IT'S NOT YOU, IT'S US: ASSESSING THE CONTRIBUTION OF TRADEMARK GOODWILL TO PROPERLY BALANCE THE RESULTS OF TRADEMARK LICENSE REJECTION

ABSTRACT

In 1988, Congress amended § 365 of the Bankruptcy Code dealing with the rejection of executory contracts to allow intellectual property licensees to retain usage rights following rejection. This addition, however, did not include trademarks in its definition of intellectual properties. For this reason, the Circuit Courts are currently split as to the proper treatment of the rejection of trademark licenses in bankruptcy. The split has intensified in recent years, with Mission Product Holdings, Inc. v. Tempnology, LLC, decided in the First Circuit in January of 2018, directly criticizing the Seventh Circuit's 2014 decision in Sunbeam Products, Inc. v. Chicago American Manufacturing. Both sides of the split, however, fail to take full account of the unique aspects of trademark law necessary in order to achieve the most equitable solution for all parties.

This Comment argues that, in absence of guidance from Congress and to create the most equitable solution, courts should place paramount concern in protecting the value of licensed trademarks. In doing so, courts should consider the aspects of trademarks that make them distinct from the other intellectual properties: their reflection of the expectations and goodwill of the public. With this relationship in mind, I propose a three-factor test to help courts assess whether favoring a licensor or licensee of a trademark would create the most equitable result for both the estate and the public at large.

INTRODUCTION

Imagine if tomorrow morning, McDonald's filed for bankruptcy.[1] What would happen to its thousands of franchisees? These men and women built their businesses around those Big Macs®,[2] Chicken McNuggets®,[3] and McFlurries®.[4] Would they be left without the branding they depend upon as McDonald's reorganized, hoping to reacquire and rehabilitate its own brand? After all, one of McDonald's biggest assets is the power of that brand. Could restructuring even be possible with its franchisees' continued usage of its trademarks, diluting the brand that it needs to come out of Chapter 11 alive? Where would the courts come down in this struggle over the usage of licensed trademarks?

While McDonald's is unlikely to send its golden arches to the bankruptcy court any time soon, smaller scale versions of trademark licensing rejection do happen, and the Bankruptcy Code[5] as currently written by Congress is inapt to deal with them.[6] Without congressional guidance, courts have taken it upon themselves to find the most equitable solution.[7] In so doing, various Circuit Courts have split,[8] leaving the prospect of how exactly any given license will be dealt with by bankruptcy courts in flux.[9] This leaves no guarantee from jurisdiction to jurisdiction how a license will fare post-rejection, let alone whether the treatment will be the most equitable result for all parties.

In 1988, Congress amended the portion of the Bankruptcy Code dealing with the rejection of executory contracts to allow intellectual property licensees to retain usage rights following rejection.[10] This addition, however, did not include

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1 Perhaps all-day breakfast turned out not to be the godsend it first appeared to be.

2 BIG MAC, Registration No. 1331342.

3 CHICKEN MCNUGGETS, Registration No. 1548683.

4 MCFLURRY, Registration No. 2805110; Quality Inns Int'l, Inc. v. McDonald's Corp., 695 F. Supp. 198, 221 (D. Md. 1988) (ruling in favor of McDonald's, finding that adding the prefix "Mc" to a generic word had acquired a secondary meaning, thus making the very act a trademark of McDonald's).

5 11 U.S.C §§ 101 et. seq (2016).

6 *See* Jeffrey D. Osterman & Debra A. Dandeneau, *Bankruptcy and Modern Technology Transactions: An Old Bottle for New Wine*, 25 NORTON J. BANKR. L. & PRAC. 181 (2016).

7 *See, e.g.,* Sunbeam Products, Inc. v. Chi. American Mfg., LLC, 686 F.3d 372, 376 (7th Cir. 2012); In re HQ Global Holdings, Inc., 290 B.R. 507, 512 (Bankr. Del. 2003).

8 Mission Prod. Holdings, Inc. v. Tempnology, LLC (*In re* Tempnology, LLC), 879 F.3d 389, 392 (1st Cir. 2018); Mission Prod. Holdings, Inc. v. Tempnology, LLC (*In re* Tempnology, LLC), 879 F.3d 389, 392 (1st Cir. 2018), *petition for cert. granted* (Oct. 26, 2018) (No. 17-1657).

9 *See* Osterman & Dandeneau, *supra* note 6.

10 11 U.S.C. § 365(n) (2016).

trademarks in its definition of intellectual properties.[11] This was for good reason. Trademarks hold a unique place among the various forms of intellectual property. Unlike patents or copyrights, which spring from the minds of their creators to a place of value in the world, trademarks live within the relationship between a business and its customers.[12] This relationship is muddled when, as in the case of franchising, the owner of the trademark and the purveyor of a business are not the same legal entity. The relationship is complicated further when the licensor of a trademark goes into bankruptcy and attempts to reject the trademark license under the Bankruptcy Code.

Both sides of a trademark license face difficulties in the course of bankruptcy. Licensors attempt to use bankruptcy to regain complete control over the rights to their trademarks in order to rebuild their assets to pay off their debts and move forward once again. Licensees attempt to hold on to rights to use the licensor's mark that they often have built their current businesses around. And Congress, first through omission and then through inaction, has failed to provide the legislative guidance to help judges sort through these complications.

Without definitive congressional word, courts have split on the proper tack as to the rejection of trademark licensing agreements.[13] One side takes the firm line that trademark licenses receive no special treatment beyond that of any other executory contract.[14] The other treats trademark licenses more in line with those of other intellectual properties.[15] This places uncertainty on trademark licenses throughout the nation, uncertainty that limits the value of licenses for companies in and out of the bankruptcy system.[16] All the while, the question remains as to which approach, if either, is most equitable.[17]

This Comment argues that, in absence of guidance from Congress and in order to create the most equitable solution, courts should place paramount concern in protecting the value of licensed trademarks. In doing so, courts should consider the aspect of trademarks that makes them distinct from the other intellectual properties: their reflection of the expectations and goodwill of the public. With this relationship in mind, courts should ensure that the entity which

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11 James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 BUS. L. 739, 754 (2013).

12 *See* 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (5th ed. 2017).

13 *See* Osterman & Dandeneau, *supra* note 6, at 198.

14 *See In re* Tempnology, LLC, 878 F.3d at 401.

15 *See* Sunbeam Products, Inc. v. Chi. American Mfg., LLC, 686 F.3d 372, 375 (7th Cir. 2012).

16 *In re* Tempnology, LLC, 878 F.3d at 404; Amicus Curiae Brief at 3, 5, Mission Prod. Holdings, Inc. v. Tempnology, LLC (*In re* Tempnology, LLC), 878 F.3d 389, 401 (1st Cir. 2018)(No. 17-1657).

17 Osterman & Dandeneau, *supra* note 6, at 193–94.

has most contributed to the value of the relationship between consumers and brand may continue to use the marks in question. By doing so, courts will not only do justice in the dispute between licensor and licensee but also protect consumers as trademark law is designed to do.

Section I of this Comment discusses the key elements of bankruptcy, executory contract law, and trademark law necessary to a full understanding of the issue. Section II analyzes the circuit split that currently exists over the proper interpretation of the treatment of trademarks under § 365 of the Bankruptcy Code.[18] Section III assesses the issues raised by both sides of the split, before introducing a factor test designed to aid courts in analyzing individual cases in a way which is neither overly rigid nor cavalierly vague toward trademark rights.

I. BACKGROUND LEGAL CONCEPTS

Three areas of law govern the treatment of the rejection of trademark licensing agreements: the Bankruptcy Code, executory contract law, and trademark law. Each offers insight as to how individual trademark license cases should be handled. First, the purposes behind the Bankruptcy Code offers an overarching guide for what kinds of results courts should seek to create.[19] Next, executory contract law defines the kind of relationship trademark licensors and licensees have, within which the goals of bankruptcy can be fostered.[20] Finally, trademark law is essential to understand the unique form of property at the center of these disputes in order to come to the most equitable result for both the parties and society as a whole.

A. The Goals of Bankruptcy

Congress established the Bankruptcy Code to further two primary goals: to provide the debtor with a fresh start and to maximize the repayment of creditors.[21] For businesses, this is ideally served by reorganization.[22] The Supreme Court has emphasized the value of reorganization to the debtor's fresh start, noting that the "fundamental purpose of reorganization is to prevent a debtor from going into liquidation, with an attendant loss of jobs and possible

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18 The portion of the Bankruptcy Code dealing with the rejection of executory contracts. 11 U.S.C. § 365 (2016).

19 *See* 1 COLLIER ON BANKRUPTCY ¶ 1.01 (16th 2017).

20 *See* 3 COLLIER ON BANKRUPTCY ¶ 365.02 (16th 2017).

21 1 COLLIER ON BANKRUPTCY ¶ 1.01 (16th 2017).

22 *Id.*

misuse of economic resources."[23] Meanwhile the Bankruptcy Code mandates that any such reorganization also pay creditors at least as much as liquidation, ensuring that both goals are met.[24] Thus, the Bankruptcy Code creates a system in which the debtor, creditors, and society at large have an interest in restructuring the legal and financial realities of the estate to maximize value.

B. The Role of § 365 in the Bankruptcy Code

In order to best maximize the value of the estate, the debtor in possession may be forced to breach contracts that, at the time of bankruptcy, are economically inefficient.[25] Section 365 of the Bankruptcy Code allows the debtor in possession of an estate in bankruptcy to reject or assume executory contracts, with the goal of allowing the assumption of the most valuable contracts as assets and the removal of the most burdensome.[26] The traditional standard used by the Supreme Court to determine whether a debtor in possession has acted properly in rejecting an executory contract is the "business judgment" rule which holds that a "debtor's business judgment should not be interfered with, absent a showing of bad faith or abuse of business discretion."[27]

Section 365 deals with executory contracts within bankruptcy; however, the statute itself does not define the term "executory contract."[28] The standard definition of an executory contract follows the Countryman test,[29] which states that executory contracts are "contracts on which performance remains due to some extent on both sides" provided that non-performance of the duties of either

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

24 COLLIER, *supra* note 27; *see also* 11 U.S.C. § 1129(a)(7) (2016), 11 U.S.C. § 1225(a)(4) (2016), 11 U.S.C. § 1325(a)(4) (2016).

25 COLLIER, *supra* note 28.

26 ROBERT E. GINSBERG, ROBERT D. MARTIN & SUSAN KELLEY, GINSBERG & MARTIN ON BANKR. § 7.01 (5th ed. 2016).

27 *In re* Chipwich, Inc., 54 B.R. 427, 430–31 (Bankr. S.D.N.Y. 1985); *see also* NLRB v. Bildisco & Bildisco, 465 U.S. 513, 523 (1984).

28 COLLIER, *supra* note 28.

29 The Countryman test was originally stated in a 1973 law review article by Harvard Law Professor Vern Countryman, who wrote that a "contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other." Vern Countryman, *Executory Contracts in Bankruptcy*, 57 MINN. L. REV. 439, 446 (1973). This test has been looked upon favorably when interpreting the Bankruptcy Code by both Congress and circuit courts. *See* H.R. REP. NO. 95-595, pt. 1, at 6051-52 (1977); S. REP. NO. 95-989, pt.1, at 56 (1978); Lewis Bros. Bakeries v. Interstate Brands Corp. (*In re* Interstate Bakeries Corp.), 751 F.3d 955, 962 (8th Cir. 2014); *In re* Exide Technologies, 607 F.3d 957, 962 (3d Cir. 2010); Regen Capital I, Inc. v. Halperin (*In re* U.S. Wireless Data, Inc.), 547 F.3d 484, 488 (2d Cir. 2008); Zurich Am. Ins. Co. v. Int'l Fibercom, Inc. (*In re* Int'l Fibercom, Inc.), 503 F.3d 933, 941 (9th Cir. 2007); *In re* Spoverlook, LLC, 551 B.R. 481, 484 (Bankr. D.N.M. 2016); *see generally* COLLIER, *supra* note 28.

party would result in a material breach of the contract.[30] For instance, a typical residential real estate lease agreement is executory, as the landlord has an obligation to allow residence and maintain a certain standard of repair, the renter has an obligation to pay rent, and failure of either party to perform results in a breach of the contract. Courts have applied the test in such a way as to hold that if one party has substantially performed its obligations, the contract is no longer executory.[31]

When a contract is rejected, § 365(g) provides that "rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract."[32] While courts are split as to what extent this breach alters the contract,[33] the most common interpretation is that rejection of an executory contract allows the rejected party to receive monetary damages from the debtor's breach, which transforms the rejected licensee into an unsecured creditor of the estate.[34] Monetary damages are the default form of relief, but other forms are available for certain circumstances provided for within § 365.[35] Notably, Congress added a separate provision for the treatment of intellectual property licenses.

In 1988, § 365(n) was added to allow an intellectual property licensee to continue to use intellectual property under a prepetition license even after the debtor in possession has rejected the license "to the extent of the licensee's use of the property existing immediately before the bankruptcy case commenced."[36] Section 365(n) was established in the wake of the *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.* decision,[37] which held that licensees of intellectual property could not retain use of the intellectual property once the licensing contract was rejected. This created an inherent instability for the licensing of patents and copyrights and risked a drastic reduction in the practice of licensing intellectual property.[38] To avoid this uncertainty, Congress sought "to make clear that the rights of an intellectual property licensee to use the

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30 COLLIER, *supra* note 28 (citing Vern Countryman, *Executory Contracts in Bankruptcy*, 57 MINN. L. REV. 439, 460 (1973)).

31 COLLIER, *supra* note 28; *see, e.g., In re* Exide Techs., 607 F.3d 957, 963 (3d Cir. 2010).

32 11 U.S.C. § 365(g) (2016).

33 3 COLLIER ON BANKRUPTCY ¶ 365.10 (16th ed. 2017).

34 *Id*. (Estimation of claims arising from breached contracts are covered under § 502(c)(2) of the Bankruptcy Code). 11 U.S.C. § 502(c)(2) (2016).

35 *See* 11 U.S.C.S. § 365(h),(i),(n) (2016).

36 ROBERT E. GINSBERG, ROBERT D. MARTIN & SUSAN KELLEY, GINSBERG & MARTIN ON BANKR. § 7.04 (5th ed. 2016).

37 This case will be discussed in full in the next section of this Comment. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985).

38 Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 MINN. L. REV. 227, 307 (1989).

licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to Section 365 in the event of the licensor's bankruptcy."[39]

To this end, upon a debtor-licensor's rejection of an intellectual property license, § 365(n) offers a choice to the licensee: treat the rejection as a breach and termination of the license,[40] or retain the rights granted by the license, including that of exclusivity, for the duration of the contract including any extensions allowed under the contract and applicable non-bankruptcy law.[41]

While § 365(n) explicitly overturned *Lubrizol* legislatively for most intellectual properties, the definition of intellectual property added to the Bankruptcy Code in 1988 did not include trademarks.[42] Explaining the omission, Congress noted that despite the applicability of *Lubrizol* to all types of intellectual property, including trademarks under the provision would "raise issues beyond the scope of this legislation" because "trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee."[43] The distinct problems which could arise from this relationship "could not be addressed without more extensive study" and thus Congress decided "to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts."[44] Courts have since grappled with the open question of how and when, if ever, to treat trademarks in the same manner as § 365(n) dictates for other intellectual properties.

C. *Essential Aspects of Trademark Law*

When Congress added intellectual property to § 365, it opted not to include trademarks in the definition of intellectual property under § 101(35A) largely due to the unique nature of trademarks as property.[45] Unlike copyright and patent law, which are derived from Article I of the Constitution,[46] trademark protections developed from state civil consumer protection law before being

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[39] S. REP. NO. 100-505, at 3200 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3200.

[40] 11 U.S.C. § 365(n)(1)(A) (2016).

[41] 11 U.S.C. § 365(n)(1)(B) (2016).

[42] For the purposes of the Bankruptcy Code, "intellectual property" includes: "trade secret," "invention, process, design, or plant protected under title 35 [Patents]," "patent application," "plant variety," "work of authorship protected under title 17 [Copyrights]," and "mask work protected under chapter 9 of title 17 [Copyrights of Semiconductor Chip Products]." 11 U.S.C. § 101(35A) (2016). *See also* 35 U.S.C. § 1(a) (2016); 17 U.S.C. § 101(4) (2016); 17 U.S.C. § 901(9)(b) (2016).

[43] S. REP. NO. 100-505, at 3200 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.

[44] *Id.*

[45] *See id.*

[46] U.S. CONST., art. I, § 8, cl. 8.

federally codified under the Lanham Act in 1946, pursuant to Congress' commerce clause power.[47] Thus, trademark law consists of both the Lanham Act and state trademark and consumer protection laws.[48]

The aspects of the law that separate trademarks from the other intellectual properties, the way trademark licenses operate and the risk of abandonment that can arise under a trademark license, each in turn affect the way trademark licenses are handled under § 365.

1. *Unique Aspects of Trademark Law Within the Context of Intellectual Property*

A trademark is a form of intellectual property that indicates the source or origin of a product or service so as to distinguish it from the products or services of others.[49] This source-identification function has value for both the public at large and the owner of the mark.[50] For the consuming public, the mark represents a known standard of quality from a trusted source which allows a consumer to make an informed decision as to which goods or services to purchase.[51] For the mark's owner, that standard of quality represents a valuable connection between the owner's business and clientele and can in turn be used to market the owner's product.[52] These dual aspects of protection are represented in the two primary goals of trademark law: to prevent the consumer from being confused as to the origin of a good or service, and to protect the property interests of the trademark holder in the value of its mark.[53]

Because trademarks are rooted in the relationship between the mark and the consuming public, trademark protections are distinct from other intellectual properties.[54] Broadly speaking, patent and copyright protections balance the rights of a creator to profit from a discrete innovation or work and the interests of the public to have greater access to this creative output; this balance is achieved by granting the holder of a patent or copyright a temporary right to

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[47] 15 U.S.C. § 1051(26) (2016); *see* U.S. CONST. art. I, § 8, cl. 3; 1 GILSON ON TRADEMARKS § 1.04 (2017).

[48] 1 GILSON ON TRADEMARKS § 1.04 (2017).

[49] 1 GILSON ON TRADEMARKS § 1.03 (2017).

[50] *See generally* 1 GILSON ON TRADEMARKS § 1.03 (2017).

[51] 1 GILSON ON TRADEMARKS § 1.03 (2017).

[52] *Id.*

[53] 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (5th ed. 2017).

[54] 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 6:3 (5th ed. 2017).

exclude others from using the creative work or invention.[55] The creator is given time to recoup the expense of creation as well as profit, before the innovation enters into the public domain at which point any entity is free to use it. A trademark, on the other hand, is not an innovation but instead an identifier of source and quality; as such, there is detriment, not value, to the public in allowing a trademark to be used by all.[56] For this reason, trademarks are valid and protectable for a potentially unlimited length of time, provided that the mark is in use, is seen as a non-generic source identifier of the owner of the mark, and control is maintained over the quality of goods offered under the mark.[57]

2. *Trademarks in Licensing Agreements*

The inseparable tie of a mark to its owner makes trademark licensing distinct from other intellectual property licensing. Whether licensing an invention under a patent license or a creative work under a copyright license, the ability to use something akin to a tangible item of property (e.g., a drug or a song) is being leased to the licensee. A trademark license, on the other hand, leases the ability of a third party to trade on the goodwill accumulated under the trademark owner's name, a significantly more amorphous concept which accordingly requires a special set of rules.[58]

Under the Lanham Act[59] trademark licenses are valid if "the licensor maintains adequate control over the nature and quality of goods and services sold under the mark by the licensee."[60] These licenses can be either exclusive or non-exclusive,[61] and can also be limited to a certain geographical area.[62]

One important subset of trademark licenses is the franchising agreement.[63] In addition to the right to use a mark that is standard across all trademark licenses, the licensor may add a variety of services and requirements, such as training and real estate leases.[64] These kinds of agreements generally involve a much more aggressive amount of quality control compared to other trademark

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55 1 GILSON ON TRADEMARKS § 1.05 (2017). For patents, this temporary monopoly generally lasts for twenty years, while copyrights can last up to seventy years after the death of their creators.

56 *Id*.

57 *Id*.

58 2 GILSON ON TRADEMARKS § 6.03 (2017).

59 The Federal act which creates and governs trademark rights. 15 U.S.C. §§ 1051 et. seq.

60 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:42 (5th ed. 2017).

61 2 GILSON ON TRADEMARKS § 6.03 (2017).

62 2 GILSON ON TRADEMARKS § 6.07 (2017).

63 2 GILSON ON TRADEMARKS § 6.05 (2017).

64 *Id*.

licenses, with the franchisor dictating nearly all aspects of a franchisee's business.[65]

However, in all kinds of trademark licensing agreements, there is a duty of the licensor to ensure a certain level of consistency from its licensees.[66] Failure to maintain this level of control may constitute naked licensing, which in turn can result in the abandonment of the mark.[67] In light of this need for a reciprocal quality control relationship between licensor and licensee, Congress omitted trademarks from § 101(35A)[68] pending further study of the effects of assumption or rejection.[69]

3. *Abandonment*

Because trademarks function as identifiers of source and quality, if, by an act of commission or omission by the owner or approbation by the public, the mark loses its significance as an indication of origin or standard of quality, then the mark may be deemed abandoned and may in turn no longer warrant protection.[70] A commonly known way this happens is the process of genericide, in which a trademark becomes a generic term for a product or service.[71] Because a trademarked name like "aspirin" or "escalator" has entered into popular use to such a great extent that it is synonymous in the mind of the public with a kind of good or service, not a specific brand of origin, it no longer serves the purpose for which trademarks exist and is thus not legally protectable.[72] Another way trademarks may be abandoned is through the intentional non-use of a mark over an extended period of time.[73]

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65 *Id*.

66 2 GILSON ON TRADEMARKS § 6.04 (2017).

67 15 U.S.C. § 1127 (2018).

68 11 U.S.C. § 101(35A) (2018).

69 S. REP. 100-505, at 5 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3204.

70 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:5 (5th ed. 2017).

71 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:8 (5th ed. 2017); *see, e.g.*, Filipino Yellow Pages, Inc. v. Asian Journal Publications, Inc., 198 F.3d 1143, 1149–52 (9th Cir. 1999) (finding the term "Yellow Pages" was deemed a generic term for a commercial phone book); Murphy Door Bed Co. v. Interior Sleep Sys., Inc., 874 F.2d 95, 102 (2d Cir. 1989)(finding the term "Murphy bed" was deemed a generic term for bed frame that folds out from a wall); DuPont Cellophane Co. v. Waxed Prods. Co., 85 F.2d 75, 81-82 (2d Cir. 1936)(finding "cellophane" was deemed a generic term for transparent wrapping sheets made from cellulose); Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 304-306 (S.D.N.Y. 2000) (finding "Pilates" was deemed a generic term for a type of aerobic exercise program); Bayer Co. v. United Drug Co., 272 F. 505, 514-15 (S.D.N.Y. 1921) (finding "aspirin" was deemed a generic term for the compound acetylsalicylic acid).

72 1 GILSON ON TRADEMARKS § 3.05 (2017).

73 *Id*. When assessing whether the trademark owner has an intent not to use a trademark again in commerce, the Lanham Act mandates that courts see a mark as abandoned "when its use has been discontinued

In the context of licensing, a trademark can be abandoned through the process of naked licensing, which occurs when a trademark licensor fails to maintain adequate control over a licensee's use of the trademark.[74] Unlike genericide, through which a trademark comes to no longer convey a specific source, naked licensing causes a mark to lose its significance because the mark no longer conveys a consistent standard of quality.[75] This failure to maintain quality among licensees leads to an increased likelihood that consumers, seeking the quality they have come to expect from goods branded with the trademark, will be deceived into purchasing sub-standard goods.[76]

Because failure of a trademark owner to control the quality of licensed goods produced under its marks carries a high likelihood of consumer deception, courts have ruled that naked licensing can cause a mark to lose its inherent distinctiveness and thus its protection.[77] Courts generally treat the inclusion of quality control measures in the licensing agreements as sufficient protection to stave off rulings of naked licensing.[78] While naked licensing is not listed directly in the Lanham Act, the Act does provide that a mark is abandoned if an owner's action or inaction caused the mark to "lose its significance as a mark."[79] This is notable because even though consumers still associate the mark with its owner, "the courts have traditionally treated an erosion of the designation's capacity for accurate identification resulting from uncontrolled licensing as a loss of trademark significance," potentially leading to abandonment.[80]

A recent example of naked licensing is *Eva's Bridal, Ltd. v. Halanick Enterprises*.[81] The plaintiffs in that case had licensed the name "Eva's Bridal" for bridal boutiques to various relatives at several locations throughout the greater Chicago area.[82] Eventually they licensed their trademark to their

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with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for three consecutive years shall be prima facie evidence of abandonment." 15 U.S.C. § 1127.

74 GILSON, *supra* note 66.

75 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (5th ed. 2017).

76 *Id*.

77 *Id*.; see FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 515-16 (9th Cir. 2010) (finding naked licensing is '*inherently deceptive'* and constitutes abandonment of any rights to the trademark by the licensor.'") (emphasis in original), Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) ("The Lanham Act clearly carries forward the view of these latter cases that controlled licensing does not work an abandonment of the licensor's registration, while a system of naked licensing does.").

78 GILSON, *supra* note 66.

79 15 U.S.C. § 1127 (2018).

80 Restatement (Third) of Unfair Competition § 33, cmt. b (1995).

81 Eva's Bridal, Ltd. v. Halanick Enters., 639 F.3d 788 (7th Cir. 2011).

82 *Id*. at 789.

daughter's brother-in-law under a licensing agreement that expired in 2002.[83] After the license expired, the defendant continued to use the trademarks while neither paying a royalty nor having a licensing agreement.[84] When the plaintiffs sued the defendant for lack of royalty payment, five years later, the judge dismissed their claim, holding that the plaintiffs had engaged in naked licensing and thus could no longer protect their mark.[85]

On appeal, the Seventh Circuit held that this ruling was correct, for at no point, either during the original licensing agreement nor during the period of time following its expiration, did the licensors maintain a form of quality control over the franchises.[86] The licensors argued that because bridal gowns are such high-ticket items, and because the former licensee got its gowns from the same designers as the licensor, a high level of quality was guaranteed.[87] The court responded that this insistence on "'high quality' . . . misunderstands what judicial decisions . . . mean when they speak about 'quality.'"[88] Quality need not mean that a product is excellent, but instead that it is consistent from location to location.[89] The court drew an analogy to various fast food restaurants: "though neither [Kentucky Fried Chicken] nor any other fast-food franchise receives a star . . . in the *Guide Michelin* . . . [a] person who visits one Kentucky Fried Chicken outlet finds that it has much the same ambiance and menu as any other."[90] Thus, because the licensor made no provision to ensure that customers could expect the same experience from one Eva's Bridal to another, the license was naked and the trademark unenforceable.[91]

Naked licensing poses a threat to the ability of a trademark owner to protect use of a trademark. This is tantamount to losing the vast majority of the value of the mark itself. The potentially perpetual life span of a mark makes the possible risk posed to loss of trademark through lack of control and loss of goodwill all the greater. Congress clearly considered these distinctions when electing not to include trademarks within the purview of § 365 in 1988.

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83 *Id*.

84 *Id*.

85 *Id*. at 789-90.

86 *Id*. at 791.

87 *Id*. at 790.

88 *Id*. (citing Restatement (Third) of Unfair Competition, § 33 (3rd 1995)); *see also* Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368 (5th Cir. 1977).

89 Eva's Bridal, Ltd., at 790.

90 *Id*.

91 *Id*. at 791.

II. CURRENT STATUTORY INTERPRETATION OF § 365

Most circuits hold that, because the intellectual property definition under the Bankruptcy Code does not include trademarks, courts should treat trademark licenses not as specially protected intellectual property, but instead as ordinary contracts.[92] These courts take Congress' decision not to include trademarks within the statute as a statement from Congress that it did not intend trademarks to receive special protection.[93] With the influential decision *In re Exide Technologies*, however, the Third Circuit signaled a desire to reconsider this interpretation, noting in its concurrence the inequity of taking away licensees' ability to use licensed marks.[94] Since that decision, the notion that trademark licensees may retain trademark usage rights is the standing precedent in the Seventh Circuit,[95] has been used by lower courts in the Third Circuit,[96] and was recently used by the First Circuit Bankruptcy Appellate Panel before being reversed by the First Circuit.[97]

A. The Majority of Circuits Use Negative Inference to Determine that Trademark Rights Are Not Retained by Rejected Licensees

Following Congress' adoption of § 365(n), courts inferred the omission of trademarks from the statutory text to mean that Congress did not want trademark licensees to receive the same protections as those of other intellectual properties.[98] Because Congress amended the Bankruptcy Code to overturn *Lubrizol*, but did not include trademarks, then *Lubrizol* was presumed to be Congress' intent for trademark licenses.[99] *Lubrizol*, then, is essential to understanding the reasoning of the courts which use this interpretation. This section also includes an example of a more recent decision which uses the *Lubrizol* precedent to determine the rights of a trademark licensee following rejection of the licensing agreement.

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[92] *See In re* Gucci, 126 F.3d 380 (2d Cir. 1997); Lubrizol Enterprises, Inc., 756 F.2d 1043; *In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. Del. 2003); *In re* Centura Software Corp., 281 B.R. 660, 670–73 (Bankr. N.D. Cal. 2002); *In re* Chipwich, Inc., 54 B.R. 427, 429–31 (Bankr. S.D.N.Y. 1985).

[93] *See, e.g.*, *In re* HQ Global Holdings, Inc., 290 B.R. at 513.

[94] *In re* Exide Techs., 607 F.3d 957.

[95] Sunbeam Products, Inc., LLC, 686 F.3d 372.

[96] *In re* Crumbs Bake Shop, Inc., 522 B.R. 766, 772–74 (Bankr. D.N.J. 2014).

[97] Mission Prod. Holdings, Inc. v. Tempnology, LLC, 879 F.3d 389, 392 (1st Cir. 2018); *In re* Tempnology, LLC, 559 B.R. 809 (B.A.P. 1st Cir. 2016), *rev'd*, 879 F.3d 389 (1st Cir. 2018).

[98] *See* Osterman & Dandeneau, *supra* note 6, at 198.

[99] *See, e.g.*, *In re* HQ Global Holdings, Inc., 290 B.R. at 513.

1. Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.[100]

The seminal case which governs the treatment of intellectual property licenses under § 365 is *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, which held that intellectual property licenses are generally executory and that rejection of those licenses allows only monetary damages for breach as compensation to the rejected licensee.[101] *Lubrizol* centered on a contract between Richmond Metal Finishers (hereinafter "RMF") and Lubrizol Enterprises giving Lubrizol nonexclusive rights to various intellectual properties owned by RMF.[102] When RMF entered into chapter 11, it sought to reject this license under § 365.[103] While the bankruptcy court allowed this action, finding that the contract was executory and the rejection was done in good faith, the district court reversed this decision on both counts.[104] The Fourth Circuit subsequently reversed the decision of the district court.[105]

While it is important that the court found the contracts executory,[106] the true significance of the *Lubrizol* decision is its holding on what happens when an intellectual property license is rejected under § 365. Ruling the rejection of the contract legally justified, the court declared that Lubrizol "could not seek to retain its contract rights" and that "the statutory 'breach' contemplated by § 365(g) controls, and provides only a money damages remedy for the non-bankrupt party."[107] This interpretation of § 365(g) relied on legislative history, which "makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party."[108] Thus, because the Bankruptcy Code made no special provisions for retaining contractual rights following rejection, rejected intellectual property licenses could only seek monetary damages for breach.[109]

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100 Lubrizol Enterprises, Inc., 756 F.2d 1043.

101 *Id.* at 1048.

102 *Id.* at 1045.

103 *Id.*

104 *Id.*

105 *Id.* at 1048.

106 *Id.* at 1045 ("Applying [the Countryman] test here, we conclude that the licensing agreement was at the critical time executory. RMF owed Lubrizol the continuing duties of notifying Lubrizol of further licensing of the process and of reducing Lubrizol's royalty rate to meet any more favorable rates granted to subsequent licensees.").

107 *Id.* at 1048.

108 *Id.* at 1045 (citing H. REP NO. 95- 595, 95th Cong., 2d Sess. 349, *reprinted in* 1978 U.S. Code Cong. & Ad. News 5963, 6305).

109 *Id.* at 1048.

2. In re HQ Global Holdings, Inc.[110]

While *Lubrizol* dealt with intellectual property generally, and did not discuss trademarks at all, its treatment of executory contracts for intellectual property licenses formed the basis for § 365(n)[111] and subsequent litigation.[112] As the newly passed exception to § 365 did not mention trademarks, the reasoning of *Lubrizol* remained the standard approach for courts handling the rejection of trademark licenses.[113] These courts reasoned that because Congress had the opportunity to provide a new approach to trademark licenses under § 365(n), but chose not to, then through negative inference the courts could assume Congress thought *Lubrizol* the correct approach to trademarks.[114]

A representative example of the negative inference precedent is the Delaware Bankruptcy Court's decision in *In re HQ Global Holdings, Inc.*[115] The debtors in this case leased office space, along with amenities such as telephone lines, videoconferencing, and reception, to other businesses; in addition, the debtors leased their trade and service marks to franchisees who in turn offered the same services in return for royalty fees.[116] As part of the agreement, the debtors would not operate under their own marks in any region in which they could compete directly with a franchisee.[117] Upon entering bankruptcy, the debtors rejected the franchising contracts, and the franchisees objected.[118]

The court began its analysis by determining whether the contract in question was executory.[119] Because the franchisees had an ongoing obligation to pay royalties and the debtors were required to forebear entering into a franchisee's territory, the court ruled that both parties had sufficient remaining obligations within the contract to deem it executory.[120] Next, the court looked to whether

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110 *In re* HQ Global Holdings, Inc., 290 B.R. 507.

111 11 U.S.C. § 365 (2018). Passed in 1988, largely in response to the *Lubrizol* decision; *see* 1988 U.S.C.C.A.N. 3200, 3201–02.

112 *In re* Old Carco LLC, 406 B.R. at 190 (finding claims to trademark rights claims are dismissed under § 365 due to the non-inclusion of trademarks under the definition of intellectual property); *In re* HQ Global Holdings, Inc., 290 B.R. at 513; *In re* Centura Software Corp., 281 B.R. at 663 (noting that the plain text of the statute excludes trademark); *In re* Chipwich, Inc., 54 B.R. at 431 ("by rejecting the two licenses the debtor will deprive Farmland of its right to use the 'Chipwich' trademark for its products").

113 *See In re* Old Carco LLC, 406 B.R. at 190; *In re* HQ Global Holdings, Inc., 290 B.R. at 513; *In re* Centura Software Corp., 281 B.R. at 663.

114 *See, e.g., In re* HQ Global Holdings, Inc., 290 B.R. at 513.

115 *In re* HQ Global Holdings, Inc., 290 B.R. 507.

116 *Id.* at 509.

117 *Id.*

118 *Id.*

119 *Id.* at 510.

120 *Id.* at 510–11.

the debtors were acting in good faith by rejecting the contracts.[121] Applying the business judgment standard, the court found that the debtors' ability to retain their own trademarks without territorial limitation held sufficient value for the estate as to warrant rejection.[122] Having approved the rejection of the contracts under § 365, the court then sought to determine whether the licensees could retain use of the debtors' marks.[123]

This post-rejection rights analysis began with a note that § 365 leaves the rejected party with merely the right to claim damages for breach of contract, barring additional protections elsewhere in the section.[124] The court noted while § 365(n) provides additional protection for intellectual property, § 101(35A) does not mention trademarks within the definition of intellectual property.[125] Because Congress could have included trademarks, but chose not to, the court negatively inferred the franchisees to have no special privileges under the Bankruptcy Code.[126] The franchisees in turn argued that rejection under § 365 merely excused the bankrupt estate from any affirmative obligations and that their use of the mark did not fall within that category.[127] This claim was dismissed by the court, which declared that a franchising agreement included an "affirmative obligation of the Debtors to allow the Franchisees to use the marks" and was thus excused under the Bankruptcy Code and *Lubrizol*.[128] Because Congress did not affirmatively grant protection to trademark licensees, the only post-rejection right trademark licensees have is that of monetary damages.

B. A (Possibly) Growing Number of Circuits Allow for Rejected Trademark Licensees to Retain Use of the Contracted Trademarks

In the years following *Lubrizol* and the addition of § 365(n) to the Bankruptcy Code, *Lubrizol* received a significant amount of criticism, largely due to the decision's over-emphasis on what constitutes an executory contract and an under consideration of the effect on the contract itself following rejection.[129] Appropriately, the first case to move away from *Lubrizol*, *In re*

[121] *Id*. at 511.

[122] *Id*. at 512.

[123] *Id*.

[124] *Id*.

[125] *Id*. at 513 (citing 11 U.S.C. § 101 (2018), 365 (2018)).

[126] *In re* HQ Global Holdings, Inc., 290 B.R. at 513.

[127] *Id*.

[128] *Id*.

[129] *See* Sunbeam Products, Inc., 686 F.3d at 374-75 ("Scholars uniformly criticize *Lubrizol*"); *see also* Douglas G. Baird, *Elements of Bankruptcy*, 123 n.9, 130–40 (5th ed. 2010); Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection"*, 59 U. COLO. L. REV. 845, 916–19 (1988); Jay Lawrence

Exide Technologies, also dealt primarily with the determination of what constitutes an executory contract.[130] The reasoning of *Exide*'s concurrence would then be picked up by the Seventh Circuit in *Sunbeam Products v. Chicago American Manufacturing* to allow trademark licensees to retain use of trademarks post-rejection, a decision that explicitly split the circuits.[131]

1. In re Exide Technologies

The application of the negative inference doctrine, and thus the application of *Lubrizol*, to trademarks under § 365 first took a blow with *In re Exide Technologies*.[132] Before filing for chapter 11 relief, Exide sold most of its assets concerning the production of industrial batteries to EnerSys for $135 million.[133] Included in this contract was the perpetual, exclusive, and royalty-free license to EnerSys to use the Exide trademark on its batteries, while Exide would retain the rights to the mark in its non-battery businesses.[134] A decade after granting this perpetual license, Exide unsuccessfully attempted to regain the rights to use its name in the battery business from EnerSys.[135] Two years after that, Exide declared bankruptcy and attempted again to regain its trademark, this time under § 365.[136] The Bankruptcy Court granted this rejection, and EnerSys appealed, arguing that the contract was not executory and that, even if it were, rejection of the contract would not terminate its rights to use the marks.[137] The district court affirmed the bankruptcy court's decision, and EnerSys again appealed.[138] The Third Circuit reversed this decision.[139]

The Third Circuit's decision began with a discussion of what defines an executory contract.[140] The court determined that the contract is executory if it "contained at least one obligation for both Exide and EnerSys that would constitute a material breach under New York law if not performed."[141] However, if one party substantially performed its obligations, then the contract is no longer

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Westbrook, *The Commission's Recommendations Concerning the Treatment of Bankruptcy Contracts*, 5 AM. BANKR. INST. L. REV. 463, 470–72 (1997).

130 *See In re* Exide Techs., 607 F.3d at 965.

131 *See* Sunbeam Products, Inc., 686 F.3d at 377–78.

132 *In re* Exide Techs., 607 F.3d at 965.

133 *Id*. at 960.

134 *Id*. at 961.

135 *Id*.

136 *Id*.

137 *Id*.

138 *Id*.

139 *Id*. at 960.

140 *Id*. at 962.

141 *Id*.

executory.[142] The Third Circuit found that the district court had failed to assess the substantiality of EnerSys' performance and reversed the decision on the basis that EnerSys' payment of $135 million drastically outweighed its remaining obligation to maintain the quality standards of Exide's trademark.[143]

By declaring the contract non-executory, the court avoided answering directly whether § 365(n) applies to trademarks. The concurring opinion written by Judge Ambro, however, discussed directly whether the reasoning *Lubrizol* should be followed for trademarks.[144] Judge Ambro first noted the history of *Lubrizol* and its role in Congress' passing § 365(n), as well as the prevailing Circuit reasoning of the non-inclusion of trademarks through negative inference.[145] Judge Ambro disagreed, however, declaring that negative inference "is inapt for trademark license rejections."[146] He cited the congressional record[147] to find that Congress' intention with regard to trademarks was to wait for more information before explicitly including trademarks in the definition of intellectual property, not a firm omission.[148] He next noted that § 365 fulfills the goal of providing the debtor with a fresh start by "merely free[ing] the estate from the obligation to perform" while simultaneously having "absolutely no effect upon the contract's continued existence."[149] Because the contract was merely breached, not destroyed, by invoking § 365, the non-breaching party retains the rights guaranteed to it by the contract.[150] Judge Ambro ended his opinion arguing that:

> Courts may use § 365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization. They should not—as occurred in this case—use it to let a licensor take back trademark rights it bargained away. This makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve.[151]

While merely dicta, this language would prove influential five years later.

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142 *In re* Exide Techs., 607 F.3d at 963.

143 *Id*. at 963–64.

144 *Id*. at 965 (Ambro, J., concurring).

145 *Id*.

146 *Id*. at 966.

147 "In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts." 1988 U.S.C.C.A.N. 3200, 3204.

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

149 *Id*. (citing Thompkins v. Lil' Joe Records, Inc., 476 F.3d 1294, 1306 (11th Cir. 2007)).

150 *Id*.; see *also* 2 NORTON BANKR. L. and PRAC. § 46:57 (3d ed. 2008).

151 *In re* Exide Techs., 607 F.3d at 967–68 (Ambro, J., concurring).

2. Sunbeam Products v. Chicago American Manufacturing, LLC

Judge Ambro's dissent bloomed from dicta into legal reality when the Seventh Circuit in *Sunbeam Products v. Chicago American Manufacturing, LLC* became the first to explicitly move away from *Lubrizol*.[152] *Sunbeam* arose when the debtor, Lakewood Engineering & Manufacturing Co., sold its trademark and patent rights to Sunbeam Products.[153] At the time of bankruptcy these rights were licensed to Chicago American Manufacturing (hereinafter "CAM").[154] When Sunbeam bought the intellectual property rights, the debtor in possession for the Lakewood estate opted to reject CAM's licensing contract under § 365 of the Bankruptcy Code.[155] Despite the rejection of the contract, CAM continued to produce products branded with the Lakewood trademarks, arguing that its rights to do so were protected under § 365(n). Sunbeam filed an adversary action in response.[156]

While the Seventh Circuit ruled that CAM was justified in continuing to use Lakewood's trademarks, it did not do so by writing trademarks into the definition of intellectual property under the Bankruptcy Code. Instead, the court declared that the omission of trademarks from the intellectual property definition simply meant that "§ 365(n) does not apply to trademarks one way or the other."[157] Rather, the court attacked the *Lubrizol* reading of § 365 as a whole, arguing that the earlier decision failed to accurately define what effect breach has upon a contract.[158] While it is true that the licensee can seek damages, this is simply to excuse the debtor from being forced into an order of specific performance; the non-breaching party retains options and rights under the contract.[159]

To illustrate the extent of the protections to be granted the non-breaching party under § 365, the court analogized the rejection of the trademark license to that of the rejection of a lease, noting that when a bankrupt landlord rejects a lease, the damages that result do not mandate eviction of the lessee.[160] Finally declaring that *Lubrizol* "devoted scant attention to the question whether rejection cancels a contract," the court created "a conflict among the circuits" and ruled

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152 Sunbeam Products, Inc., 686 F.3d at 372.
153 *Id*. at 374.
154 *Id*.
155 *Id*.
156 *Id*. at 374–75.
157 *Id*. at 375.
158 *Id*. at 376–77.
159 *Id*. at 377.
160 *Id*.

that CAM could maintain its trademark rights for the remainder of the contractual period.[161]

3. In re Tempnology, LLC

Recently, a Bankruptcy Appellate Panel ("B.A.P.") in the First Circuit followed *Sunbeam*'s lead and broke with *Lubrizol*.[162] *In re Tempnology, LLC* concerned a dispute between the debtor, a manufacturer of cooling fabrics, and Mission Product Holdings, a sportswear product marketing company.[163] Three years prior to bankruptcy, the debtor had granted an exclusive license to Mission to market and distribute its "Cooling Accessories" line of products within the United States and certain international locations.[164] This license prevented the debtor from selling its products to any sporting goods stores domestically during the length of the contract, which was two years, with options to renew for one-year terms.[165] Though Mission had opted not to renew the contract after two years, it retained rights to the debtor's trademarks until July 1, 2016 due to a contractually mandated "wind-down" period.[166] Upon filing for chapter 11 relief on September 1, 2015, the debtor opted to reject this contract under § 365.[167] Mission objected on the grounds that § 365(n) granted it continued rights to use the debtor's trademarks for the life of the contract.[168] The bankruptcy court ruled against Mission, concluding that the contract in question dealt only with trademark rights, which were omitted under the Code's definition of intellectual property and thus not protected.[169]

On appeal, the B.A.P. agreed that § 365(n) did not apply to trademark licenses, but the B.A.P. held that Mission could continue to use the trademarks nonetheless.[170] The court began its discussion noting that *Lubrizol* was "widely criticized" and that "Congress intended to overrule it" with § 365(n).[171] Having established an air of doubt regarding the *Lubrizol* approach, the court acknowledged that trademarks are not listed as intellectual property within the

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161 Sunbeam Products, Inc., 686 F.3d at 377–78.

162 *In re* Tempnology, LLC, 559 B.R. 809. This decision was appealed and reversed by the First Circuit in Mission Prod. Holdings, Inc. v. Tempnology, LLC, No. 16-9016, 2018 U.S. App. LEXIS 870 (1st Cir. Jan. 12, 2018).

163 *In re* Tempnology, LLC, 559 B.R. at 811.

164 *Id*.

165 *Id*. at 813.

166 *Id*.

167 *Id*.

168 *Id*. at 814.

169 *Id*.

170 *Id*. at 825.

171 *Id*. at 816 (citing 1988 U.S.C.C.A.N. 3200, 3201-02).

Bankruptcy Code, and thus trademark licenses are not protected under § 365(n).[172] The court instead adopted *Sunbeam*'s reasoning that Congress's omission of trademarks under § 365(n) was "just an omission."[173] Furthermore, the court ruled that rejection "did not vaporize Mission's rights" to retain use of the marks.[174]

A three-judge panel of the First Circuit reversed the B.A.P.'s decision with regard to trademark usage rights.[175] In doing so, the First Circuit noted that this was an issue on which other circuits were split.[176] The First Circuit began its analysis of trademark rights post-rejection by noting that within the Bankruptcy Code's definition of intellectual property "Congress expressly listed six kinds of intellectual property," including relatively obscure intellectual properties such as "mask work protected under chapter 9 of title 17," but did not include trademarks.[177] Trademark licenses, the court noted with no small amount of incredulity, are "hardly something one would forget about."[178] Thus, the court reasoned that Congress actively did not want trademark licenses protected under § 365(n).[179] The court then turned its attention to what, if any, protections can be found within § 365 as a whole.[180]

The First Circuit directly responded to the Seventh Circuit's *Sunbeam* decision throughout its decision.[181] It began by noting that Congress left open the question of trademarks in order to "allow the development of equitable treatment of this situation by bankruptcy courts."[182] The court then applauded the Seventh Circuit's restraint in having "resisted the temptation to find in this ambiguous comment outside the statutory text a toehold for unfettered 'equitable' dispensations."[183] Having dismissed the possibility of reading Congress's silence on trademarks as a blank check, the court's focus shifted to

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172 *In re* Tempnology, LLC, 559 B.R. at 820–21.
173 *Id*. at 820.
174 *Id*. at 822.
175 *In re* Tempnology, 879 F.3d 389.
176 *Id*. at 392.
177 *Id*. at 401; *see* 11 U.S.C. § 101(35A).
178 *In re* Tempnology, 879 F.3d at 401.
179 *Id*.
180 *Id*. (The court makes one particularly interesting counter example to another First Circuit case in which it was held that "a counterparty's right to compel the return of its own property survives rejection of a contract under which the debtor has possession of that property.") Though this example is not a direct analogue, it will be worth returning to later in this Comment.
181 *Id*. at 401–05.
182 *Id*. at 401 (citing S. REP. NO. 100-505, at 6).
183 *Id*.

Sunbeam's analysis of the practical effects of rejection under § 365(g).[184] The First Circuit paid especial attention to the lack of "vaporizing" of contractual rights of the non-breaching party described in both *Sunbeam* and the B.A.P.'s *Tempnology* review.[185] Though the court agreed that these rights are not "vaporized," it argued that those rights should be best expressed as monetary damages, not the ability to continue to use the trademarks.[186]

The court noted that Congress's goal in allowing for the rejection of executory contracts "was to 'release the debtor's estate from burdensome obligations that can impede a successful reorganization.'"[187] This is best served through monetary damages.[188] With this freeing of the debtor from contractual obligations in mind, the court argued that *Sunbeam*, as well as Judge Ambro's concurrence in *Exide*, are built "on the unstated premise 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."[189] This premise, however, is impossible due to the nature of trademark licensing law.[190]

The First Circuit next analyzed exactly why allowing trademark licensees to continue using licensed trademarks without any obligation from the licensor debtor flies in the face of trademark license law.[191] In order for a trademark license to be effective, the trademark owner must monitor and exercise control over the quality of the goods sold to the public under cover of the trademark."[192] To do otherwise would open the possibility of the trademark no longer fulfilling its role as a "signal of uniform quality" to the public, and thus open the mark to the threat of abandonment through naked licensing.[193] The approach of the Seventh Circuit would therefore "force Debtor to choose between performing executory obligations arising from the continuance of the license or risking the permanent loss of its trademarks."[194] This essentially turns rejection under § 365 into an ultimatum: take advantage of § 365 and risk losing your trademark, or continue to perform under the contract and essentially act as if no rejection had

184 *In re* Tempnology, 879 F.3d at 402.

185 *Id*. at 402; *see* Sunbeam Products, Inc., 686 F.3d at 377; *In re* Tempnology, LLC, 559 B.R. at 822-23.

186 *In re* Tempnology, 879 F.3d at 402.

187 *Id*. (quoting NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984)).

188 *In re* Tempnology, 879 F.3d at 402.

189 *Id*. (citing Sunbeam Products, Inc., 686 F.3d at 378; *In re* Exide Techs., 607 F.3d at 967 (Ambro, J., concurring)).

190 *In re* Tempnology, 879 F.3d at 402-03.

191 *Id*.

192 *Id*. at 402 (citing 3 MCCARTHY, MCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 18:48 (5th ed. 2017)).

193 *In re* Tempnology, 879 F.3d at 402-03.

194 *Id*. at 403.

ever taken place.[195] Thus, *Sunbeam* entirely ignored the residual enforcement burden it would impose on the debtor just as the Code otherwise allows the debtor to free itself from executory burdens, and therefore stretched the interpretation of § 365 larger than both its text and congressional intent will allow.[196]

The majority, preempting the dissent's biggest concern, argued against reading too deeply into the congressional record cited in *Exide* and *Sunbeam*. The court felt this approach gives too great an emphasis on "a few lines in the Senate Report" over the text of the statute itself.[197] The court argued that in other portions of § 365 exceptions are explicitly written into the statute when "Congress otherwise intended to grant bankruptcy courts the ability to 'equitably' craft exceptions to the Code's rules."[198] To hold otherwise would force courts to make "case specific, equitable" decisions not clearly supported by the text of the Bankruptcy Code.[199]

The court ended its analysis by noting that, even if it were to employ a "case-specific, equitable approach," it would hesitate to do so, as the most likely instance in which courts would rule in favor of allowing a licensee to continue to use a trademark would be one in which the licensing agreement had the least built-in quality controls.[200] In those cases, the debtor-licensor would thus have few, if any, obligations post-rejection and not face an undue burden.[201] This lack of burden, however, would carry with it a drastically increased risk of naked licensing, one made all the more potent by the "adversarial relationship" of the two entities post-bankruptcy litigation.[202] In addition, the process of determining the most equitable solution would "sadl[e] bankruptcy proceedings with the added cost and delay of attempting to draw fact-sensitive and unreliable distinctions between greater and lesser burdens."[203] As such, the majority "favor[s] the categorical approach of leaving trademark licenses unprotected

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195 *In re* Tempnology, 879 F.3d at 403.

196 *Id*. at 404.

197 *Id*. at 403.

198 *Id*.; *see, e.g.,* 11 U.S.C. § 365(d)(5)("unless the court, after notice and a hearing and based on the equities of the case, orders otherwise").

199 *In re* Tempnology, 879 F.3d at 404.

200 *Id*.

201 *Id*.

202 *Id*.

203 *Id*.

from court-approved rejection, unless and until Congress should decide otherwise."[204]

In dissent, Judge Torruella argued that the First Circuit went too far in reading Congress's omission of trademark licenses from § 365(n) to mean that the licenses are unprotected under § 365 as a whole.[205] Instead, he argued that the First, in creating a "bright-line rule that the omission of trademarks . . . leaves a non-rejecting party without any remaining rights to use a debtor's trademark and logo" flies in the face of congressional intent.[206] Citing the piece of the Senate committee report used by *Exide*, *Sunbeam*, and the B.A.P., Judge Torruella argued that the intention of Congress was not to omit trademarks but instead to leave the question of trademark licenses the courts "to allow the development of equitable treatment."[207] Judge Torruella argued in turn that the First Circuit overestimated how much work decisions like *Sunbeam* do.[208] Instead of inventing special rights for licensees, these courts are merely allowing the respective parties' post-rejection rights to be governed by applicable non-bankruptcy law.[209] Finally, Judge Torruella found that the majority's concern over the burden of quality control placed on rejecting licensors, though admirable, could be easily "enforced through further legal action and the equitable remedy of specific performance" in a way that would not put an undue burden on the debtor.[210]

The First Circuit's decision in *Tempnology* marks the first trademark license case on the circuit level since *Sunbeam*, and as such it draws a line in the sand. The approach of the Seventh Circuit will not be slowly adopted by the other circuits over time. Instead, the circuits will remain split until Congress revisits the issue or the courts adopt a third, better approach.

III. ANALYSIS

Neither side of the current split offers a perfect solution to treatment of the rejection of trademark licenses under § 365, and the split itself adds further

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204 *In re* Tempnology, 879 F.3d at 405 (citing James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 BUS. L. 739, 760 (2013)).

205 *In re* Tempnology, 879 F.3d at 405.

206 *Id*. (Torruella, J., dissenting).

207 *Id*. at 406 (quoting S. REP. NO. 100-505, at 5).

208 *In re* Tempnology, 879 F.3d at 406 (Torruella, J., dissenting).

209 *Id*.

210 *Id*. at 407.

uncertainty.[211] Meanwhile, the rigid application of either approach comes with undesired side-effects. Since the *Sunbeam* decision, legal observers have largely fallen into two camps: those holding that *Lubrizol*'s reasoning should control for trademarks,[212] and those following the reasoning of *Sunbeam* allowing the licensee to continue to use trademarks.[213] Both, however, fail to take into account the vast differences possible amongst trademark licensing agreements, and thus fail to allow a court to assess any given license on its own terms. Instead, courts should take a more holistic approach in order to prevent the Bankruptcy Code from taking trademark rights from the entity that contributed most to the trademark's goodwill with the public, whether it be the licensee or licensor.

A. Circuits Following Sunbeam Undervalue the Nature of Trademarks

The circuits which grant licensees continued use of trademark rights following rejection consistently underestimate the unique properties of trademarks, specifically the risk that comes from abandonment of the mark through naked licensing. The Third Circuit dodged applying § 365 in *Exide* by ruling that the contract in question was not executory, because the money paid by the licensee was enough to outweigh the licensee's continuing obligation to maintain quality controls.[214] This unfairly trivializes the importance of maintaining quality control over a mark to prevent naked licensing and raises numerous needless questions and confusions as to the nature of licensing contracts.[215] Because failing to maintain quality over goods produced under a licensed trademark has the potential to render the trademark valueless, the burden to maintain quality should always be weighty enough to be deemed a performance due by the licensee during the life of the contract.

Even when the courts acknowledge the executory nature of trademark licenses, they have failed to take into account the risks inherent in allowing licensees to continue to use the marks following rejection: the threat of naked licensing. The analogy to leasehold interests used in *Sunbeam* to reject *Lubrizol* is indicative of this failure.[216] If a landlord rejects a lease under § 365, the tenant

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[211] Crystal Lawson, JD Candidate, *Whether Rejection of a Trademark License Agreement Terminates the Licensee's Rights to Use the Trademark*, 7 St. John's Bankr. Research Libr. No. 13 (2015).

[212] Benjamin H. Roth, Comment, *Retaining the Hope That Rejection Promises: Why Sunbeam Is A Light That Should Not Be Followed*, 30 EMORY BANKR. DEV. J. 529, 580 (2014).

[213] Ryan Gabay, *Sunbeam: A Ray of Hope for Trademark Licensees*, 82 FORDHAM L. REV. 245, 259 (2013-14).

[214] *In re* Exide Techs., 607 F.3d at 964.

[215] Wilton & Devore, *supra* note 11, at 760; *see also* Eva's Bridal, Ltd., 639 F.3d at 789.

[216] Sunbeam Products, Inc., 686 F.3d at 377.

has the option to remain. This simply prolongs the time before the landlord can re-lease the property, with the risks of losing the opportunity for the most lucrative new lease and potential depreciation of the property's value.[217] If a trademark owner is unable to provide adequate control over the licensed mark, the risk is the complete loss of the mark for all parties involved. Judge Easterbrook, who authored both the *Sunbeam* and *Eva's Bridal* decisions one year apart, should have been especially aware of this risk.[218]

Even if protection of the trademark could be assured, the fact remains that not every licensee deserves the same usage rights. In *Exide*, the license in question had been going on for over twelve years.[219] In *Sunbeam*, the license had only existed for less than half a year.[220] The levels buy-in between these two cases are drastically different. To treat them the same would not be equitable.

There are, of course, benefits to circuits following in the footsteps of the *Sunbeam* precedent. Trademark owners in financial risk, but not yet in need of seeking bankruptcy relief, are more likely to profitably find partners willing to license their trademarks despite the cloud of financial trouble. More significantly, in instances in which a licensee has contributed significantly to the goodwill and trust in the mark in the minds of the public, that trust is not put into jeopardy by bankruptcy suddenly stripping the license.

However, these benefits pale in comparison to the greater threat of the license falling into naked licensing territory, risking the abandonment of the mark and thus the complete loss of the property value to all involved. This risk of lost value spills out to not just the licensor and licensee, but also the entire creditor pool. This greater threat requires greater protection. More importantly, the instances in which a licensee has contributed significantly to the goodwill of the trademark, in comparison to the licensor, are likely very few. To grant a licensee of six months the same protection as a licensee of twelve years serves neither the goals of bankruptcy nor the aims of trademark protections.

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[217] Benjamin H. Roth, Comment, *Retaining the Hope That Rejection Promises: Why Sunbeam Is A Light That Should Not Be Followed*, 30 EMORY BANKR. DEV. J. 529, 570 (2014).

[218] *See* Sunbeam Products, Inc., 686 F.3d at 377; Eva's Bridal, Ltd., 639 F.3d at 789.

[219] *In re* Exide Techs., 607 F.3d at 960–61.

[220] Sunbeam Products, Inc., 686 F.3d at 374.

B. Circuits Which Do Not Allow Licensees to Retain Use Better Respect Trademarks but Are Too Rigid

The courts which do not follow *Sunbeam* take Congress' decision not to include trademarks within the Bankruptcy Code's definition of intellectual property as reason not to grant usage to licensees post-rejection. This approach better protects trademarks in the vast majority of cases. However, this approach is also too broad and likely comes less from deference to Congress and more from an unwillingness to decide on the merits of a case. It also poses economic risks of its own.

Of the two approaches taken by the courts, this is the approach least likely to risk the trademarks in question.[221] Because licenses rejected under this approach can no longer be used by the licensee, there is no risk of uncontrolled use. This means there is no risk of naked licensing, obviating the biggest threat to the trademark itself.

This strict reading is not without tradeoffs of its own. Jurisdictions which hold that trademark usage by the licensee must end following rejection risk a chilling effect on the ability of financially unstable businesses to license trademarks. It is not inconceivable that a cash-poor business with strong trademarks could be able to license out those marks to other entities which have the resources necessary to produce or products the mark owner simply could not afford to, providing the revenue necessary to keep the business afloat. If, however, the would-be licensee knows that at any moment the mark owner could declare bankruptcy and revoke the trademark license, then the ability of the trademark licensor to successfully license its mark in a way to stave off bankruptcy is drastically reduced.

Once a trademark licensor in such a jurisdiction enters bankruptcy, however, the greater control exercised by trademark holders could better allow for financial return on the mark as contemplated by § 365. If a debtor can regain its trademark rights, the debtor is in turn able to either use the marks for its own economic purposes or sell them off at a higher rate of return than would be possible if the current license were allowed to stand.

In some instances, however, the licensee has contributed to the value of the trademark so significantly that the public views it, as much or more than the licensor, as the provider of the goods in question. In these cases, such a strict reading does not serve justice. For the licensee, a significant component of its

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[221] Wilton & Devore, *supra* note 11, at 760.

business is stripped away for a sum of money that cannot truly compensate for that loss. For the fellow creditors, the value of the breached contract will likely be so much as to overwhelm many smaller debts. And most importantly, for the public at large, the goods the trademark had come to represent will no longer mean what it once did.

Meanwhile, this reading of the statute as exclusively negating the ability of a trademark licensee to continue use of marks, regardless of circumstances, is too strong for mere negative inference to bear. While the canon of negative inference is well established within statutory interpretation,[222] in this instance Congress's intent is hardly murky. It could be argued that perhaps the act of inferring congressional intent over the plain language of the statute is beyond the scope of a judge's purview.

C. *The Glaring Issue*

Because Congress's silence on the matter is likely to continue into the indefinite future,[223] the circuit split necessarily creates uncertainty within all trademark licensing agreements. Meanwhile, problems inevitably arise with both approaches.

Two truths exist simultaneously at the heart of this circuit split. First, decisions such as *Sunbeam* failed to go far enough to protect the marks in dispute from risks such as naked licensing while potentially hampering the ability of trademark owners to properly restructure. Second, some instances exist in which the rigidity of the *Lubrizol* approach for trademarks would be inequitable. No two trademark licenses are created equal. Treating a thirty-year exclusive license of a brand built in part from the sweat of the licensee the same as a one-year, non-exclusive license that has yet to use the brand in commerce is not equitable. As such, courts faced with trademark rejection under § 365 should weigh a series of factors to determine the most equitable result for the licensor and licensee, as well as the creditors of the estate. These factors should be designed to protect the mark itself, which in turn protects value in the estate and consumers at large.

The facts of *Exide* provide an excellent illustration of this problem. Consider the following counterfactual: all of the facts of *Exide*, with the sole exception that instead of having paid for its license in one initial lump sum, EnerSys's agreement with Exide had been a perpetual, exclusive license that EnerSys paid

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222 *See* BLACK'S LAW DICTIONARY (10th ed. 2014) ("*expressio unius est exclusio alterius*").

223 *See* Sunbeam Products, Inc., 686 F.3d at 375 ("The subject seems to have fallen off the legislative agenda").

for with annual lease payments.[224] This structure of contract would almost certainly have to be seen as executory[225] and thus require a § 365 analysis.

EnerSys held the license to produce batteries under the Exide name for twelve years before Exide's bankruptcy.[226] During this time, each Exide battery the consuming public bought developed a relationship not only with EnerSys-produced batteries but also with the Exide brand as a whole. Thus, a symbiotic relationship formed. EnerSys produced batteries of a consistent quality under an established name. Exide received both regular payments for that right and the added value and goodwill to their brand in the eyes of the public that EnerSys contributed. Most importantly, the public came to expect a consistent standard of quality that came from EnerSys's Exide batteries.

For a court to allow the Bankruptcy Code to sever this relationship would be injustice, not only to EnerSys, but to the public at large who have come to view EnerSys as the source of Exide batteries. On the other hand, to grant the same opportunity to continue to use trademarks under license to an entity that has held a non-exclusive license for only a year would be similarly unjust to the trademark owner, both because of the lack of built goodwill and the risk of naked licensing.

D. Balancing of Interests

The overriding maxim that courts should use to square this circle when determining trademark decisions under § 365 is that protection of the mark itself is of paramount importance. To hold otherwise risks destroying a significant asset which could be used by the debtor to regain a fresh financial footing and to pay off would be creditors. Meanwhile, the courts should attempt to apply the consumer protections of trademark law whenever possible to best protect society as a whole.

By allowing rejection of an executory contract, courts have already admitted that the debtor has acted in good faith.[227] Courts should not ignore, however, that a licensee's use of the mark following rejection has to potential to help the debtor in the long run. The continued availability of trademarked goods or services despite the debtor's financial troubles through the licensee could have

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[224] *See In re* Exide Techs., 607 F.3d at 960–61.

[225] Even the Third Circuit would have likely seen the contract to be executory. *See In re* Exide Techs., 607 F.3d at 964.

[226] *In re* Exide Techs., 607 F.3d at 960–61.

[227] *See In re* Chipwich, Inc., 54 B.R. at 430-31; *see also* NLRB v. Bildisco & Bildisco, 465 U.S. at 523.

a positive effect on the longevity of the mark, providing a foundation of goodwill the debtor could draw from post-bankruptcy. The possibility also exists that the licensee's use of the mark could contribute to the overall health of the brand in other ways: for instance, keeping the mark in commerce during the tumultuous bankruptcy process, thus preventing the mark from entering abandonment.[228]

That being said, if the courts grant the licensee the ability to continue to use the mark in question, there must be some mechanism in place to prevent the trademark use to devolve into naked licensing. One could argue that the licensee's interest in using the trademark is sufficient to trust it to maintain the mark; however, this likely takes too charitable a view of human interactions. Having gone through the rejection of a licensing contract and the resulting court actions, very little imagination is required to foresee vindictive licensees saving money on quality control to maximize profits for as long as the now-rejected trademark rights allow. Thus, courts will need use their equitable powers to mandate maintenance of quality of products produced under the mark in order to prevent the loss of the mark through abandonment.

Keeping in mind that the proceedings in question are bankruptcy proceedings, courts should first and foremost consider the value adjustment the results of their decisions will have on the estate in bankruptcy. Because rejection of a contract under § 365 is subject to a business judgment standard,[229] if courts rule that rejection is allowed, the licensor should have a prima facie assumption of regaining its rights. A licensee's continued use of a trademark following rejection could have a series of adverse effects on the value of the estate. The debtor might be less able to restructure its business post-bankruptcy. Should the debtor choose to sell its trademark rights entirely, whether through liquidation or as part of restructuring, the selling price might be substantially less if the new buyer cannot be guaranteed exclusive rights to the mark. This has the potential to lower the amount available to repay creditors.

On the other hand, the larger the licensing contract, the larger the cost breaching will add to the unsecure creditor pool. Moreover, even if retention of the trademark through rejection adds a significant value to the estate, other factors might be sufficient to outweigh this value and demand that the licensee retain use of the license.

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[228] *See* 15 U.S.C. § 1127 (2012); GILSON, *supra* note 72.

[229] *See In re* Chipwich, Inc., 54 B.R. at 430-31; *see also* NLRB v. Bildisco & Bildisco, 465 U.S. at 523.

E. Proposed Solutions

Any equitable solution must rectify the problems created by each side of the circuit split: the lack of protection for trademark assets created by *Sunbeam*, and the overly strict bright-line of the majority of circuits.

Congress's potential answer is the Innovation Act.[230] The act seeks to remedy this situation by explicitly adding trademarks to the § 101(35A) definition, while also creating a statutory requirement that if a licensee elects to retain the trademark rights following rejection, the licensee must both maintain the quality of services offered under the mark and enforce quality control for those products.[231] This solves the confusion as to definition currently dividing the circuits, as well as the open risk of naked licensing-caused trademark abandonment under the *Sunbeam* precedent. However, there is also the risk that a one-size-fits-all approach to an issue as uniquely complex as trademark licensing might cause more ill than good.

Most notably, this approach by Congress would essentially set into stone the *Sunbeam* approach, while taking steps to remove the risk of naked licensing. This fails to take the goals of bankruptcy and trademark law, and the basic justice they represent, into full account. An ideal law would allow the debtor the best possible chance to restructure in such a way as to become economically viable and productive once again. If the debtor is unable to regain full control over an exclusive license, for instance, then significant potential areas of restructuring are off the table from the start. If the license in question had only been in place a short period of time, before the licensee could establish itself as the provider of the licensed products in the minds of the public, then trademark law would offer no policy justification for allowing this level of hindrance to the debtor's restructuring.

This is likely a moot concern from a practical standpoint. Due to a host of changes the act also makes to patent law, the act is currently bogged down in legislative limbo, unlikely to emerge any time soon.[232] If the current state of affairs is to change, it will likely have to do so in the courts.

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230 Innovation Act, H.R. 9, 114th Cong., § 6(e) (2015); PATENT Act, S. 1135, 114th Cong. 11(b) (2015).

231 Innovation Act, H.R. 9, 114th Cong., § 6(e) (2015).

232 Mario Trujllio, *Patent Reform Defectors Emerge in the House*, THE HILL, (July 26, 2015, 9:30 AM), http://thehill.com/policy/technology/249169-patent-reform-defectors-emerge-in-house (last visited Oct. 29, 2017).

F. The Factor Test

In order to serve the goal of protecting a licensed trademark, courts should seek to determine which entity has to this point developed the goodwill relationship with the public upon which the trademark is built, while simultaneously protecting the mark from the existential threat of naked licensing. The two factors which best represent this building of a relationship are time and exclusivity. A licensee cannot build goodwill with consumers without having served them for some length of time. Meanwhile, a licensee who is the exclusive purveyor of goods under a name to the public is more likely to have developed a relationship worth protecting.

These two factors are of value because they cut both ways, depending upon the facts of an individual case. While the length and exclusivity of a licensing agreement can be obstacles to the estate's retaining value and the possibility of a fresh start, they can also speak to a certain level of buy-in by a licensee. Notably, a licensee's commercial use can help to increase the value of a brand.[233] In instances in which the licensee, perhaps under a long-term exclusive license, used the licensor's trademark in commerce in such a way as to significantly contribute to the public's goodwill toward the brand, that licensee's rights of use should be weighed accordingly.

This is not to say that these factors will favor licensors and licensees each roughly half the time. The facts of most cases will likely come down in favor of licensors. This is appropriate, as in the vast majority of cases, a licensor bears vastly more responsibility for the goodwill of the public than any individual licensee. However, this factor test is useful precisely because of the few cases in which it will rescue those licensees that have built significant equity in a brand from the starkness of a bright-line rule. It would be inequitable to deprive a licensee of use of a mark when the licensee bears responsibility for the marks growth and value. These factors provide a solution not only for the good of individuals on either side of a licensing agreement, but for the public at large, which has built a relationship with the brands in question.

1. How Long was the Licensing Agreement in Place before Bankruptcy?

In order to ensure that the entity which most contributed to the goodwill of the trademark retains use of the mark, a court should first assess how long the licensee used the mark pre-bankruptcy. Trademarks are, at their core, reflections

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[233] *See* 2 GILSON ON TRADEMARKS § 6.01 (2017).

of a relationship between a commercial entity and its consumers. This is why use in commerce is an essential component of any form of trademark protection.[234] A licensee could not have built a meaningful connection to and relationship with consumers without some significant period of pre-petition use.

How long, then, must a licensee have used a trademark in order to have contributed to the mark in a significant way? Unfortunately, there is no bright-line rule that could or should be drawn to show when a product has been in the market long enough to develop a relationship. One potential guideline may be the Lanham Act, which offers time frames for both incontestability and abandonment of marks.[235] Practically speaking, however, courts should assess factual indicators of the licensee's relationship with consumers. Items such as number of years producing the product, percentage of the trademark's market share created by the licensee, and consumer survey data should all be taken into account in order to determine whether the license has been in place long enough to have the necessary effect.

A licensee needs time in order to develop a significant measure of goodwill with the general public. Without that time, and the subsequent goodwill and association, a licensee should not be allowed to maintain use of a mark. Time alone, however, merely provides the opportunity for this goodwill and must be viewed in conjunction with the next factor.

2. *Is the License Exclusive?*

Courts should next consider whether and to what extent the license is exclusive. The exclusivity of a license is important for two reasons: it offers insight into the potential for the relationship a licensee has built with its consumers, as well as for threatening the debtor-licensor's ability to gain a fresh start.

If a license is exclusive, whether in terms of product line or geography, the licensee is drastically more able to develop a source-provider relationship with the public. If a licensee is the sole provider of a specific type good or service, even if another entity provides different goods or services under the same mark, then for that specific good or service consumers are likely to consider the licensee the source. This is equally true if the licensee is the sole user of a mark

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[234] *See* 15 U.S.C. § 1127 (2012).

[235] A mark becomes incontestable after being in use in commerce and having spent five years on the Federal Trademark Register. 15 U.S.C. § 1065 (2012). Non-use of a mark in commerce for three consecutive years is prima facie evidence of abandonment. 15 U.S.C. § 1127 (2012).

within a given region. On the other hand, if a license is non-exclusive, then the licensee is almost certainly not going to be seen as a source provider by the public.

A non-exclusive license holds much less risk of diminished value to the estate. On the other hand, an exclusive license could lead to instances in which the licensor, in its attempt to reorganize post-bankruptcy, might be prevented from using its own name in the region or area of commerce in which it seeks to operate.[236] This set of circumstances should be avoided generally. However, in instances where some measure of exclusivity has led to the licensee's contributing a significant amount of goodwill to a brand, courts should rule this factor in favor of the licensee.

Thus, exclusivity is a near requisite for a court to rule that a licensee should be allowed to maintain use of a mark following rejection. This requisite is not sufficient, however; the significant period of pre-petition use of the mark of the previous factor must be co-requisite.

3. *What is the Risk of Naked Licensing?*

Given the risk of abandonment posed by naked licensing, courts should always take its potential into account when determining who may or may not use the marks. After all, if a trademark is abandoned, there is nothing left to protect. When assessing this point, a court might take into account the amount of buy-in from the licensee. A licensee that has built much of its own business around the strength of a mark is unlikely to risk the destruction of the mark in order to cut cost or quality. On the other hand, a non-exclusive licensee with little investment in the name might be more than willing to save money on quality control in order to recoup the costs of an expensive bankruptcy litigation, leaving the mark significantly more at risk.

The liquidity and financial health of the licensee should also be considered. A licensee with clean bill of financial health is much less likely to cut corners with quality than one on the brink of bankruptcy itself. Given that rejection under § 365 and subsequent litigation will likely leave the licensee with no goodwill between itself and the debtor, an additional financial incentive to produce goods or services of inconsistent quality should not be allowed.

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[236] *See In re* HQ Global Holdings, Inc., 290 B.R. at 509.

G. The Factor Test in Practice

These three factors ideally serve to protect the value of a trademark. The length of use of a trademark and the exclusivity of that use combine to provide a strong estimation of how likely the general public is to view an entity as the source of goods denoted by that trademark. Meanwhile, assessing for the potential of naked licensing mitigates the risk posed by the court's decision. These factors, however, must be tested with fact patterns in order to demonstrate that they are capable of achieving just results. In this section, I will run the factors through three fact patterns: first a hypothetical bankruptcy of McDonald's, then the facts of *Tempnology*, and finally a modified version of the facts of *Exide*. Having done so, the flexibility and efficacy of the test will be more apparent.

1. Hypothetical McDonald's Bankruptcy

With the factor test in mind, I return to the question posed at the beginning of this Comment: what is the most equitable solution should a corporation like McDonald's go bankrupt? Given the strength of the corporation's brand,[237] this sort of hypothetical is important, as no factor test would be of any value if it had the potential to drastically disrupt a cornerstone of the worldwide economy. For the purposes of this hypothetical, I will assume that the court is dealing with the rejection of the executory contract which allows an individual franchisee to use McDonald's trademarks.

First, the court would look to how long the individual franchise had been in existence. The oldest McDonald's franchise still in existence opened in 1953.[238] This means that, for a few franchises anyhow, multiple generations of consumers have come to develop a relationship with that individual store. A franchisee has an indefinite length of contract, allowing it to continue to use the trademark rights so long as the provisions of the contract are met, giving the option of this relationship to continue long into the future.[239] Some franchises thus have a

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237 McDonald's brand is currently valued at $97.72 billion. Millward Brown, *10 most valuable North American brands in 2017 (in billion U.S. dollars)*, STATISTA, https://www.statista.com/statistics/259061/10-most-valuable-north-american-brands/ (last visited Nov. 14, 2017).

238 Adam Chandler, *The Owner of the Oldest McDonald's on the Minimum Wage*, THE ATLANTIC, https://www.theatlantic.com/national/archive/2014/09/heres-what-the-owner-of-the-oldest-operating-mcdonalds-has-to-say-about-minimum-wage/379624/ (last visited Jan. 28, 2018).

239 *McDonald's*, ENTREPRENEUR.COM, (Aug. 27, 2017), https://www.entrepreneur.com/franchises/mcdonalds/282570# (last visited Nov. 14, 2017); *Acquiring a Franchise*, MCDONALDS.COM, http://corporate.mcdonalds.com/mcd/franchising/us_franchising/acquiring_a_franchise.html.html (last visited Nov. 14, 2017).

legitimate argument as to having contributed to the brand for a significant period of time.

Time alone is not enough to have contributed to a brand. In order for a franchisee to have developed enough of a relationship with the consuming public for a consumer to reasonably expect the wares to come from that particular franchisee, exclusivity must come into play. An individual franchise by its nature is not exclusive. There are over 14,000 McDonald's franchises in the United States alone.[240] The average franchisee owns six franchises, often in the same geographic region.[241] It is simply not feasible to assume that any consumer, even in a region dominated by one franchisee, buys a Big Mac and assumes that Big Mac came from the franchisee specifically, not McDonald's at large. This lack of exclusivity makes it unlikely any individual franchisee could develop a source-provider relationship with its consumers.

If a significant number of now-former franchisees are allowed to use McDonald's trademarks following rejection, stores across the country would operate under the McDonald's name without the draconian hand of the McDonald's corporation mandating quality and consistency. Given that so much of McDonald's value comes from the ability of consumers from across the country to know that the food will be essentially the same at any store they visit, this possibility is ruinous and unacceptable to McDonald's.

Franchises are a symbiotic relationship. A franchisee's successful execution of the franchise builds goodwill for the entire brand in the mind of its customers. At the same time, the franchisee chooses to enter into the franchising agreement in order to trade upon the goodwill which already exists for the brand in the mind of consumers. In the case of McDonald's, the time has passed when any given franchisee could lay claim to having built a significant portion of the McDonald's trademark's goodwill.

Thus, McDonald's would be allowed to reject its franchising agreements under § 365 in order to undergo a potentially drastic reduction of its stores in order to rehabilitate its brand. This is the proper result from a public policy perspective. As unfortunate as losing a business is for an individual franchisee, the relative good McDonald's has brought to the country and world as a whole

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[240] *Number of McDonald's restaurants in North America*, STATISTA, https://www.statista.com/statistics/256040/mcdonalds-restaurants-in-north-america/ (last visited Jan. 28, 2018).

[241] Bryan Gruley & Leslie Patton, *McRevolt: The Frustrating Life of the McDonald's Franchisee*, BLOOMBERG (Sep. 16, 2015) https://www.bloomberg.com/features/2015-mcdonalds-franchises/ (last visited Jan. 28, 2018).

is orders of magnitudes greater. As such, the ideal legal result should err on the side of McDonald's eventual rehabilitation.

2. In re Tempnology*, Revisited*

Having seen the factor test applied to the hypothetical bankruptcy of a fast food giant, I will now apply it to an actual case: *Tempnology*. When applied, the factors will produce the same just result as the First Circuit without drawing the needlessly strict bright-line.

First, the court would assess how long the licensee operated under the trademark license before its termination. Mission Products held a license to the trademarks in question for slightly under three years before the bankruptcy proceedings.[242] This is a relatively short period of time, especially when one factors in the ramp-up period it took before Mission could put the trademarks into use. As such, it is unlikely that many, if any, consumers had the opportunity to come to know Mission as the source of the products in question.

This likelihood is lessened further when factoring in the license's non-exclusivity.[243] This means that consumers neither in a given region nor of a specific product line came to view Mission as the sole source of the products in question. There is no reason to believe that Mission developed a source-provider relationship with the public worth protecting.

Finally, the potential risk of abandonment through naked licensing is far too great to allow Mission to continue to use the marks, while the benefit to the public of allowing Mission to use the marks is negligible if it exists at all. As such, monetary damages for breach are more than sufficient remedies for Mission under § 365.

3. The Exide Counterfactual

Finally, I return to the counterfactual version of *Exide* mentioned earlier in the Comment, in which the facts of the case are the same with the exception of a payment structure that makes the contract inarguably executory. Here, the factors will produce an equitable result that favors the licensee.

The court would first assess how long EnerSys licensed the Exide name to produce batteries: twelve years.[244] Twelve years is a significant period of time,

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242 *In re* Tempnology, LLC, 559 B.R. at 811.
243 *Id.*
244 *In re* Exide Techs., 607 F.3d at 960–61.

especially in a technology sector. That was over a decade of time in which Exide-branded batteries meant batteries produced by EnerSys. Given that the Lanham Act requires only three years of non-use for a mark to be presumed abandoned, this is likely enough time to form a goodwill relationship with the public.[245]

While there is enough time involved, time alone is not enough for a licensee to establish a claim to the goodwill of a brand sufficient to warrant the courts' allowing trademark use to continue post-petition. To establish this, the court should next look to exclusivity. EnerSys operated as the exclusive producer of Exide-branded batteries over the twelve years of its license.[246] For over a decade, any battery bought by the public with Exide on the label was produced by EnerSys. Meanwhile, Exide itself produced no batteries during this time period.[247] Thus, for the period in question, EnerSys practically speaking *was* Exide for batteries.

This is an incredibly compelling argument for allowing EnerSys to continue using the Exide trademark. However, the court must assess the risk of naked licensing before allowing EnerSys to continue to use the name. After all, should Exide be found to have nakedly licensed its name, then the brand risks losing its protectable mark for all who use it.[248] The licensing agreement Exide signed with EnerSys had clear quality control standards.[249] The combination of the contractual obligation to maintain a standard and the buy-in EnerSys showed over the twelve years of exclusive production are likely enough to make any risk of naked licensing minimal.

Thus, the most just course of action for both EnerSys and the consuming public which has come to associate EnerSys-produced batteries with the Exide name is to allow EnerSys to continue to use the trademarks under the license.

CONCLUSION

Trademark law exists to protect the relationship between the source of a product or service and its consumers. Happily, the Bankruptcy Code can be used by courts to serve this purpose as well, while also protecting the value of the estate. Unfortunately, both sides of the current circuit split are not using the full power they wield as courts of equity to achieve these goals.

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245 *See* 15 U.S.C. § 1127 (2012) (This is presumably evidence of Congress's perspective on how fast perspective changes in our economic lives).

246 *In re* Exide Techs., 607 F.3d at 960–61.

247 *Id.*

248 *See* Eva's Bridal, Ltd., 639 F.3d 788.

249 *In re* Exide Techs., 607 F.3d at 963.

The factor test outlined in this Comment offers one possible way bankruptcy courts could change that. Decisions like *Sunbeam* leave trademarks at risk of naked licensing, and they overvalue the status of short-term licensees. While the bright-line rule of decisions like *Tempnology* rightfully weigh the importance of protecting trademarks and thus consumers, they run the risk of injuring those customers through a lack of flexibility. In instances like counter-*Exide*, courts following that precedent would be violating the principle of consumer protection, as there is a real likelihood that the name "Exide" will no longer mean in fact what it does in the minds of the paying customer. Thus, in order to maintain the consumer protections inherent in trademark law, some level of trademark producer continuity is necessary. This is best achieved through a more fact specific and less bright-line approach such as the factor test outlined above.

From *Exide* to *Sunbeam* to *Tempnology*, the past decade alone has seen a dramatic increase in the number of circuit court cases dealing with trademark licensing agreements in bankruptcy. This trend is unlikely to change until Congress or the Supreme Court weighs in on the matter.[250] When a solution finally comes, let us hope that it weighs the aspects of consumer protection inherent in trademark law in determining the most equitable result of the bankruptcy proceedings.

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[250] As of the writing of this Comment, the First Circuit's decision in Tempnology has been granted a writ of certiorari from the Supreme Court. Mission Prod. Holdings, Inc. v. Tempnology, LLC, No. 16-9016, 2018 U.S. App. LEXIS 870 (1st Cir. 2018), *petition for cert. granted* (Oct. 26, 2018) (No.17-1657).

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