STOP THE SILENCE: WHY BANKRUPTCY LAW NEEDS TO INCLUDE PROTECTION FOR TRADEMARKS

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INTRODUCTION

If the owner of a trademark becomes bankrupt, the licensee of that trademark should be able to retain her rights and continue using the trademark because licensees rely heavily on the license in their businesses, it is unfair for licensees to suffer damages for something out of their control, and bankruptcy law should be uniform throughout all areas of intellectual property. When someone files for bankruptcy, the trustee may reject any executory contract[1] of the debtor.[2] This law allows the other party to bring a claim for damages, but not enforce performance of the contract.[3] However, contracts involving licenses of intellectual property are an exception to this law.[4] The issue here, though, is that trademarks are not included in the definition of intellectual property in this bankruptcy statute.[5]

1. "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." James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Law. 739, 743 n.34 (2013) (quoting S. REP. No. 95-989, at 58 (1878), reprinted in 1978 U.S.C.C.A.N. 5787, 5844). This article discusses the relationship between trademark licensing and bankruptcy. Examples of executory contracts include apartment leases and intellectual property licenses.

2. A debtor is a person who has filed a petition for relief under the Bankruptcy Code. Bankruptcy Basics Glossary, https://www.uscourts.gov/educational-resources/educational-activities/bankruptcy-basics-glossary#content-for-d; Mission Prod. Holdings, Inc. v. Tempnology, LLC (In re Tempnology, LLC), 879 F.3d 389, 394 (1st Cir. 2018). (referencing 11 U.S.C.S. §365(a) (2018). The court focused on what a rejection is and how it affects trademarks. The court ruled that a rejection does not terminate a right. The court also rejected the court's reasoning, in Sunbeam, because trademark owners have a duty to exercise control over their trademarks and licensees cannot retain rights when the owner becomes bankrupt.

3. *Id*. at 392.

4. *Id*.

5. See 11 U.S.C.S. §101(35A). Section 101(35A) provides:

Regarding trademarks, courts are deciding what the law should be, and the circuits are split in their decisions.[6] This ambiguity is a problem because copyrights and patents are protected under the statute, but trademarks are not, causing a discord in the law. However, what if there was a solution that allowed trademark licensees to keep their rights?

Currently, there is a split among the circuits in determining whether licensees of trademarks can retain their rights when the original owner goes bankrupt.[7] The Third and Seventh Circuits ruled that trademark licensees are allowed to retain their rights when the trademark's original owner becomes bankrupt.[8] The First and Fourth Circuits ruled that trademark licensees cannot retain their rights when the original owner becomes bankrupt.[9]

Bankruptcy law addresses the issue of what happens to a licensee's right in the property within the context of patent and copyright law.[10] No such law exists regarding licensees of

The term "intellectual property" means --

(A)Trade secret;

(B)Invention, process, design, or plant protected under title 35;

(C)Patent application;

(D)Plant variety;

(E)Work of authorship protected under title 17; or

(F)Mask work protected under chapter 9 of title 17;

to the extent protected by applicable nonbankruptcy law

6. That is, courts are deciding whether trademark licensees can choose to retain their rights or reject the agreement or if the agreement is terminated upon the licensor entering into bankruptcy. Currently, there is no law stating if trademarks are protected in the event of bankruptcy or if they are not protected.

7. In re Temnology, LLC, 879 F.3d at 392.

8. *See* Sunbeam Prods. v. Chi. Am. Mfg. LLC, 686 F.3d 372, 375 (7th Cir. 2012) (explaining that the omission of trademarks in 11 U.S.C.S. §101(35A) "does not affect trademarks in one way or the other" and that the Senate only left out trademarks to use the courts as a laboratory); In re Exide Techs., 706 F.3d 957, 967 (3d Cir. 2010) (Ambro, J., concurring) (adding that trademark licensees can retain their rights after a rejection because the rejection simply frees a licensor from having to perform without ending the license).

9. *See* Lubrizol Enters. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985) (holding that rejection terminates the license and is not a burden upon licensees); In re Tempnology, LLC, 879 F.3d 389.

10. *See* 11 U.S.C.S §101(35A); 11 U.S.C.S §365(n). Section 365(n) provides: (1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may

elect--

(A)To treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the license to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B)To retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—

(i)The duration of such contract; and

(ii)Any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law

(2)If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, under such contract—

(A)The trustee shall allow the licensee to exercise such rights

(B)The licensee shall make all royalty payments due under such contract for the duration of such contract and for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract; and

(C)The licensee shall be deemed to waive—

(i)Any right of setoff it may have with respect to such contract under this title or applicable nonbankruptcy law; and

(ii)Any claim allowable under section 503(b) of this title arising from the performance of such contract

(3)If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

(A)To the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) held by the trustee; and

(B)Not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) including any right to obtain such intellectual property (or such embodiment) from another entity

(4)Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A)To the extent provided in such contract or any agreement supplementary to such contract—

(i)Perform such contract; or

(ii)Provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

(B) Not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment), including any right to obtain such intellectual property (or such embodiment) from another entity trademarks.[11] Courts are split in deciding how to approach a trademark license in the case of bankruptcy. Some courts hold that licensees should retain their rights to the trademark when the original owner becomes bankrupt.[12] One reason being that Congress only left out trademarks as an experiment for the courts.[13] Another reason being that the law currently in place is not intended to cancel a contract and take a licensee's rights away, but rather relieve the licensor of her duties, which would be burdensome.[14] Other courts hold that the license agreement and all rights are revoked when the original owner enters bankruptcy.[15] One reason being that it is not burdensome to licensees to cancel the contract because the licensees would simply lose the rights to the trademarks.[16] Another reason being that trademark owners must exercise control over trademarks for the license to remain valid, and they cannot exercise control when they are bankrupt because they lack the financial ability to exercise the proper control to prevent abandonment of the trademark.[17]

Consider this hypothetical: Jane Doe obtains a trademark for her creation of the idea "Furever & Always", a trademark that commemorates the bond between a person and his or her pet.[18] Jane decides to license her trademark to Bill Johnson, who wants to print the "Furever & Always" trademark onto t-shirts. Unfortunately, Jane has major financial trouble and becomes bankrupt. The law is ambiguous in terms of what will happen to Bill's trademark license. Will Bill be able to continue using the

11. *Id.*

12. *See* Sunbeam Prods., 686 F.3d 372; In re Exide Techs., 607 F.3d 957.

13. Sunbeam Prods., 686 F.3d at 375.

14. In re Exide Techs., 607 F.3d at 967 (Ambro, J., concurring).

15. *See* Lubrizol Enters., 756 F.2d 1043; In re Tempnology, LLC, 879 F.3d 389.

16. Lubrizol Enters., 756 F.2d at 1048.

17. In re Tempnology, LLC, 879 F.3d at 402.

18. "Furever & Always" is a trademark that was created for people whose pet has passed away. The mark includes the words "Furever and Always" and a paw print. Jane Doe currently produces jewelry (rings, necklaces, and bracelets) with this mark, and pet owners can add their pet's name onto the jewelry to customize the pieces. Jane decided to license her mark to Bill for him to put on t-shirts and sell them at his store.

"Furever & Always" trademark in his business according to the terms of the license, or will he suffer because of Jane's bankruptcy by losing all the time and money he invested into using the trademark?

Part I of this note will provide a background on intellectual property law, licensing of trademarks, and bankruptcy law to give a basis for why the law needs to be changed to provide uniformity throughout these two areas of law.[19] Part II will discuss the split that exists among the circuits resulting from the statute not including trademarks in the definition of intellectual property and how this omission is problematic; it does not provide a fair remedy for trademark licensees by potentially taking away their rights for something out of their control and places a burden on them when the original owner becomes bankrupt by taking away rights to a trademark they invested time and money into.[20] Part III will propose a solution to the problem, specifically to allow trademark licensees to retain their rights when the owner becomes bankrupt,[21] and Part IV will discuss the consequences of not implementing this solution, such as people not entering into trademark licensing agreements anymore.[22] Part V will conclude this note with a final recommendation for a change to the current law, namely that the licensee of a trademark should be able to retain her rights and continue using the trademark because licensees rely heavily on the license in their businesses, it is unfair for licensees to suffer damages for something out of their control, and bankruptcy law should be uniform throughout all areas of intellectual property.[23]

I. BACKGROUND ON INTELLECTUAL PROPERTY LAW, THE LICENSING OF TRADEMARKS, AND BANKRUPTCY LAW

Section A will provide a primer on intellectual property, namely the differences between patents, copyrights, and trademarks. Section B will discuss how the licensing of a

19. *See infra* Part I.
20. *See infra* Part II.
21. *See infra* Part III.
22. *See infra* Part IV.
23. *See infra* Part V.

trademark works and the benefits of licensing. Section C will state what the current law regarding intellectual property in bankruptcy law is, how the law was decided, and the problem with how the current law is written.

A. Background on Intellectual Property law

A trademark is any symbol that is used to identify and distinguish the goods of the trademark's owner, sold in interstate or international commerce, from the goods made, sold, or owned by competitors.[24] Trademark protections exist in order to protect someone's idea from being used by competitors.[25] Intellectual property is the whole set of intangible rights that authors, inventors, and other creators have in the items they write, invent, or create.[26] Intellectual property is divided into three categories: patent, copyright, and trademark.[27] It is important to protect intellectual property because we want to encourage people to create ideas, products, and inventions. These creations further society by filling the market with better products and growing the economy.

Patents are inventions for the grant of a property right to the inventor, issued by the United States Patent and Trademark Office.[28] A patent has a 20-year term, starting on the application date.[29] Patents require upkeep in the form of maintenance fees.[30] Patents granted in the United States are only valid in the United

24. Stephen Michael Sheppard, The Wolters Kluwer Bouvier Law Dictionary Desk Edition, Trademark, LEXIS; Mfg. Co. v. Trainer, 101 U.S. 51, 53 (1879).

25. Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 162 (1995) (referencing the Lanham Act).

26. Stephen Michael Sheppard, The Wolters Kluwer Bouvier Law Dictionary Desk Edition, Intellectual Property, LEXIS; Adams Outdoor Adver., Ltd. v. City of Madison, No. 2005AP508, 2006 Wisc. LEXIS 400, at *18 (Wis. Apr. 26, 2006).

27. *Id.*

28. General Information Concerning Patents, United States Patent and Trademark Office, https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-2.

29. *Id.*

30. *Id.*

States, U.S. territories, and U.S. possessions.[31] When someone receives a patent, he or she has "'the right to exclude others from making, using, offering for sale, or selling' the invention in the United States or 'importing' the invention into the United States."[32]

"Copyright is a form of protection provided by U.S. law to the authors of 'original works of authorship'. . .including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished."[33] The owner of the copyright has the exclusive right to reproduce the copyrighted work, to prepare derivative works, to distribute copies or phonorecords of the copyrighted work, to perform the copyrighted work publicly, or to display the copyrighted work publicly.[34] Copyrights protect the form of expression, not the subject matter of the writing. [35]

Trademarks are words, names, symbols, or devices used to show where goods came from and differentiate them from goods of other individuals or companies.[36] When someone acquires a

31. *Id.*

32. *Id.*

33. Copyright Basics, United States Patent and Trademark Office, https://www.uspto.gov/learning-and-resources/ip-policy/copyright/copyright-basics.

34. *See* 17 U.S.C.S §106. Section 106 provides:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1)To reproduce the copyrighted work in copies or phonorecords;

(2)To prepare derivative works based upon the copyrighted work;

(3)To distribute copies or phonorecords of the copyrighted work to the public or sale or other transfer of ownership, or by rental, lease, or lending;

(4)In the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5)In the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6)In the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission

35. Copyright in General, U.S. Copyright Office, https://www.copyright.gov/help/faq/faq-general.html.

36. Trademark Basics, United States Patent and Trademark Office, https://www.uspto.gov/trademarks-getting-started/trademark-basics.

trademark, he or she has the right to prevent others from using a mark that may be similar and confusing.[37] However, a trademark owner does not have the ability to prevent other people from making or selling the same product under a different trademark.[38] An example would be if Jill and Pam both sold homemade jams. If Pam registers her trademark "Sweet Creations," Pam will be able to prevent Jill and others from using that mark. However, Pam cannot prevent Jill from selling jams under a different trademark, such as "Jill's Jammin' Jellies."

The purpose behind a trademark is to allow customers to identify who made the product and where it came from.[39] If a competitor used the same mark on a similar product, the original creator would miss out on the profit he would have received when the consumer bought the product.[40] Courts grant relief to trademark owners who suffer from others using their marks because the owner has a valuable interest in the reputation of his business and products. [41]

To file a trademark, it must be unique. If a likelihood of confusion with another mark exists, the United States Patent and Trademark Office ("USPTO") will not approve the trademark application.[42] Similarity between the two marks is enough to constitute a likelihood of confusion.[43] However, if the marks are confusingly similar, but the goods or services are not related, a likelihood of confusion most likely will not be found.[44]

A trademark owner can, and has a duty to, watch out for any

37. *Id.*

38. *See* Trademark vs. Brand: Everything You Need to Know, Upcounsel, https://www.upcounsel.com/trademark-vs-brand; 15 U.S.C.S. §1114 (Lexis 2019) (discussing the remedies for trademark infringement).

39. Hanover Star Milling Co. v. Metcalf, No. 23,30, 1916 U.S. LEXIS 1463, at *7 (U.S. May 10, 1915). This court focuses on what trademarks are and what trademark infringement is. The court must decide whether Hanover infringed upon Allen & Wheeler Co.'s trademark.

40. *Id.* at *16.

41. *Id.*

42. Protecting Your Trademark: Enhancing Your Rights Through Federal Registration, United States Patent and Trademark Office, at *3, https://www.uspto.gov/sites/default/files/documents/BasicFacts.pdf.

43. *Id.* at *4.

44. *Id.* at *5.

potential infringements on his trademark.[45] The steps he should take in the event of an infringement are as follows: send a cease and desist letter, file a formal opposition with the Trademark Trial and Appeal Board ("TTAB"), and file a civil action against the infringer.[46] A trademark can be abandoned, but courts do not usually find trademarks abandoned unless the mark is no longer being used and there is no intent to begin using it again or the owner of the trademark has done something that causes the mark to lose its significance.[47]

B. Licensing of Trademarks

Trademark owners may choose to let a third party use their trademark without giving up ownership of that right and the reputation that goes along with it.[48] Licensing agreements can be express or implied, exclusive or nonexclusive, perpetual or fixed-term, royalty-bearing or royalty-free, or assignable or nontransferable.[49] While the agreements can be implied, they should always be reduced to writing due to the complexity of the terms.[50]

Trademark owners/licensors want to avoid a license becoming a "naked license." A naked license results when the owner stops exercising control over the mark, which in turn abandons the mark.[51] On the other side of the spectrum, the owner must not exercise too much control over the licensee.[52] If too much control is exerted on the licensee, a franchising relationship could develop, which is subject to other

45. Sara Yevics Beccia et al, Intellectual Property Licensing Agreements (MCLE) §6.7.3 (2012), LEXIS.

46. *Id.*

47. Sara Yevics Beccia et al, Intellectual Property Licensing Agreements (MCLE) §6.3.6 (2012), LEXIS.

48. Sara Yevics Beccia et al, Intellectual Property Practice (MCLE) §6.10.1 (2011), LEXIS.

49. *Id.*

50. *Id.*

51. *Id.*

52. *Id.* (using the example of a trademark owner requiring the licensee to follow the licensor's business plans).

regulations.[53]

Licensing is such a large part of the market because companies can produce more of their product by using the resources of another company.[54] This in turn creates more revenue and exposure for the owner of the trademark.[55] A company can have a bigger reach of potential customers, it can add more products to its line, or it can have both. [56] Licensing to someone who produces or sells a different product than the trademark owner can open the door to a new market.[57]

Licensing intellectual property, and trademarks specifically, can be very beneficial to the intellectual property owner. Many doors can be opened through a licensing relationship, as seen above. Increased revenue, larger geographic market, and penetration into a new market are a few of the benefits that result from a licensing agreement.[58]

C. Background on Bankruptcy Law

The law was ambiguous regarding intellectual property in the case of bankruptcy. This ambiguity left decisions up to the courts, so Congress amended the law to provide clarity.[59]

Currently, bankruptcy law addresses executory contracts and unexpired leases within 11 U.S.C.S. §365.[60] "Section 365(a) permits a debtor-in-possession with the court's approval, to 'reject any executory contract' that, in the debtor's business judgment, is not beneficial to the company."[61] A debtor's rejection constitutes a breach of contract or a breach of lease.[62] The term

53. *Id.*
54. Jay Dratler, Jr., Licensing of Intellectual Property §1.03, at *1, LEXIS.
55. *Id.* at *1.
56. *Id.* at *1.
57. *Id.* at *10.
58. *Id.* at *1,10.
59. James M. Wilton & Andrew G. Devore, *Article: Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Law. 739, 740 (2013) (referencing Act of October 18, 1988, Pub. L. No. 100-506. §365(n), 100 Stat. 3115, 3117 (1988) (codified at 11 USC §365(n) (2006)).
60. 2018 U.S. App. LEXIS 870, at *6.
61. *Id.*
62. *See* Abraham Bane, *Rejected Trademark Licenses in Bankruptcy:*

"rejection" has been an issue of disagreement among the circuits. The Fourth Circuit takes the position of the rejection meaning termination of the license.[63] The First Circuit agrees with this position.[64] The Seventh Circuit holds the position that the rejection is merely a breach and does not entirely terminate the license.[65] The courts disagree on the definition of rejection, which is essential in determining a licensee's outcome in the case of a licensor's bankruptcy.

In 1985, the Fourth Circuit ruled that a licensing agreement for intellectual property was considered an executory contract under 11 U.S.C.S. §365.[66] A rejection would, in effect, terminate the intellectual property license by cancelling the license. The only remedy would be to receive damages for the termination.[67] The licensee would not be able to seek specific performance of the contract.[68] After this ruling, Congress responded by amending 11 U.S.C.S. §365.[69] It added section N which states, "if the trustee rejects an executory contract under which the debtor is a licensor

Giving the Licensor a Fresh Start, 2018 Colum. L. Rev. (2018); 11 U.S.C.S. §365(g) (2018). Section 365(g) provides:

Except as provided in subsections (h)(2) and (i)(2) of this section, the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease--

(1)If such contract or lease has not been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title, immediately before the date of the filing of the petition; or

(2)If such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title--

(A)If before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or

(B)If before such rejection the case has been converted under section 1112, 1208, or 1307 of this title--

(i)Immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or

(ii)At the time of such rejection, if such contract or lease was assumed after such conversion.

63. Bane, *supra* note 62 (referencing 1985 U.S. App. LEXIS 29723).

64. *Id.* (referencing 2018 U.S. App. LEXIS 870).

65. *Id.* (referencing 2012 U.S. App. LEXIS 13883).

66. 1985 U.S. App. LEXIS 29723, at *3.

67. *Id.* at *12 (referencing In re Waldron, 36 B.R. 633, 642 (Bankr. S.D. Fla. 1984).

68. *Id.*

69. Bane, *supra* note 62.

of a right to intellectual property, the licensee under such contract may elect: (1) to treat such contract as terminated or (2) to retain its right."[70]

Congress also added the definition of intellectual property to 11 U.S.C.S. §101(35A).[71] This section of the statute defined intellectual property as: trade secret; invention, process, design, or plant protected under title 35; patent application; plant variety; work of authorship protected under title 17; mask work protected under chapter 9 of title 17.[72] Congress did not include trademarks in this definition. The Senate Report stated why Congress did not include trademarks on the list.[73] Congress postponed action on trademark licenses to allow bankruptcy courts to develop equitable treatment of the matter.[74] Equitable treatment involves determining the law in a just and fair manner. Courts have been weighing in on the matter of trademark licenses and bankruptcy since Congress left the statute silent in regards to trademarks. The time has come for the U.S. Supreme Court to rule on the matter.

Courts now are split in determining the law for trademark licenses when the owner goes bankrupt. The statute should include trademarks into the definition of intellectual property in 11 U.S.C.S. §101(35A). Another option would be to specifically state that trademarks are not included to ensure that the law is clear. However, the best solution would be to include trademarks into the definition so trademarks are protected. This solution would also create uniformity for all areas of intellectual property by having the same rules for trademarks, patents, and copyrights.

II. THE CURRENT LAW, THE CIRCUIT SPLIT, AND WHY THEY ARE PROBLEMATIC

Section A discusses the circuit split resulting from the

70. *See* 11 U.S.C.S. §365(n) (Lexis 2019).
71. Bane, *supra* note 62.
72. *See* 11 U.S.C.S §101(35A).
73. 2018 U.S. App. LEXIS 870, at *9 (referencing the Senate Report, S. Rep. No. 100-105 at 5); Bane, *supra* note 62.
74. *Id.*

ambiguity of the bankruptcy statute, which circuits are in favor of letting licensees choose between retaining rights and rejecting the agreement, and which circuits are against this idea. Section B discusses how the current bankruptcy law is problematic because trademarks are not listed under the definition of intellectual property and, therefore, are not explicitly protected like copyrights and patents.

A. The Current Law and The Circuit Split

The law has not changed since Congress amended 11 U.S.C.S §365 and 11 U.S.C.S. §101. Circuit courts have weighed in on the matter, and they are split in their rulings.

1. Courts in Favor of Letting Licensees Choose Whether They Reject the Contract or Retain Their Rights

The Seventh Circuit has ruled that a licensee of a trademark can continue using the license.[75] In *Sunbeam*, Lakewood Engineering & Manufacturing Co. ("Lakewood") manufactured and sold different products.[76] The company was losing money on the box fans it made, so it licensed its trademark to Chicago American Manufacturing ("CAM").[77] The agreement included Lakewood taking orders from retailers and CAM shipping the products directly to these customers.[78] Three months into the contract, Lakewood's creditors filed an involuntary bankruptcy petition against Lakewood.[79] Sunbeam purchased the assets, including the trademark.[80] Sunbeam refused to pay for the fans CAM already made, and Lakewood's trustee rejected the executory contract.[81]

The court in *Sunbeam* reasoned that Congress's omission of trademarks in U.S.C.S §101(35A) "does not affect trademarks in

75. 2012 U.S. App. LEXIS 13883, at *5.
76. *Id.* at *1.
77. *Id.*
78. *Id.* at 2.
79. *Id.*
80. *Id.*
81. *Id.*

one way or the other."[82] While other courts try to rationalize that the omission means Congress intended for trademarks to not be protected, the Seventh Circuit in *Sunbeam* rejects this idea.[83] The court references the Senate Report to show that Congress did not omit trademarks to prevent their protection, but rather to use the courts as a laboratory.[84] The court also alluded to the fact that the Fourth Circuit, the first circuit court to decide on this matter, focused on the wrong question.[85] It was more concerned with whether a rejection applies to certain contracts instead of whether a rejection actually cancels a contract or license.[86]

The Third Circuit heard a case to determine if an agreement between the parties is an executory contract.[87] In *In re Exide Techs*, Exide sold its battery business to EnerSys.[88] Along with the sale, Exide entered into a licensing agreement with EnerSys to license its "Exide" trademark.[89] Exide still used the trademark outside of the industrial battery business while EnerSys used the mark within the industrial battery business.[90] Exide wanted to return to the industrial battery business, so it approached EnerSys to end the ten-year non-compete agreement.[91] However, Exide still could not use the "Exide" mark within the industrial batter business.[92]

Exide filed a voluntary petition for bankruptcy, so it could reject the licensing agreement.[93] The Third Circuit ruled that the agreement was not an executory contract, and Exide could not reject it.[94] Circuit Judge Ambro concurred with the court and added that the trademark licensee can retain rights to the

82. *Id.* at *4.
83. *Id.*
84. *Id.*
85. *Id.*
86. *Id.* at *5.
87. 2010 U.S. App. LEXIS 11029, at *3.
88. *Id.* at *4.
89. *Id.*
90. *Id.*
91. *Id.*
92. *Id.*
93. *Id.*
94. *Id.* at *7.

license.[95] The bankruptcy statute, 11 U.S.C.S. §365, is not intended to essentially be a way to cancel the license.[96] It only frees licensors from having to perform, not ending the license completely.[97] The courts should use §365 to relieve a bankrupt licensor of its burdensome duties.[98] "They should not. . .use it to let a licensor take back trademark rights it bargained away."[99]

2. Courts Against Letting Licensees Choose Whether They Reject the Contract or Retain Their Rights

The Fourth Circuit ruled that a rejection terminates the license.[100] In *Lubrizol*, Richmond Metal Finishers ("RMF") entered into a licensing agreement with Lubrizol to use its metal coating process technology.[101] The agreement stated that Lubrizol had to wait to use the technology until May 1, 1983, and it never did use the technology.[102] In August, RMF filed for bankruptcy and tried to reject the agreement with Lubrizol.[103] This court focused on what constitutes an executory contract and how a rejection is a termination of the contract or license.[104] The court then states that allowing rejections of licenses does not constitute a burden upon licensees, but it will have a "chilling effect upon the willingness of such parties to contract at all with businesses in possible financial difficulty."[105]

The First Circuit ruled that trademark licensees cannot retain the rights when the original owner becomes bankrupt.[106] In *Mission*, Tempnology, LLC ("Tempnology") produced towels, socks, headbands, and other accessories designed to keep cool

95. *Id*. (Ambro, J. concurring).
96. *Id.*
97. *Id.* at *8-9 (quoting Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007).
98. *Id.*
99. *Id.* at *9.
100. 1985 U.S. App. LEXIS 29723, at *7.
101. *Id.* at *4.
102. *Id.*
103. *Id.*
104. *Id.*
105. *Id.* at *6.
106. 2018 U.S. App. LEXIS 870, at *14.

even while worn during exercise.[107] Tempnology entered into a limited licensing agreement with Mission Product Holdings, Inc. ("Mission") to allow Mission to use its trademark in order to carry out the obligations of the agreement.[108] The agreement included a provision that allowed either party to terminate the agreement without cause.[109] However, this provision included a Wind-Down Provision where Tempnology would retain rights until the end of the Wind-Down Period, which was about two years.[110] Mission tried to terminate the agreement by claiming Tempnology's former president violated the terms of the agreement.[111] Tempnology challenged Mission's termination attempt by taking the issue to an arbitrator.[112] The arbitrator ruled that Tempnology retained rights until the end of the Wind-Down Period.[113] Unfortunately, Tempnology experienced financial trouble, filed for bankruptcy, and sought to reject the agreement with Mission.[114]

The court in *Mission* focused on what a rejection is and how it affects trademarks.[115] It discussed how a rejection does not terminate a right, but rather turn the right into a pre-petition claim for damages.[116] It rejects the court's reasoning in *Sunbeam* and the concurrence in *In re Exide* because "effective licensing of a trademark requires that the trademark owner. . .monitor and exercise control over the quality of the goods sold to the public under cover of the trademark."[117] Trademark owners have a duty to control quality, reasons the court, because trademarks are "messages to consumers about the relationship between the goods and the trademark owner."[118] As a measure of quality

107. *Id.* at *5.
108. *Id.*
109. *Id.*
110. *Id.*
111. *Id.*
112. *Id.*
113. *Id.* at *6.
114. *Id.*
115. *Id.*
116. *Id.* at *12.
117. *Id.* (quoting J. Thomas McCarthy, McCarthy on Trademarks & Unfair Competition §18:48 (5th ed. 2017).
118. *Id.* (citing Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982

control, trademark owners must have the role of monitoring and controlling quality.[119] If control is lacking, then what is called a "naked-license" occurs.[120] This naked-license, discussed later in this note, will in turn abandon the license.[121]

B. The Silence in the Statute, Along with the Circuit Split, Is Problematic Because Trademark Licensees Do Not Have Protection in the Event of Bankruptcy of the Trademark Owner.

Because trademarks are not included within the definition of intellectual property set out in 11 U.S.C.S. §101(35A), a uniform law does not exist. Without a uniform law, trademark licensees will suffer damages, such as loss of wages, and may even have to close the door to their businesses. If trademarks are not protected in the same manner as copyrights and patents, the world of intellectual property law could potentially become different areas of law. Trademarks, copyrights, and patents are grouped into intellectual property law because they all protect creative expressions and ideas. All three of these areas of law should have the same rules and protection, especially when intertwined with other areas of law, because uniformity is desired in order to provide a fair and just system for society.

Licensees rely on trademark licenses in their businesses. In some cases, the use of a trademark could provide for the sole revenue of a company or individual. Licenses also allow licensees to enter into new markets or larger geographic markets.[122] To not provide a remedy for trademark licensees, as there is for patent and copyright licensees,[123] would be unfair and potentially discourage individuals or companies from licensing trademarks

F.2d 633, 636 (1st Cir. 1992).

119. *Id.*

120. *Id.*

121. *Id.* (quoting Restatement (Third) of Unfair Competition §33).

122. Jay Dratler, Jr., Licensing of Intellectual Property §1.03, at *1, 10, LEXIS.

123. If the owner of a patent or copyright has licensed out rights to a licensee, and the owner enters bankruptcy and rejects the agreement, then the licensee can choose whether to treat the agreement as terminated by the rejection or retain his or her rights under the contract. This remedy available is outlined in the bankruptcy law 11 U.S.C.S. 365(n).

from owners. If there is a possibility that a license could be terminated upon bankruptcy of the licensor and the licensee could lose his or her business, the licensee is likely to not enter into that license.

One issue that is commonly brought up among those[124] who oppose the idea of trademarks being included in 11 U.S.C.S §101(35A) is that an owner who has entered bankruptcy cannot exercise the reasonable control necessary to prevent an abandoned license.[125] Under the Lanham Act ("Act"),[126] control is required to maintain a trademark because lack of control would constitute abandonment.[127] The problem with using the Lanham Act to argue that control is required in order for a trademark registration to remain valid is that the Act does not specify the control required.[128] How can this control requirement be enforced without knowing what is required?

The courts are split in their decisions on whether trademark licensees can retain their rights to the license once the original owner goes bankrupt. If this matter is not resolved, licensees will be more likely to refrain from entering into a licensing agreement, especially in the circuits ruling against the licensee. Beyond that, trademarks, and other intellectual property, are a federal matter within these circuits. The law associated with

124. *See* Comment, *Trademark Licensing: Problem of Adequate Control*, 1968 Duke L.J. 875, 889-903 ; 2018 U.S. App. LEXIS 870.

125. These abandoned licenses are also known as "naked-licenses." They occur when a licensor stops exercising reasonable control over the trademark.

126. The Lanham Act was created in order to ensure trademark owners are exercising proper control over the quality of their trademarks. Lanham Act, 15 U.S.C. §§1051-1127 (1964).

127. 15 U.S.C.S §1127(1964). Section 1127 provides:

A mark shall be deemed to be "abandoned" if either of the following occurs:

(1)When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

(2)When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.

128. 1968 Duke L.J. 875, 892.

them should be uniform across the nation in order to provide consistent rulings and uniformity among federal law. Unlike state law, federal law reaches the entire country; so inherently, federal law is uniform. Without the uniformity, federal law will crumble. One side of the nation cannot be competing with the other side.

The law clearly states that licensees of patent and copyright licenses can choose to either treat the contract as terminated or retain their rights as licensees. Intellectual property, as a general definition, includes trademarks along with patents and copyrights. To not even mention trademarks in bankruptcy law creates too much ambiguity, which causes injustice for the licensee. This ambiguity results from the omission of trademarks in the bankruptcy statute. This omission causes courts to speculate what Congress intended when it left trademarks out of the law, rather than correctly interpret a law and apply it. When courts have to try and determine what Congress intended, different results ensue. Different results among the nation cause injustice by not providing uniform remedies for affected licensees. A licensee could end up losing the license, and in turn, her business, if a court were to interpret the law as not protecting trademarks in the event of bankruptcy.

III. IDEAL RECOMMENDATION

Section A gives a recommendation of how to change the bankruptcy statute, 11 U.S.C.S. §101(35A). Section B discusses why this recommendation is beneficial and ideal for providing fairness and uniformity.

A. Recommendation

The bankruptcy statute, 11 U.S.C.S. §101(35A), should include trademarks under the definition of intellectual property because trademarks are part of intellectual property outside of bankruptcy law. Including trademarks within bankruptcy law would provide uniformity across the areas of law and create a stronger link between intellectual property law and bankruptcy law. Trademark licensees should be able to choose whether or not they would like to keep their rights or treat the contract as terminated when the original owner becomes bankrupt.

B. Why the Recommendation is Ideal

Treating all categories of intellectual property equally would be fair to all licensees because they are using this license for their business to create revenue. It would also promote the licensing of trademarks because licensees would not have to be concerned about losing their rights resulting from a situation out of their hands. Trademark licensees rely on their licensing agreement just like patent or copyright licensees rely on theirs. A licensee enters into a licensing agreement in order to generate profit. Licensees put in a lot of time and effort into creating a product from the trademark they are licensing.

Consider the hypothetical[129] again.[130] Bill Johnson creates t-shirts using Jane Doe's trademark. A huge portion of his business comes from the sale of these t-shirts. Bill invested a substantial amount of time and money into renting a building, designing the storefront, marketing his shop and the t-shirts, and designing and buying the t-shirts. Bill relied on the license[131] from Jane when he started his business, and Bill is using the license to create a livelihood. If Bill licensed a patent or a copyright from Jane, Bill's license would be protected from Jane's bankruptcy under 11 U.S.C.S. §365(n).[132] Since the statute is silent in terms of trademarks, there is a potential that Jane could go into bankruptcy and seek to reject the agreement. Depending on which jurisdiction they are in, the court could declare rejection of the agreement,[133] the court could allow Bill to choose whether

129. Jane Doe licenses her Furever & Always trademark to Bill Johnson. Bill uses the trademark and places it on t-shirts. Jane enters bankruptcy.

130. *See infra* introduction.

131. Bill Johnson relied on the licensing agreement according to the terms of the contract. However, the agreement does not contain any provision that says Jane can terminate the agreement if she enters bankruptcy.

132. *See supra* note 69.

133. The courts in the Fourth Circuit and First Circuit are against the idea of letting licensees choose whether they want to reject a licensing agreement or continue to retain their rights. 1985 U.S. App. LEXIS 29723; 2018 U.S. App. LEXIS 870.

he wants to reject the agreement or retain his rights[134], or this kind of decision could be a first impression for the court. This uncertainty could lead to Bill hesitating about entering into the agreement to start with. If Bill has already entered into the agreement, and the court declares the agreement rejected, Bill may not want to enter into another licensing agreement with anyone, and Bill will suffer financially.[135]

IV. NON-IDEAL ALTERNATIVES TO RECOMMENDATION

Section A poses alternatives to the recommendation stated in Part III and discusses why the alternatives might be desired. Section B discusses why these alternatives are not ideal and what could happen if one of these alternatives is chosen.

A. Alternatives to the Recommendation

One of the alternatives to the above recommendation is to continue to leave it up to the courts to decide what to do with trademark licenses when the original owner goes bankrupt. Another alternative is to specifically state in the law that trademarks are not eligible for protection from rejections resulting from bankruptcy. Essentially, Congress would need to designate that trademarks do not fall under the definition of intellectual property within this statute.[136] Congress may want to treat trademarks differently from patents and copyrights because trademarks are a representation to the public; they let consumers know what to expect in terms of quality and allow consumers to differentiate from goods of other companies.

The First Circuit states that the Seventh Circuit's conclusion that "it is possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark" fails

134. The courts in the Seventh Circuit and the Third Circuit (concurrence) are in favor of letting licensees choose whether they want to reject the agreement or continue to retain their rights. 2012 U.S. App. LEXIS 13883; 2010 U.S. App. LEXIS 11029.

135. Other licensees will likely be hesitant as well. This could potentially lead to less people entering into licensing agreements.

136. 11 U.S.C.S. §101(35A) (2018); 11 U.S.C.S. §365(n) (2018).

because "effective licensing of a trademark requires that the trademark owner. . .monitor and exercise control over the quality of the goods sold to the public under cover of the trademark." It states that once an owner goes bankrupt, he cannot exercise reasonable control over the quality of goods sold, making the license a "naked license." Naked licenses abandon the trademark. The Restatement 3d of Unfair Competition §33[137] states that the failure of the owner to exercise reasonable control over the use of the designation by licensee can result in abandonment of designation under §30(2)(b). If a trademark is abandoned, a license for that trademark can no longer exist because the trademark would no longer exist. Once a trademark is abandoned, anyone can use it. If anyone can use it, the licensee no longer has exclusive use of the trademark and his or her business would suffer as a result.

B. Why the Alternatives Are Not Ideal

If courts are left to decide whether or not a trademark licensee can retain their rights if the original owner goes bankrupt, a split in the circuits will continue. Congress is simply using the courts as a laboratory to see what the courts will do, and the "testing" has continued for long enough. It is time for the Supreme Court to rule on this and for Congress to make a decision. Licensees could seriously suffer financially unless a fair and just law is written to allow consistent results across the board. A uniform law is set for all other types of intellectual property. Therefore, a law should be set regarding trademarks.

If trademarks are specifically said to not be intellectual property under the definition in 11 U.S.C.S. §101(35A), intellectual property will not be uniform under bankruptcy law. Copyrights and patents are protected under the law. Trademarks should be as well. Uniformity will promote licensing of intellectual property as a whole and promote small businesses by encouraging individuals and companies to enter into licensing agreements. Another benefit of having this uniformity is that the

137. Restatement (Third) of Unfair Competition: Licensing of Trademarks §33 (Am. Law Inst. 1995).

courts will no longer have to speculate on what the law should be. They will be able to make clear rulings that are consistent. This will prevent innocent licensees from being financially harmed due to inconsistent law.

Relating back to the hypothetical,[138] if trademarks are protected under 11 U.S.C.S. §365(n), Bill will not be hesitant entering into the agreement for fear of losing his rights as a result of something that is not his fault. In the event something did happen, and Bill and Jane ended up in court, the court would rule the same way as any other court would. Including trademarks in the definition of 11 U.S.C.S. §101(35A)[139] creates uniformity in the law and among the courts. Without the uniformity, Bill could essentially be punished for living in California versus living in South Carolina,[140] which is unfair. Bill, or any other licensee, should not be punished[141] for the fault of the licensor.

Although there are many differences between the three categories of intellectual property,[142] a licensing agreement formed out of any of the categories serves a similar purpose. It allows a third party to manufacture or produce something based on the intellectual property and profit from the license. It also allows the owner to outsource and profit from this relationship.

The First Circuit's opposing view of this theory states trademarks are a form of communication to the public that this product has the same quality as other products under this brand.[143] It is a way to signal to the public that the product can

138. *See infra* introduction.

139. *See supra* note 71.

140. Without adding trademarks to the definition of intellectual property in 11 U.S.C.S §101(35A), each circuit is allowed to determine how trademark licenses should be treated. If Bill lived in California, he would be subject to the Ninth Circuit's decision. If he lived in South Carolina, he would be subject to the Fourth Circuit's decision. Such a law should be the same among the nation, especially since trademarks can have so much to do with someone's livelihood.

141. This punishment includes rejecting the license agreement and stripping the licensee of the rights he relied on.

142. *See infra* Part I, Section A.

143. 2018 U.S. App. LEXIS 870, at *28 (referencing Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633, 636 (1st Cir. 1992)).

be trusted.[144] It also protects the business from competitors by having the trademark on products.[145] If the owner of a trademark becomes bankrupt, they can no longer provide the control necessary to ensure the products are of substantial quality.[146]

However, the licensing agreement can be utilized to prevent this situation. There may be ways an owner can still provide control and monitoring of the trademark even after becoming bankrupt, such as the licensee providing resources to allow the licensor to exercise control or the licensor exercising minimal control with little burden.[147] Whether the trademark owner was a corporation or an individual would factor into the analysis. If the trademark licensor is a corporation and that company enters bankruptcy, something to consider is why that company is going bankrupt. Is the company liquidating or is it reorganizing? This question should not matter in terms of deciding if the licensee can retain the rights of the license, but it should be used to analyze how the trademark owner can continue to exercise control over the trademark and quality.[148] If the company is liquidating, the licensee may need to provide resources to the licensor to allow for control or make it to where the licensor provides minimal control so there is no burden. If the company is simply reorganizing, the company can include this license into its considerations during reorganization.

V. FINAL RECOMMENDATION

Trademarks should be included in the definition of intellectual property under 11 U.S.C.S. §101(35A)[149] in order to create uniformity between the two areas of law – intellectual property and bankruptcy. Trademarks should also be included

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144. *Id.*

145. *Id.*

146. *Id.* at *29.

147. *See supra* notes 125-126. The control necessary to avoid a license becoming abandoned is not specified.

148. In determining whether a licensee can retains rights to a trademark after the owner enters bankruptcy, it should not matter whether the company is liquidating or reorganizing because patents and copyrights are protected either way. Trademarks should be protected in either case as well.

149. *See supra* note 71.

due to fairness since trademark licensees heavily rely on their licensing agreements.[150] A trademark licensee should be able to decide whether he wants to terminate the licensing agreement or retain the rights when the original owner goes bankrupt.[151]

Trademarks are a representation of the owner and signal to the public about quality,[152] so licensing agreements can be written to include a bankruptcy clause that protects the licensee's rights while not placing a heavy burden on the original owner. This clause usually includes terms like: "The parties acknowledgment that the licensor is the grantor of a license to 'intellectual property' and 'embodiment(s)' of 'intellectual property' as these terms are defined and used in the Bankruptcy Code," "A reservation of the licensee's right to elect to retain its IP license under the agreement if the debtor licensor (or its trustee) rejects the agreement in bankruptcy," or "The licensee's right under the license or supplementary escrow agreement to obtain embodiments of the licensed intellectual property from the licensor or escrow agent for possession and use by or on behalf of the licensee."[153] This language is used in some patent and copyright licensing agreements and can be used in trademark licensing agreements, too.[154]

CONCLUSION

Even though trademarks have distinct features, as discussed above,[155] when compared to patents and copyrights, a licensee of any type of intellectual property should be afforded protection when the original owner becomes bankrupt. Licensees put in time, effort, and money into the licensing agreement. If the law does not allow protection, trademark licensees may be discouraged to enter into such agreements, which may hinder

150. *See infra* Part III, Section B

151. This idea is the same law that is currently in place for patents and copyrights under 11 U.S.C.S. §365(n) and 11 U.S.C.S. 101(35A).

152. 2018 U.S. App. LEXIS 870, at *28 (referencing 982 F.2d 633, 636).

153. Practical Law Intellectual Property & Technology, IP License Drafting to Address a Licensor's Bankruptcy (2014), Westlaw.

154. *Id.*

155. *See infra* Part I, Section A.

commerce.