–

importantly, because of the nature of trademarks as a source identifier, the license of a trademark has a quality-control aspect that copyright and patent licenses do not require as a matter of law.[342]

The inescapable result of the temporal limitations of patents and copyrights is that a patent license or copyright license also has a natural and inevitable termination.[343] Trademarks, on the other hand, can last in perpetuity and a trademark license can therefore also last endlessly. A debtor who has licensed a patent or copyright does not need to rely on a rejection power to terminate a license, but, in planning for its fresh start, can take into account the inevitable end of that license agreement and the return of any remaining assets.[344] In contrast, a debtor who has licensed a trademark may not be able to get relief from that license, and if the terms of that license played a role in causing the insolvency, or can significantly help the debtor with his fresh start, it would not matter, because the debtor would be at the mercy of the licensee. The unending quality of some trademark licenses, such as exclusive licenses, could put the fresh start for those debtors in jeopardy and justifies special treatment of trademark licenses in bankruptcy.

Similarly, the quality-control aspects of trademarks make them unique and provide an extra justification for why the rejection of a trademark license should be treated differently than the rejection of a patent or copyright license. Trademark licenses without quality-control provisions are called "naked licenses." A naked license is grounds for a determination that the trademark has been abandoned, and the trademark owner loses all rights in it.[345] The

1141n (2012) (not imposing any expiration of rights so long as other criteria are met such as constant use in commerce).

342 Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 198 (1985); s*ee supra* Part I.A.4.

343 *See* 17 U.S.C. §§ 301–305; 35 U.S.C. § 154(a)(2).

344 Even if a copyright or patent protection expires, this only means that the owner cannot prevent others from using that copyright or patent, but is not itself deprived of any use.

345 Even Judge Easterbrook and the Seventh Circuit, just one year prior to *Sunbeam*, held that providing a license without a quality control provision is a naked license and is grounds for abandonment. *See* Eva's Bridal Ltd. v. Halanick Enters., 639 F.3d 788, 789–90 (7th Cir. 2011) (Easterbrook, C.J.) ("[Licensor] abandoned the [trade]mark by engaging in naked licensing . . . ."); *see also* 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:42 (4th ed.) ("A trademark carries with it a message that the trademark owner is controlling the nature and quality of the goods or services sold under the mark."). Based on this principle, the courts have established the rule of law that because the public relies on a particular known quality or reputation of a brand, failure to police that quality translates as a false message that the goods sold under that brand are genuine. *See* Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104, 108, (4th Cir. 1991).

trademark owner must retain the ability to control that quality.[346] By being in control of the reputation of the brand, consumers are protected.[347]

Under the court's reasoning in *Sunbeam*, rejection would only serve to free the estate from its performance obligations without cutting off the rights of the licensee.[348] This would cut off the estate's obligation of quality control, leading to the trademark being abandoned. The loss of a valuable asset like a trademark could pose an undue burden on the estate and hinder or maybe even prevent entirely the debtor's ability to successfully reorganize or pay back its creditors.

Michael T. Andrew disregarded the idea that rejection is a limitation on remedies to only damages on the ground that when Congress addressed executory contracts, it too had disregarded that idea.[349] However, his argument was formed in 1991, partly based on the legislative history of the IPBPA, and does not reflect twenty-plus years of jurisprudence.[350]

After twenty-plus years, this interpretation has to be reevaluated. Congress explicitly stated that it acknowledged that the IPBPA would not apply to trademarks; it was aware that *Lubrizol* would continue to remain in effect and could likely be used as support for rejection cutting off trademark licensee's rights going forward.[351] It is well established that it is almost impossible to draw an inference from Congressional inaction.[352]

It is possible, of course, that Congress did further study and concluded that because trademarks are different, § 365(n) will not be extended to cover them, but never published those findings. In that case, silence should not be

[346] *See* El Greco Leather Prods. Co. v. Shoe World, Inc., 806 F.2d 392, 395 (2d Cir. 1986).

[347] *See id.* at 397.

[348] Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 377–78 (7th Cir. 2012) (citations omitted), *cert. denied* 133 S. Ct. 790 (2012).

[349] *Executory Contracts Revisited*, *supra* note 47, at 11 ("Avoiding-power rejection is . . . simply more freight than negative inference will bear. It requires that 'rejection' be assigned a meaning fundamentally at odds with both the history and purpose of executory contracts doctrine, with no legislative history in support. It requires a corresponding abatement of the general principle, explicit in the statute and its legislative history, that a bankruptcy estate succeeds only to the debtor's rights and interests in property." (quoting *Executory Contracts in Bankruptcy*, *supra* note 47, at 929)).

[350] *Id.*

[351] S. REP. NO. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204 (citations omitted) ("Finally, the bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of [§] 365 by the *Lubrizol* court and others, [*e.g. Chipwich*], such contracts raise issues beyond the scope of this legislation.").

[352] *See* Girouard v. U.S., 328 U.S. 61, 69 (1946) ("It is at best treacherous to find in Congressional silence alone the adoption of a controlling rule of law.").

interpreted as inaction, but rather an indication of attempted action through silence.

However, as Yoda said, "Do. Or do not. There is no try."[353] Without any evidence of such findings, it would be hard to say that Congress's silence is an explicit codification of *Lubrizol*. What is not hard to say, however, is that Congress decided not to apply § 365(n) to trademarks, even knowing that *Lubrizol* could and probably would be applied going forward, and that courts would treat rejection of a trademark license as a termination with the only remedy being a damages claim. Whatever the reasons for its inaction, Congress expressly acknowledged its awareness that this could happen and nevertheless decided not to act.[354]

In conclusion, because trademarks are different from copyrights and patents, trademark licenses deserve different treatment upon rejection in bankruptcy.

2. *The General Policies Underlying Bankruptcy*

There are two main policy grounds on which bankruptcy rests: maximizing the pool of resources available for the creditors and enabling the debtor to have a fresh start. Both of these support treating the rejection of a trademark license as a termination.

a. *Returning a Valuable Asset to the Estate for Distribution*

In the modern world, it is indisputable that the actual trademarks themselves are assets of businesses and individuals, and have their own intrinsic value beyond the actual goods or services sold under the mark. Outside of bankruptcy, changes in the market value of an asset alone are not grounds to terminate an agreement unless explicitly provided for in the agreement. Inside bankruptcy, though, the Code provides for exactly this sort of treatment by a debtor regarding its assets.[355] Thus, if a rejection of a

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353 STAR WARS: EPISODE V – THE EMPIRE STRIKES BACK (Twentieth Century Fox Film Corporation, 1980).

354 For the full paragraph of this section of the legislative history, which also explained some of the reasons why action was being postponed, see S. REP. NO. 100-505, at 5. Regardless of those reasons, the fact remains that Congress did not act even though it knew that *Lubrizol* could continue to be applied to trademarks.

355 *See, e.g.*, 11 U.S.C. §§ 363, 365 (2012); *see also* WARREN & WESTBROOK, *supra* note 10, at 523–24, problem 26.1 (demonstrating that this concept is prevalent and fundamental enough to be taught to law students in an introductory bankruptcy class).

trademark license would terminate it, then the trustee could potentially secure a new license for greater value or be able to sell the trademark as an unencumbered asset. That would increase the available pool of resources for creditors, serving one of the fundamental purposes of bankruptcy.

The Code allows for this latter option in all encumbrances other than licenses. Under § 363 of the Code, an asset that is subject to a lien or other security interest may be unencumbered for the purposes of achieving the highest liquidation value for that asset upon sale.[356] However, none of the scenarios in which a trustee can invoke this power apply to a trademark license.[357] The free and clear power of § 363 is one that is used often and to great advantage, both to the estate and to the creditors.[358] Under the reasoning in *Sunbeam*, a trademark license remains an anomalous encumbrance that is truly unavoidable. That is one more reason why *Sunbeam* should be ignored. The rejection power should continue to provide an avenue for adding one more valuable asset back into the estate for the benefit of the creditors, thus serving one of the essential purposes of bankruptcy.

Inside of bankruptcy, courts are even more reluctant to grant specific performance than they are outside of bankruptcy.[359] Jay Westbrook, one of the leading advocates against treating rejection as a termination or avoidance power,[360] admitted that bankruptcy limits remedies available against a debtor in ways that would not be limited outside of bankruptcy.[361] *Sunbeam* explicitly admitted this, too.[362] There is a strong policy reason why bankruptcy changes the rules regarding specific performance: giving specific performance would unfairly reward one unsecured creditor with a payment-in-full when the other unsecured creditors would not get full repayment.[363] This disparity directly

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356 *See* 11 U.S.C. § 363.

357 *See id.* § 363(f).

358 *See generally* Alla Raykin, *Section 363 Sales: Mooting Due Process*, 29 EMORY BANKR. DEV. J. 91 (2012).

359 *See* Jay Lawrence Westbrook, *The Commission's Recommendations Concerning the Treatment of Bankruptcy Contracts*, 5 AM. BANKR. INST. L. REV. 463, 471–72 (1997) [hereinafter *The Commission's Recommendations*].

360 *See generally id.*; *A Functional Analysis*, *supra* note 47.

361 *See The Commission's Recommendations*, *supra* note 359; s*ee also* Countryman, *supra* note 47, at 465–66.

362 Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372, 377 (7th Cir. 2012) ("After rejecting a contract, a debtor is not subject to an order of specific performance."), *cert. denied* 133 S. Ct. 790 (2012). As mentioned earlier, the Seventh Circuit sidestepped their own statement by characterizing the licensee's continued use of the trademark as the licensee electing to retain its rights rather than an order of specific performance on the debtor. *Id.* This seems jenky, and will be addressed shortly.

363 *The Commission's Recommendations*, *supra* note 359.

contradicts one of the fundamental principles of bankruptcy, namely the equal treatment of creditors. The Code has numerous provisions specifying that a debtor must treat all similarly-situated creditors equally.[364]

Furthermore, under *Sunbeam*, specific performance is not a guaranteed remedy upon rejection, but only a remedy that the non-rejecting party can *pursue*. However, to seek such a remedy, the non-rejecting party would have to litigate that request through the courts, and the trustee would likewise have to defend against that litigation.[365] That defense would mean an additional administrative expense claim against the estate, which would have to be paid in cash in full for the debtor to receive a discharge. This additional priority payment would remove even more of the available assets of the estate from the unsecured creditors, and maybe even jeopardize the entire plan confirmation.

Of course, a court could view this as an undue burden on the estate and use the equitable powers derived from § 105 to summarily terminate the contract, or modify or abrogate the rights of a party, but this too would require some degree of litigation that would drain the estate of scarce resources for the benefit of the unsecured creditors. It would be more efficient to utilize the rejection power of § 365, providing creditors with increased repayment and assisting in the fresh start of the debtor.

b. Assisting the Debtor's Fresh Start

By the same reasoning, if the rejection functions as a termination of the license, and trademark is returned to the estate, then this can assist the debtor in achieving a successful fresh start. The Code will not allow for the confirmation of a plan that is not likely to be successful.[366] In some scenarios, a license could be either an asset of significantly greater value or even the only asset of value in the estate. Thus, if the trustee has the power to reject and thus terminate the license, there is the possibility that it can negotiate for a new license imparting greater value to the estate.

That greater value can then be used in ensuring the ongoing solvency of the debtor upon emergence from bankruptcy. Therefore, the rejection could be essential to ensuring that the debtor will not have to file for bankruptcy again,

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[364] *See, e.g.*, 11 U.S.C. §§ 1123(a)(4), 1129(b)(2) (2012).

[365] *See* Schwartz, *supra* note 245, at 292–93 ("[Specific performance] increases the administrative costs of the parties and the courts because of the expense entailed in creating and implementing specific performance decrees.").

[366] *See* 11 U.S.C. § 1129(a)(11).

thus enabling the fresh start. Beyond the goal, purposes and powers of bankruptcy, non-bankruptcy legal principles do not support the holding of *Sunbeam*. Traditionally, specific performance of any kind, such as allowing a licensee to retain its rights under a trademark license, has rarely been granted and should remain so.

3. *The Rarity of Specific Performance*

Even if nothing the court did in *Sunbeam* contradicts the Code, the remedy granted is a relatively rare one, and so *Sunbeam* should have little precedential value. Further, if such remedy would be granted on a regular basis, it could render the rejection power, a substantial part of § 365, practically meaningless and de facto superfluous as to trademark licenses, and a statute should be interpreted in such a way as to avoid a superfluous result.[367]

Under the American justice system, outside of bankruptcy, courts generally only grant an equitable remedy when a legal remedy is unavailable or truly insufficient.[368] One reason for this is the existence of a general preference to force a party to pay monetary damages rather than force a party to take an action or work with another party if it does not want to because that "would require the kind of ongoing supervision that strains judicial resources."[369] This is partly due to enforceability concerns, because courts historically have found that enforcement of a damages remedy is administratively easier and cheaper than a specific performance remedy.[370] If a party violates an equitable order of specific performance, the only remedy is a contempt citation and a possible fine or jail time, making the supervision potentially more cumbersome.[371]

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[367] *See* Corley v. U.S., 556 U.S. 303, 304 (2009) ("[A] statute should be construed [to give effect] to all its provisions, so that no part will be inoperative or superfluous, void or insignificant.") (internal quotation marks omitted).

[368] *See* Schwartz, *supra* note 245, at 272.

[369] *See* TAS Distrib. Co. v. Cummins Engine Co. 491 F.3d 625, 637 (7th Cir. 2007) (citing New Park Forest Assoc. II v. Rogers Enters., 552 N.E.2d 1215, 1218 (Ill. App. Ct. 1990)); *see also* Mass. Mut. Life Ins. Co. v. Assoc'd Dry Goods Corp., 786 F. Supp. 1403, 1423–25 (N.D. Ind. 1992); CBL & Assoc. v. McCrory Corp., 761 F. Supp. 807 (M.D. Ga. 1991); Ambassador Foods Corp. v. Montgomery Ward & Co., 192 N.E.2d 572, 575–76 (Ill. App. Ct. 1963) ("[C]ourts . . . refuse to decree the specific performance of a contract where . . . [it would] require constant and long-continued supervision by the court and further supplemental proceedings in order to enforce the defendant's compliance with the decree and his performance of the constantly recurring duties of the contract." (quoting 49 AM. JUR. (FIRST), *Specific Performance* § 70)).

[370] *See* Schwartz, *supra* note 245, at 293 ("Judges may have to devote greater time and resources to tailoring and supervising a specific performance decree than would have to be devoted to devising and enforcing a damage judgment.").

[371] *See TAS Distrib.*, 491 F.3d at 637; Davidson v. Schneider, No. 10-C-2101, 2014 WL 656780, at *5 (N.D. Ill. Feb. 20, 2014); Mercedes-Benz USA L.L.C. v. Concours Motors, Inc., No. 07-C-0389, 2010 WL

Specific performance orders also touch on a party's freedom, because "requiring performance interferes with the promisor's liberty more than requiring the payment of money."[372] Some scholars advocate for greater use of specific performance as a remedy on the ground that the above objections are not as burdensome as they appear.[373] However, at the moment, the significant weight of judicial authority has taken the stance of only granting specific performance in extraordinary situations, and is rarely mandatory and almost always discretionary.[374]

The court's reasoning in *Sunbeam* is fundamentally flawed for another reason, however. As stated above, the court noted that post-rejection, specific performance is not available against the debtor, but held that does not prevent the non-rejecting party from electing to retain its rights.[375] As applied to the contract in *Sunbeam*, retaining its rights meant that the licensee was allowed to continue using the trademark.[376] Section 365 only specifically addresses a limited number of types of executory contracts, and for those it guarantees specific performance.[377] This means that debtor is required to allow the licensee to continue to use the trademark that the debtor owns, and to be effectively enjoined from bringing an infringement suit against the licensee.

There is also an additional affirmative obligation associated with trademark licenses that is unique: the quality control requirement.[378] While technically the trademark owner only needs to have the right to inspect the quality of the goods or services sold under the mark, realistically, any reasonably prudent mark owner should actually use that right and do some degree of monitoring to ensure the mark maintains its reputation and goodwill. Importantly, this requirement would be an ongoing requirement that would last the entire term of the license.

55473, at *7 (E.D. Wis. Jan. 4, 2010); Yonan v. Oak Park Fed. Sav. & Loan Ass'n, 326 N.E.2d 773, 779 (Ill. App. Ct. 1975); *see also* Schwartz, *supra* note 245, at 296–97.

[372] *See* Schwartz, *supra* note 245, at 296–97.

[373] *See generally id.*

[374] *Id.* at 272 ("Specific performance is deemed an extraordinary remedy, awarded at the court's discretion.").

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

[376] *Id.* at 377–78.

[377] *See* 11 U.S.C. §§ 365(h)–(i), (n) (2012). Section 365(o) addresses a mandatory assumption of any federal depository institution's regulatory agency obligations, and § 365(p) addresses when the debtor is a lessee of personal property and rejects or fails to assume the lease of that property it is removed from the estate. 11 U.S.C. § 365(o)–(p). Thus, they have no relevance for the purposes of what rights remain for the non-rejecting party.

[378] Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 198 (1985).

Thus, even if in the great majority of contracts, allowing a licensee to retain its rights does not involve any affirmative obligations, trademark licenses are different. Imagine this scenario:

Owner licenses his mark exclusively to Licensee, but enters into a bad contract that undervalues the mark, though it does include a strong quality control monitoring clause. Owner then enters bankruptcy because of the undervaluing of the mark, and other poor business decisions, and rejects the license agreement. Owner stands a greater chance of emerging from bankruptcy if he can get a commensurate value for his mark, and has made the affirmative decision he does not want to be in business anymore with Licensee. Licensee elects to retain his rights under Sunbeam, however. While technically Owner's quality control duty under the license is now excused, and under *Sunbeam's* reasoning not an order of specific performance, unless Owner wants to lose his rights in the mark, he would retain that right and obligation.

Owner now realizes that because of the strong monitoring right given to him, he can effectively block Licensee from using the mark by setting the quality requirement at an unreasonably high or constantly changing level. Now the Licensee would return to court to try and get an order requiring the Owner to act reasonably under the contract. If granted, the order would place the court in the position to constantly monitor the behavior of the parties, which has often been the single factor why specific performance has not been granted when it otherwise would have been, even within *Sunbeam's* own jurisdiction—Illinois and the greater Seventh Circuit.[379]

This makes trademark licenses different from almost any other type of executory contract, and thus while allowing a non-breaching party to retain its rights in most contexts might not involve an implicit order of specific performance, the rejection of a trademark license in bankruptcy does.

Despite the *Sunbeam* court calling this remedy an instance of "the licensee retaining its rights," the holding seems to be a de facto, if not de jure, order of specific performance in direct contradiction of the court's own words in this

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379 TAS Distrib. Co. v. Cummins Engine Co. 491 F.3d 625, 637 (7th Cir. 2007) (citing New Park Forest Assoc. II v. Rogers Enters., 552 N.E.2d 1215, 1218 (Ill. App. Ct. 1990)); Ambassador Foods Corp. v. Montgomery Ward & Co., 192 N.E.2d 572, 575–76 (Ill. App. Ct. 1963) ("[C]ourts . . . refuse to decree the specific performance of a contract where . . . [it would] require constant and long-continued supervision by the court and further supplemental proceedings in order to enforce the defendant's compliance with the decree and his performance of the constantly recurring duties of the contract." (quoting 49 AM. JUR. (FIRST), *Specific Performance* § 70)); *see also* Mass. Mut. Life Ins. Co. v. Assoc'd Dry Goods Corp., 786 F. Supp. 1403, 1423–25 (N.D. Ind. 1992); CBL & Assoc. v. McCrory Corp., 761 F. Supp. 807 (M.D. Ga. 1991).

very opinion.[380] Another court has called this exactly what it is, an order of specific performance about an affirmative obligation.[381] Granting specific performance should be avoided for another reason: it would render the rejection power superfluous.

4. *The Superfluous Language Canon*

Granting specific performance for trademark licensees and allowing them to retain their rights renders the rejection power superfluous to those debtors. As discussed above, in many situations involving trademark licenses, the only remaining performance obligations of a debtor-licensor are: the quality-control obligations, the duty of forbearance in the case of an exclusive license, or the duty of keeping a licensee appraised as to other licensees. In most cases, the latter two duties are extremely minor, and without the quality control requirement would arguably not constitute enough remaining performance due for the license to be considered executory.[382] Thus, the only major performance obligation is the quality control requirement.

As discussed above, however, if a trademark owner stops exercising the right of control over quality, it will lose all the rights and protections it has in the trademark. The logical result is that a trademark owner would never willingly excuse itself from this obligation. If specific performance is regularly granted, or as the Seventh Circuit puts it, if a non-rejecting party may commonly elect to retain its rights post-rejection, the only benefit from rejection would be to excuse the debtor from an obligation from which it realistically cannot excuse itself. The conclusion from this is that if the result in *Sunbeam* becomes commonplace, then the rejection power will be practically meaningless to a trademark licensor-debtor, and large portions of § 365 would be rendered superfluous, at least to a certain class of debtors.[383]

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380 *Sunbeam*, 686 F.3d at 377 ("After rejecting a contract, a debtor is not subject to an order of specific performance." (citing NLRB v. Bildisco & Bildisco, 465 U.S. 513, 531 (1984); Midway Motor Lodge of Elk Grove v. Innkeepers' Telemgmt. & Equip. Corp., 54 F.3d 406, 407 (7th Cir. 1995))).

381 *In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003) ("This argument misses the mark entirely. The essence of the [license] was the [d]ebtors' affirmative grant to the [licensee] of the right to use their proprietary marks. As a result of the rejection, that affirmative obligation of the [d]ebtors to allow the [licensee] to use the marks is excused.").

382 *See In re* Exide Techs. (*Exide II*), 607 F.3d 957, 963–64 (3d Cir. 2010).

383 *See* Thomas M. Ward, *Conceptual Framework—Two Natures of the Intellectual Property Transfer: Contract and Property—Property Rights in the "Res"*, I.P. COMMERCE § 4:5 (2012) ("[*Sunbeam*] treats the trademark license as the equitable equivalent of a nonrejectable [sic] conveyance of all trademark rights. . . .").

CONCLUSION

Executory contracts remain one of the most complicated areas of bankruptcy law, and have resulted in a wealth of confusion, mistakes, and misunderstandings in how to define, treat, and apply them. Over the last twenty years, courts treated rejection of a trademark license as a termination of the licensee's rights, at least insofar as the continued use of the trademark. The licensee was limited to a general unsecured prepetition claim against the estate. This limitation has been essential to the debtor's hopes of being able to repay its creditors and emerge fresh from bankruptcy, ready to begin anew. The *Sunbeam* court held that this was not the case, and awarded to the licensee the continued right to use the trademark. This holding contradicts twenty-plus years of jurisprudence. *Lubrizol*, not *Sunbeam*, is supported by an examination of the unique quality of trademarks and trademark licenses, the canons and doctrines of legal interpretation, and the underlying goals of bankruptcy law. *Lubrizol* should continue to remain the standard and *Sunbeam* should not be followed, allowing trademark owners entering bankruptcy to retain hope that they will be able to emerge successfully on the other side. That hope is essential, and should not be trampled needlessly or wantonly, just because a licensee cannot get past rejection.

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