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Trademarks & Section 365(n): The Haziness Continues

By Ron E. Meisler, Jose A. Esteves, Carl T. Tullson, Cameron M. Fee & Steven L. Walsh[*]

Introduction

The Bankruptcy Code permits debtors, upon articulating a sound business purpose, to "assume" or "reject" executory contracts in bankruptcy.[1] The consequences of a debtor's court-authorized rejection (i.e., breach) of a contract have been the subject of numerous judicial decisions and legislative enactments over the years. In 1985, the Fourth Circuit held that the rejection of an intellectual property licensing agreement under section 365 eliminated the non-debtor licensee's rights in the licensed intellectual property.[2] In response, Congress enacted section 365(n), which affords licensees of "intellectual property" certain protections upon rejection of a licensing agreement by a debtor-licensor.[3] Notably, the Bankruptcy Code does not include trademarks in its definition of intellectual property.[4] As discussed in a previous article by certain of these authors nearly eight years ago, courts have disagreed as to whether section 365(n) protects trademark-licensees and whether, even if section 365(n) did not apply, rejection precludes a licensee from retaining fairly procured trademark rights following rejection.[5]

This article discusses recent developments under section 365(n) that both trademark licensees and licensors should be aware of when defending their respective positions. First, the article discusses the split on whether trademarks fall within the purview of section 365(n) or whether licensees are otherwise protected following rejection of a trademark licensing agreement. Recently, a deep circuit split has developed with respect to the rights of trademark licensees following rejection, with the First Circuit's holding earlier this year in *In re Tempnology, LLC*, where it adopted the reasoning of the Fourth Circuit's *Lubrizol* decision and embraced a "categorical" approach that left trademark licensees unprotected from court-approved rejection of a trademark license, which disagreed with the Seventh Circuit's holding in the 2012 *Sunbeam* decision that rejection did not operate to strip the licensee of its rights.[6] Next, the authors explore whether an asset sale under section 363(f) can operate to extinguish a licensee's rights notwithstanding

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the protections of section 365(n). Finally, the article explores whether foreign intellectual property falls within the protections of section 365(n).

I. Trademarks Under Section 365(n)

Following the *Lubrizol* decision, Congress passed section 365(n) which protects licensees of "intellectual property." As used in section 365(n), "intellectual property" means: (a) trade secrets; (b) inventions, processes, designs or plants protected under title 35 (the United States Patent Act); (c) patent applications; (d) plant varieties; (e) works of authorship under title 17 (the United States Copyright Act); and (f) mask works under title 17.[7] Notably absent from the list are trademarks.[8] The significance of Congress's exclusion of trademarks from the ambit of section 365(n) has divided courts and commentators.[9] The legislative history supports the position that the omission was intentional:

> 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 to allow the development of equitable treatment of this situation by bankruptcy courts.[10]

At the same time, the legislative history made clear that section 365(n) was intended to "correct[] the perception of some courts that Section 365 was ever intended to be a mechanism for stripping innocent licensee[s] of rights central to the operations of their ongoing business."[11] What has followed is a substantial difference of opinion regarding whether or not trademark licensees enjoy section-365(n)-like protections following rejection by a debtor licensor. Underlying this dispute is an interesting threshold question: was *Lubrizol* correctly decided?

A. Trademark Licensees Retain Their Rights

Judge Ambro's concurring opinion in *In re Exide Technologies* takes the view that *Lubrizol* was not correctly decided.[12] The majority in *Exide* did not reach the issue, because it determined that the particular agreement was not executory, and thus could not be rejected by the debtor.[13] Judge Ambro agreed with this conclusion, but wrote separately to address the bankruptcy court's conclusion that rejection of the licensing agreement precluded the licensee from continuing to use its trademark rights.[14] He explained that Congress's enactment of section 365(n) and related failure to include trademarks in the statutory definition of intellectual property should not be interpreted as evincing an intent that *Lubrizol* should control the rejection of trademark licenses.[15] Instead, the legislative history indicates that the omission was intended to allow time to explore the ramifications of affording trademarks the protection of section 365(n), and provide judges with the authority to apply the statute on an equitable basis in the interim.[16] Judge Ambro articulated that rejection under section 365 was merely intended to free the debtor of its obligations under the contract, and not to extinguish the rights of the counterparty that would remain intact upon breach under nonbankruptcy law.[17] Under this view, it was within the bankruptcy court's equitable powers to prevent the debtor from denying the licensee his bargained-for rights in the trademarks.[18]

Two years later, in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, the Seventh Circuit agreed that a licensee's rights survived rejection under section 365.[19] The bankruptcy court permitted the licensee to continue utilizing a series of patents it had licensed from the debtor, finding these rights clearly protected by section 365(n).[20] Without addressing whether the statute encompassed trademarks, the bankruptcy court agreed with Judge Ambro, and held that the licensee could continue using trademarks covered by the same license on equitable grounds.[21] On appeal, Chief Judge Easterbrook began by summarily rejecting the conclusion of other courts that *Lubrizol* applied to trademarks since they were intentionally omitted from the statute, reasoning that "an omission is just an omission."[22] Rather, as Judge Ambro noted, the legislative history indicated that the omission was intentionally designed to afford Congress additional time to study the issue.[23] However, the court disagreed that preserving a licensee's bargained-for rights following rejection needs to be rooted in equitable principles, as suggested by Judge Ambro's concurrence in *Exide* and by the *Sunbeam* bankruptcy court.[24] Instead, the *Sunbeam* court concluded that section 365(g) was dispositive.[25] Because section 365(g) provides that rejection results in a breach of the agreement, and nonbankruptcy law does not extinguish a counterparty's contractual rights upon breach, the debtor could not extinguish the non-debtor's rights through breach, even if that breach was approved by the bankruptcy court.[26] Although the non-debtor's recourse for a debtor's breach of its obligations is reduced to a claim for damages, rejection does not automatically "vaporize[]" the counterparty's rights.[27] This is particularly evident because the Bankruptcy Code elsewhere provides mechanisms for completely eliminating rights under other types of contracts where that is the intent of the statute.[28]

Following *Sunbeam*, the Bankruptcy Court for the District of New Jersey agreed with Judge Ambro's concurrence in *Exide*, and concluded that it was within the bankruptcy judge's equitable powers to permit a licensee's trademark rights to survive rejection.[29] The court reasoned that "it would be inequitable to strip the [licensees] of their rights in the event of a rejection, as those rights [have] been bargained away by [the debtors]."[30] Additionally, the argument that allowing the licensee to continue using the license would impose an ongoing burden on the debtor to continue monitoring the marked goods was, in the court's mind, overblown.[31] The potential for a licensee to be sued for infringement or unfair competition if it failed to meet the quality standards set forth by the debtor-licensor was a sufficient incentive for the licensee to unilaterally maintain quality control.[32] Finally, the court noted potential congressional support for its decision, citing the Innovation Act which, at the time, had been recently passed by the House of Representatives.[33]

B. The Alternate View of Rejection

Recently, the First Circuit split with the Seventh Circuit's interpretation of sections 365(n) and 365(g), adopting a contrary interpretation of the consequences of rejection that instead focused on the practical effect of permitting a licensee to retain its rights in a trademark.[34] In *In re Tempnology, LLC*, a panel of the First Circuit agreed with the Seventh Circuit that "equitable" considerations should not govern the application of section 365(n) to trademark licenses.[35] The First Circuit reasoned, however, that the unique characteristics of trademarks made them a "poor candidate" for allowing them to evade rejection under section 365.[36] The primary goal of section 365 is to free the debtor from burdensome obligations, and the court therefor disagreed with *Sunbeam* that this objective could be accomplished while simultaneously allowing the licensee to retain its trademark license rights.[37] Allowing the licensee to continue using the mark imposed upon the debtor, according to the First Circuit, the burden of continuing to monitor and exercise quality control over goods that are placed into the market under the mark.[38] Failure of the licensor to adequately do so could result in the mark's invalidation.[39] Thus, the approach espoused by *Exide* and *Sunbeam* would effectively present the debtor with a choice: (1) maintain the prepetition burden of monitoring the marked goods or (2) lose any value the marks may hold for the postpetition estate.[40] The court concluded that this approach must be rejected because neither option would satisfy the underlying purpose of section 365—namely, permitting courts to use an equitable approach would impermissibly designate them as arbiters of the extent to which a debtor would be burdened if the licensee's rights were to survive rejection.[41] More than thirty years after the Fourth Circuit decided *Lubrizol*, the First Circuit rejected Judge Easterbrook's approach in *Sunbeam* and created a circuit split as to what protections trademark licensees enjoy following rejection, if any.

C. Moving Forward

Until *Tempnology*, bankruptcy courts appeared to be collectively heading towards an interpretation of sections 365(n) and 365(g) that refused to extinguish the licensee's rights in trademarks despite rejection. However, the current circuit split indicates that this area will remain unsettled absent legislative action resolving the issue or a ruling on the issue by the Supreme Court.[42] On balance, the arguments in favor of placing trademarks on equal footing with other intellectual property appear more compelling. *Lubrizol* rested on an interpretation of section 365(g) that has been widely criticized.[43] As the Seventh Circuit explained in *Sunbeam*, although rejection does result in breach, this breach in no way impacts the rights of the counterparty under nonbankruptcy law.[44] Thus, those rights should remain intact.

Similarly, the primary policy argument favoring the disparate treatment (termination) of trademark rights appears to be overblown. The courts that have refused to read trademarks into the Code's definition of intellectual property have generally cited the unique characteristics of trademarks.[45] They focus on the inherent conflict between relying on section 365's rejection power as a means of pursuing the debtor's fresh start, and requiring the debtor to maintain quality control over the goods bearing the trademark.[46]

On its face, this is supported by the overarching goal of section 365: to give the debtor the ability to rid itself of burdensome obligations, and redeploy its resources in a manner more beneficial to the estate.[47] However, these courts appear to conflate two discrete issues: (1) whether rejection extinguishes the counterparty's rights under nonbankruptcy law and (2) whether the debtor may choose, as a commercial matter, to continue monitoring goods bearing a mark that is the subject of a rejected license. Additionally, in certain situations there appear to be incentives for the licensee to monitor the marked goods.[48] Recent attempts at legislative reform would add trademarks to the Code's definition of intellectual property, while alleviating these concerns by expressly clarifying that the debtor shall be under no ongoing obligation to maintain quality control.[49] This solution seems to provide an effective compromise that protects licensees without unduly burdening the debtor. Thus, it appears that the logical conclusion is that licensees of trademarks should be afforded the same protections as other intellectual property licensees, with certain caveats in place to accommodate for their unique characteristics.

II. Extinguishing a Licensee's Rights Under Section 363(f)

A second issue that has recently moved to the forefront of section 365 jurisprudence is whether the protections afforded to counterparties to certain rejected contracts survive "free and clear" asset sales under section 363(f). Aside from rejection, another potential avenue for debtor-licensors looking to avoid burdensome intellectual property licensing agreements is a sale under section 363 as a means of potentially selling assets free and clear of a license agreement, notwithstanding the protections of section 365. Section 363(f) permits the debtor to sell assets "free and clear" of interests in those assets if one of the following conditions are satisfied: (1) applicable nonbankruptcy law permits the sale free and clear of the interest, (2) the interest-holder consents, (3) the interest is a lien and the price at which the property is sold is greater than the aggregate value of all liens on the property, (4) the interest is in bona fide dispute, or (5) the entity could be compelled "in a legal or equitable proceeding" to accept a money satisfaction of the interest.[50] Most of the courts that have entertained the issue, in the section 365(n) context or otherwise, have focused on the consent prong in section 363(f)(2).[51] The authors are unaware of decisions applying any of the remaining prongs of section 363(f) to sell free and clear of a licensee's rights. Courts have relied upon that subsection to hold that the protections afforded to counterparties to certain contracts - namely, lessees - constitute an "interest in such property (of the estate)" within the meaning of that provision, and thus may be extinguished upon a sale notwithstanding those parties' rights under section 365 if the counterparty consents, as in section 363(f)(2).[52]

The court in *Crumbs Bake Shop* was faced with this argument and concluded that even the "free and clear" sale under section 363(f) could not strip an intellectual property licensee of its contractual rights without the licensee's consent.[53] Because there was little case law on the interplay of sections 365(n) and 363(f), the court looked to the well-developed case law on the intersection of sections 365(h) and 363(f).[54] Looking to this body of caselaw has its logical appeal. Section 365(h) protects the rights of real property lessees upon rejection and functions in a manner similar to section 365(n); indeed, in many parts, these statutes use the same language.[55] In construing these statutes, some courts have held that section 365(h) is the more specific provision and should govern over the more general language used in section 363(f).[56] In *Crumbs Bake Shop*, the court found that the same principles of statutory construction should govern in regards to section 365(n).[57] Specifically, Congress provided intellectual property licensees with unique statutory protections, and these specific protections should not be overridden by the provisions of section 363(f).[58] Thus, the *Crumbs Bake Shop* court concluded that, for similar reasons, this explicit carveout from the power of rejection could not be avoided by pursuing an asset sale.[59]

While the *Crumbs Bake Shop* court aptly discussed the similarities between the protections afforded by section 365(h) and section 365(n), the court disregarded the following counterarguments that have carried the day in many cases discussing subsection (h). These arguments are equally applicable in the section 365(n) context. First, several courts have found that reliance on the principle of statutory construction that the specific governs over the general should not be applied in this instance.[60] This approach overlooks two well-established principles of statutory interpretation that suggest a different result. Courts have frequently cautioned that, when possible, statutes are to be read to effectuate their plain meaning.[61] Section 363(f) can reasonably be read as authorizing asset sales without affording counterparties the protections of section 365, assuming one of the prongs of section 363(f) is satisfied. Indeed, the statute does not provide for any such protection.[62] Ironically, this conforms to the rationale of courts that exclude trademarks from the coverage of section 365(n), in that if Congress wanted to exempt intellectual property licensees from the power of section 363(f), Congress could have done so.[63] Congress has, in fact, limited the application of certain provisions of section 363 by cross-reference to section 365, but expressly failed to do so here.[64] Moreover, just as courts have found that sections 365(h) and 363(f) are not in conflict,[65] it is possible to read sections 363(f) and 365(n) without conflict provided that the debtors meet the distinct requirements for a sale under section 363(f).

In addition to these interpretive arguments, the *Crumbs Bake Shop* court was concerned with the need to ensure that non-debtor counterparties were sufficiently protected. The court was hesitant to effectively skirt the legislative intent of Congress to protect the rights of intellectual property licensees from termination in bankruptcy.[66] However, several courts addressing analogous concerns under section 365(h) have noted that this assertion misses the alternate protections—also promulgated by Congress—that apply to sales under section 363(f).[67] As stated, to sell assets free and clear of an interest in bankruptcy, the debtor first must meet one of the five requirements enumerated in the statute.[68] Moreover, the party whose interest is to be eliminated is statutorily entitled to seek adequate protection, which the court *must* grant.[69]

While not expressly addressing the issue of whether a section 363(f) sale can terminate intellectual property licenses that would otherwise be protected by section 365(n), case law on section 365(h) is nevertheless instructive. The court in *Crumbs Bake Shop* relied heavily on principles drawn from this line of cases. Canons of statutory interpretation are hardly unassailable, and the court's concern for contract counterparties appears overblown to a certain extent given additional safeguards in the statute. Additionally, several courts addressing the analogous interplay of sections 363(f) and 365(h)—including the Seventh and Ninth Circuits—have found the above arguments persuasive and determined that section 363(f) can be used to strip a counterparty's rights despite section 365's protections. The parallels in the structure and function of sections 365(h) and 365(n) make it logical to apply the same reasoning to allow a section 363 sale to eliminate an intellectual property licensee's rights that would otherwise survive rejection. Importantly, however, courts have not yet decided whether the non-consensual prongs of section 363(f) can be used in this context, but the arguments discussed above at least open the door to that possibility.

III. Foreign Intellectual Property

Case law remains undeveloped as to whether section 365(n) covers intellectual property rights under foreign law. Commentators have staked out claims on both sides of the issue.[70] Moreover, apart from policy considerations, some commentators have advanced readings of the definition of "intellectual property" that would apply the protections of section 365(n) to non-U.S. intellectual property.[71] The Code's definition of intellectual property includes copyrights and patents by referring to the provisions of the United States Code under which those items are granted protection: title 35 (patents) and title 17 (copyrights).[72] However, the other covered forms of intellectual property - including patent applications and trade secrets - are not similarly limited and instead are defined as intellectual property "to the extent protected by applicable nonbankruptcy law," leading to the argument that, at least as to those forms, foreign rights may be covered.[73] Using patents as an example, there are several arguments for reading this language as protecting both foreign and domestic intellectual property rights.

First, as mentioned above, the absence of trademarks from the statutory definition of intellectual property has led some courts to conclude that trademark licensees lose all rights to licensed marks following rejection. In contrast, patents are not entirely omitted, and instead are included by reference, as well as by referring to patent applications in the definition of "intellectual property."[74] Commentators have read these provisions to say that only U.S. inventions are covered within the scope of the definition because of the reference to "protected under title 35" at the end of the definition.[75] Other commentators have argued, however, that this language simply means that an invention must satisfy "the requirements for receiving protection under title 35 to qualify as intellectual property, not that it must actually receive protection under title 35."[76] This inconsistency suggests that the inherent ambiguity in the statute should be resolved in favor of protecting foreign patent rights.[77] This is only bolstered by the policy underlying section 365(n)—to protect inventors and promote intellectual property licensing.[78]

Second, in regards to copyrights, the United States Copyright Act protects "works of foreign authorship," and thus a work created abroad would clearly be protected under the Code's definition.[79] However, the Copyright Act only governs rights to exploit a covered work in the United States, and thus a license granting rights to exploit a work outside of the United States may not fall under this definition.[80] The definition's reference to "works" as opposed to "rights" suggests a reading of the statute that covers the work itself, including rights to exploit that work both in the United State and abroad. Some commentators have argued that this same logic applies to patents.[81] The statute's coverage of patents is open to a plain reading that encompasses patents that are protectable under title 35, regardless of whether the inventor has actually secured such protection.[82] This suggests that the statute's coverage of patents should not be limited to domestic rights only, as foreign rights may meet the requirements for protection despite the lack of an actual patent. Collectively, these arguments suggest that the Code's definition of "intellectual property" may be interpreted to include foreign intellectual property.

These interpretive difficulties produce potentially chaotic results. For example, assume that prepetition, a non-debtor had licensed a trade secret under a licensing agreement. The trade secret was developed in Canada and is used by both the licensee and the debtor licensor in the U.S. and Canada. Where the Bankruptcy Code is clear that the bankruptcy court has jurisdiction over the res of the debtor's estate "wherever located and by whomever held"[83] and the definition of "intellectual property" does not limit trade secrets to U.S. trade secrets, would a licensee be able to successfully argue that a section 365(n) election may be made with respect to non-U.S. trade secrets?[84] While this issue has not been litigated, there are cogent arguments that the licensee should be permitted to make a section 365(n) election for all licensed trade secrets - U.S. or otherwise. Any interpretation that limits section 365(n) protections to only U.S. intellectual property would produce obvious problems for the licensee, and would thus dissuade potential future licensees from engaging in licensing transactions involving international rights.

While the applicability of section 365(n) to non-U.S. intellectual property is unclear, what is clear is that some U.S. Courts consider the policy underlying section 365(n) to outweigh competing policy concerns. The case of *Jaffe v. Samsung Elecs. Co. Ltd.* pitted the policies behind section 363(n) against international comity, the policy underlying Chapter 15 of the Bankruptcy Code.[85] In that case, a German company, Qimonda, commenced insolvency proceedings in Germany and then had those proceedings recognized in a U.S. bankruptcy court under Chapter 15.[86] Post-recognition, the foreign representative tasked with overseeing the Chapter 15 proceedings petitioned the court to administer Qimonda's assets, which included approximately 10,000 patents (4,000 of which were U.S. patents).[87] The patents had been crosslicensed to other participants in Qimonda's industry.[88] In seeking to administer the patents, the foreign representative sought to send notices, which complied with German law, declaring all cross-licenses unenforceable, and enabling Qimonda to obtain new, at-market, licenses - which would have resulted in an estimated net benefit to Qimonda's estate of approximately $47 million.[89]

The bankruptcy court, in a decision later affirmed by the Fourth Circuit, denied the foreign representative's request to terminate the licenses for two reasons. First, Chapter 15 requires that, when granting relief such as that requested by the foreign administrator, the bankruptcy court must balance the benefit of such relief to the debtor with the burdens to the parties adversely impacted by the relief.[90] The court found that the damage to the licensees' investment in research and design made in reliance on the availability of the cross-license outweighed the potential benefit to the debtor's estate associated with their ability to re-license on new terms.[91] Second, the court noted that, while Chapter 15 was designed to serve the interests of international comity, and granting the foreign representative's motion would serve comity interests, these interests were not "untempered" and that bankruptcy courts should refrain from actions that "would be manifestly contrary to U.S. public policy."[92] The court held that the protections of U.S. intellectual property interests underlying section 365(n) were significant enough to outweigh the comity interests upon which Chapter 15 is based. With these two legal and factual conclusions in mind, the bankruptcy court entered an order authorizing the foreign representative to administer Qimonda's estate (including the patents), but holding that section 365(n)'s protections should be applied to any U.S. patents.[93]

As the law regarding section 365(n) and its applicability continues to develop, insolvency and intellectual property practitioners have sought to un-muddy the waters through commercial agreements. A developing feature of intellectual property licenses (or other agreements encompassing such licenses) is the inclusion of contractual provisions stipulating and agreeing that certain types of intellectual property (be it non-US intellectual property, trademarks, or other intellectual property not expressly provided for in the Code's definition of intellectual property), will be treated as "intellectual property" in any chapter 11 proceeding and will be afforded section 365(n) protections. While such provisions have yet to be litigated, they do provide a record as to the intent of the contracting parties, which may be instructive to a court tasked with determining whether a debtor's decision to reject an agreement and relieve itself of its obligations under the agreement should operate to strip licensees of their bargained-for rights to continue to use critical trademarks or non-U.S. intellectual property.

Conclusion

With the legal landscape of section 365(n) remaining uncertain, both debtor-licensors and licensees need to be acutely aware of the different outcomes that result from rejection of a license agreement in various jurisdictions. Lower courts in the First, Fourth and Seventh Circuits are bound by decisions that construe a trademark licensee's rights following rejection in diametrically opposing ways and in a manner that significantly impacts the debtor-licensors' and licensees' respective rights. That does not mean, however, that these parties cannot take steps pre- and post-petition to protect their rights.

Debtor-licensors will continue looking for alternate ways of freeing themselves from otherwise burdensome licensing agreements. Prior to rejection, a debtor may seek to rid itself of the license through a free and clear sale under section 363(f). While recently courts have entertained this possibility only with the consent of the counterparty, debtors may attempt to sell free and clear under another prong of section 363(f) even over a licensee's objection and notwithstanding section 365(n). These arguments merit further consideration as a means of avoiding the uncertainty inherent in the statute, and maximizing the value of a debtor's estate.

Finally, the statutory definition of "intellectual property" leaves open the possibility that both U.S. and non-U.S. intellectual property rights may be covered. Such an interpretation would further the underlying purposes of section 365(n), in a manner consistent with the broad jurisdiction of a bankruptcy court over property of the debtor, including contract rights, "wherever located."

NOTES:

[1]See generally 11 U.S.C.A. § 365. All references to "section" herein, unless otherwise noted, are to title 11 of the United States Code (the "Bankruptcy Code").

[2]Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048, 12 Bankr. Ct. Dec. (CRR) 1281, 12 Collier Bankr. Cas. 2d (MB) 310, 226 U.S.P.Q. 961, Bankr. L. Rep. (CCH) P 70311 (4th Cir. 1985).

[3]See § 365(n).

[4]§ 101(35A).

[5]See generally Ron Meisler, Carl Tullson et al., Rejection of Intellectual Property License Agreements Under Section 365(n) of the Bankruptcy Code: Still Hazy After All These Years, 19 Norton J. of Bankr. L. & Prac. 163 (2010).

[6]Compare Sunbeam Products, Inc. v. Chicago American Mfg., LLC, 686 F.3d 372, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012), with In re Tempnology, LLC, 879 F.3d 389, 65 Bankr. Ct. Dec. (CRR) 23, Bankr. L. Rep. (CCH) P 83196 (1st Cir. 2018), petition for certiorari filed (U.S. June 11, 2018).

[7]§ 101(35A).

[8]See § 101(35A).

[9]See, e.g., In re HQ Global Holdings, Inc., 290 B.R. 507, 513, 40 Bankr. Ct. Dec. (CRR) 262 (Bankr. D. Del. 2003) ("Trade names, trademarks, and other proprietary marks are expressly excluded from the definition of 'intellectual property.' "); In re Centura Software Corp., 281 B.R. 660, 669–70, 39 Bankr. Ct. Dec. (CRR) 249 (Bankr. N.D. Cal. 2002) ("By using the more limiting term 'means' instead of 'includes,' Congress has deliberately limited

§ 365(n) protection only to the intellectual property enumerated by the statute."); 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, 559–81 (2014) (criticizing *Sunbeam* for permitting licensees to retain trademark rights following rejection); but see In re Lakewood Engineering & Mfg. Co., Inc., 459 B.R. 306, 344–47 (Bankr. N.D. Ill. 2011), aff'd, 686 F.3d 372, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012) (determined on "equitable grounds" that the licensee was not stripped of its "fairly procured trademark rights"), aff'd, Sunbeam Products, Inc. v. Chicago American Mfg., LLC, 686 F.3d 372, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012); In re Exide Technologies, 607 F.3d 957, 965–66, 53 Bankr. Ct. Dec. (CRR) 57, 95 U.S.P.Q.2d 1405, Bankr. L. Rep. (CCH) P 81779 (3d Cir. 2010), as amended, (June 24, 2010) (Ambro, J., concurring); Laura Jelinek, Equity for Brand Equity: The Case for Protecting Trademark Licensees in Licensor Bankruptcies, 40 AIPLA Q.J. 365, 382–97 (2012) (advocating for addition of trademarks to scope of section 365(n)).

[10] S. Rep. No. 100-505, at 5 (1988).

[11] S. Rep. No. 100-505, at 4.

[12] See In re Exide Techs., 607 F.3d at 965–68 (Ambro, J., concurring).

[13] 607 F.3d at 964 (majority opinion).

[14] 607 F.3d at 964–65 (Ambro, J., concurring).

[15] 607 F.3d at 966.

[16] 607 F.3d at 966–67.

[17] 607 F.3d at 967.

[18] 607 F.3d at 967–68 ("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.").

[19] Sunbeam Products, Inc. v. Chicago American Mfg., LLC, 686 F.3d 372, 378, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012).

[20] 686 F.3d at 375.

[21] 686 F.3d at 375.

[22] 686 F.3d at 375.

[23] 686 F.3d at 375.

[24] 686 F.3d at 376–77.

[25] 686 F.3d at 376–77.

[26] 686 F.3d at 377.

[27] 686 F.3d at 377.

[28] 686 F.3d at 377. For example, the court discussed the power to completely avoid contracts that entitle a creditor to preferential transfers. 686 F.3d at 377.

[29] See In re Crumbs Bake Shop, Inc., 522 B.R. 766, 772, 60 Bankr. Ct. Dec. (CRR) 92, 72 Collier Bankr. Cas. 2d (MB) 1099 (Bankr. D. N.J. 2014).

[30] 522 B.R. at 772.

[31] 522 B.R. at 773.

[32] 522 B.R. at 773.

[33] 522 B.R. at 773–74. In 2013, the House of Representatives passed the Innovation Act,

which would have added trademarks to the definition of intellectual property under the Code. See Innovation Act of 2013, H.R. 3309, 113th Cong. § 6(d) (2013). The legislative history indicates that the bill was intended to codify *Sunbeam*. See H.R. Rep. No. 113-279, at 64 (2013). The bill would have added a section that preserved the debtor's obligations under the agreement to monitor the quality of the licensed product or service despite rejection. Innovation Act of 2013, H.R. 3309, 113th Cong. § 6(d) (2013). This provision caused some concern, with certain parties noting that imposing this affirmative obligation was particularly unreasonable where many post-bankruptcy debtors would be practically unable to meet this duty. See H.R. Rep. No. 113-279, at 112 (2013) ("Section 6(d) of the Innovation Act . . . require[s] bankruptcy trustees to perform certain duties under trademark licenses even where it has no assets or ability to do so. [This change is] strongly opposed by the National Bankruptcy Conference, a leading group of non-partisan bankruptcy legal experts.").

A companion bill, the PATENT Act, with substantially similar provisions failed to pass the Senate. Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. § 8(b) (2013). In 2014 the American Bankruptcy Institute ("ABI") convened a conference of practitioners and judges to address the need for reform on a variety of issues in bankruptcy proceedings. See generally Am. Bankr. Inst., Commission to Study the Reform of Chapter 11: Final Report and Recommendations (2014). Ultimately, the commission recommended including trademarks in the statutory definition of intellectual property. Am. Bankr. Inst. Final Report and Recommendations at 128–29. However, to account for the unique characteristics of trademarks, the commission suggested adding a provision to section 365(n) that would require the electing licensee to: (1) comply with provisions in the rejected agreement regarding the products, materials and processes that are permitted or required to be used with the marks and (2) honor any obligations to maintain the quality of the goods used with the marks. Am. Bankr. Inst. Final Report and Recommendations at 126. The commission also suggested providing the trustee with the power to enforce quality control while at the same time negating any responsibility of the debtor to continue providing products or services to the licensee. Am. Bankr. Inst. Final Report and Recommendations at 126.

In 2015, the Innovation Act was reintroduced in the House, featuring a slightly different version that removed the affirmative obligation to monitor quality control from the debtor's plate, and instead provided that the licensee would not be relieved of this duty upon rejection. Innovation Act of 2015, H.R. 9, 114th Cong. § 6(e) (2015). Additionally, the new version went a step further and adopted the ABI Commission's added caveat that the debtor should retain any right it may have to "oversee and enforce quality control for such products or services, or both." Innovation Act of 2015. The companion bill introduced in the Senate proposed effectively the same set of amendments. Protecting American Talent and Entrepreneurship Act of 2015, S. 1137, 114th Cong. § 12(b) (2015). Again, neither bill was enacted, but their consideration highlights a Congressional acknowledgement of the frustration which this uncertainty has created in the intersection of intellectual property rights and bankruptcy law.

[34] In re Tempnology, LLC, 879 F.3d 389, 395, 65 Bankr. Ct. Dec. (CRR) 23, Bankr. L. Rep. (CCH) P 83196 (1st Cir. 2018), petition for certiorari filed (U.S. June 11, 2018).

[35] 879 F.3d at 401.

[36] 879 F.3d at 402.

[37] 879 F.3d at 402.

[38] 879 F.3d at 402.

[39] 879 F.3d at 402–03.

[40] 879 F.3d at 403.

[41] 879 F.3d at 404. In a dissenting opinion, Judge Torruella rejected the majority's bright line application of section 365(n) to refuse to protect the rights of trademark licensees. 879 F.3d at 405 (Torruella, J., concurring in part, dissenting in part). He departed from the majority's interpretation of the legislative history, noting that section 365(n) was enacted to prevent

the further use of *Lubrizol* to strip intellectual property licensees of their rights. 879 F.3d at 406. The omission of trademarks was solely intended to permit further time for study on the issue, and any reading that interpreted it as an endorsement of applying *Lubrizol* to trademark licensees alone was contrary to the broader intent. 879 F.3d at 406. ("Why would Congress have provided this guidance if it meant for *Lubrizol*—the very case Congress rejected—to apply to trademark licenses?"). Judge Torruella agreed with *Sunbeam*, in concluding that rejection merely resulted in breach that should not extinguish the counterparty's rights under non-bankruptcy law. 879 F.3d at 406. The majority's concern with imposing an ongoing burden of quality control on the debtor was overblown, as a debtor retains both contractual and legal rights to enforce such quality control obligations on the part of the licensee. 879 F.3d at 407.

[42]On May 17, 2018, the Bankruptcy Court for the District of Connecticut issued an opinion that expressly rejected the First Circuit's approach in *Tempnology*, and instead adopted the position espoused by Judge Easterbrook in *Sunbeam*. See In re SIMA International, Inc., 65 Bankr. Ct. Dec. (CRR) 188, 2018 WL 2293705 at *8 (Bankr. D. Conn. 2018). If the Second Circuit ultimately sides with the bankruptcy court on a potential appeal, this would add to the momentum favoring the *Sunbeam* approach, and potentially prompt a response from the Supreme Court. See supra, note 33 for a discussion of the proposed Innovation Act as an example of potential reform.

[43]See, e.g., Sunbeam Products, Inc. v. Chicago American Mfg., LLC, 686 F.3d 372, 377, 56 Bankr. Ct. Dec. (CRR) 189, 67 Collier Bankr. Cas. 2d (MB) 1808, 103 U.S.P.Q.2d 1421, Bankr. L. Rep. (CCH) P 82303 (7th Cir. 2012) (compiling sources evincing a "uniform" criticism of Lubrizol).

[44]See 686 F.3d at 377; see also 3 Collier on Bankruptcy, ¶ 365.10[3] (Richard Levin & Harry J. Sommer eds., 16th ed.) ("Rejection Is Not Termination of Contract").

[45]See, e.g., In re Tempnology, LLC, 879 F.3d at 402 ("[W]e find trademark rights to provide a poor candidate for such dispensation . . . [T]he effective licensing of a trademark requires that the trademark owner . . . monitor and exercise control over the quality of the goods sold to the public under the cover of the trademark.").

[46]See 879 F.3d at 402 ("*Sunbeam* therefore largely rests 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."); see also H.R. Rep. No. 113-279, at 112 (2013) ("Section 6(d) of the Innovation Act . . . require[s] bankruptcy trustees to perform certain duties under trademark licenses even where it has no assets or ability to do so. [This change is] strongly opposed by the National Bankruptcy Conference, a leading group of non-partisan bankruptcy legal experts.").

[47]See In re Tempnology, LLC, 879 F.3d at 403 ("Such a restriction on Debtor's ability to free itself from its executory obligations, even if limited to trademark licenses alone, would depart from the manner in which section 365(a) otherwise operates."); Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048, 12 Bankr. Ct. Dec. (CRR) 1281, 12 Collier Bankr. Cas. 2d (MB) 310, 226 U.S.P.Q. 961, Bankr. L. Rep. (CCH) P 70311 (4th Cir. 1985) ("Allowing specific performance would obviously undercut the core purpose of rejection under § 365(a), and that consequence cannot therefore be read into congressional intent.").

[48]See, e.g., In re Crumbs Bake Shop, Inc., 522 B.R. 766, 773, 60 Bankr. Ct. Dec. (CRR) 92, 72 Collier Bankr. Cas. 2d (MB) 1099 (Bankr. D. N.J. 2014) ("[T]he Court recognizes that there are protections in place, outside of bankruptcy, that give rise to the incentive for Licensees to maintain a certain standard of quality in using the licensor's trademark.").

[49]See supra note 33.

[50]§ 363(f).

[51]See In re Crumbs Bake Shop, 522 B.R. at 774 ("*[I]n the absence of consent*, a sale under § 363(f) does *not* trump the rights granted to Licensees by § 365(n)" (first emphasis added)); Compak Companies, LLC v. Johnson, 415 B.R. 334, 339 (N.D. Ill. 2009) (explain-

ing that "[a]pplying section 363(f), as construed by *Qualitech* and *FutureSource*, the bankruptcy court had authority to extinguish DuoTech's license in the bankruptcy sale, at least with DuoTech's consent (or lack of objection)," but finding lack of notice barred elimination of the interest there (emphasis added)); FutureSource LLC v. Reuters Ltd., 312 F.3d 281, 285, 40 Bankr. Ct. Dec. (CRR) 140, Bankr. L. Rep. (CCH) P 78757 (7th Cir. 2002) (assuming that interest conveyed in asset purchase agreement was a license in intellectual property, it was eliminated via free and clear sale based on a lack of objection constituting consent); see also Precision Industries, Inc. v. Qualitech Steel SBQ, LLC, 327 F.3d 537, 548, 41 Bankr. Ct. Dec. (CRR) 65, 49 Collier Bankr. Cas. 2d (MB) 1765, Bankr. L. Rep. (CCH) P 78836 (7th Cir. 2003) (allowing sale under section 363(f) to extinguish lessee's interest where lessee "neither objected to the sale nor sought the protection that was available under section 363(e)").

[52]See, e.g., Qualitech, 327 F.3d at 548.

[53]In re Crumbs Bake Shop, 522 B.R. at 777–78.

[54]522 B.R. at 777.

[55]Compare § 365(h) (affording real property lessee with option, upon rejection, to treat lease as terminated, or maintain certain rights for duration of lease), with § 365(n) (affording intellectual property licensee with option to treat license as terminated, or continue exploiting license for duration).

[56]In re Crumbs Bake Shop, Inc., 522 B.R. at 777 (citing In re Churchill Properties III, Ltd. Partnership, 197 B.R. 283, 288, 29 Bankr. Ct. Dec. (CRR) 250, 36 Collier Bankr. Cas. 2d (MB) 664 (Bankr. N.D. Ill. 1996)).

[57]522 B.R. at 777.

[58]522 B.R. at 778.

[59]522 B.R. at 779.

[60]See, e.g., Precision Industries, Inc. v. Qualitech Steel SBQ, LLC, 327 F.3d 537, 547, 41 Bankr. Ct. Dec. (CRR) 65, 49 Collier Bankr. Cas. 2d (MB) 1765, Bankr. L. Rep. (CCH) P 78836 (7th Cir. 2003) (applying different canons of statutory interpretation); Pinnacle Rest. at Matter of Spanish Peaks Holdings II, LLC, 872 F.3d 892, 900–01, 77 Collier Bankr. Cas. 2d (MB) 2039, Bankr. L. Rep. (CCH) P 83157 (9th Cir. 2017) (agreeing with logic of *Qualitech*); see also RadLAX Gateway Hotel, LLC v. Amalgamated Bank, 566 U.S. 639, 646–47, 132 S. Ct. 2065, 182 L. Ed. 2d 967, 56 Bankr. Ct. Dec. (CRR) 144, 67 Collier Bankr. Cas. 2d (MB) 483, Bankr. L. Rep. (CCH) P 82218 (2012) ("Of course the general/specific canon is not an absolute rule, but is merely a strong indication of statutory meaning that can be overcome by textual indications that point in the other direction.").

[61]See, e.g., Conn. Nat'l Connecticut Nat. Bank v. Germain, 503 U.S. 249, 253–54, 112 S. Ct. 1146, 117 L. Ed. 2d 391, 22 Bankr. Ct. Dec. (CRR) 1130, 26 Collier Bankr. Cas. 2d (MB) 175, Bankr. L. Rep. (CCH) P 74457A (1992) ("[C]anons of construction are no more than rules of thumb that help courts determine the meaning of legislation, and in interpreting a statute a court should always turn first to one, cardinal canon before all others. We have stated time and again that courts must presume that a legislature says in a statute what it means and means in a statute what it says there."); see also Qualitech, 327 F.3d at 543 ("As in all statutory interpretation cases, we begin with the statutory language.").

[62]See generally § 363; see also Qualitech, 327 F.3d at 546 ("Because Precision's right to possess the property as a lessee qualifies as an interest for purposes of section 363(f), the statute on its face authorized the sale of Qualitech's property free and clear of that interest.").

[63]See, e.g., In re HQ Global Holdings, Inc., 290 B.R. 507, 512–13, 40 Bankr. Ct. Dec. (CRR) 262 (Bankr. D. Del. 2003); In re Centura Software Corp., 281 B.R. 660, 669–70, 39 Bankr. Ct. Dec. (CRR) 249 (Bankr. N.D. Cal. 2002); see also Qualitech, 327 F.3d at 547 ("The omission suggests that Congress did not intend for [section 365(h)] to limit [section 363(f)].").

[64]See § 363(l) ("Subject to the provisions of section 365 . . ."); see also Russello v.

U.S., 464 U.S. 16, 23, 104 S. Ct. 296, 78 L. Ed. 2d 17, R.I.C.O. Bus. Disp. Guide (CCH) P 6100 (1983) ("[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion." (citation omitted)).

[65]See Qualitech, 327 F.3d at 547 ("Section 365(h) instead focuses on a specific type of event—the rejection of an executory contract by the trustee or debtor-in-possession—and spells out the rights of parties affected by that event. It says nothing at all about sales of estate property, which are the province of section 363. The two statutory provisions thus apply to distinct sets of circumstances.").

[66]In re Crumbs Bake Shop, Inc., 522 B.R. 766, 778–79, 60 Bankr. Ct. Dec. (CRR) 92, 72 Collier Bankr. Cas. 2d (MB) 1099 (Bankr. D. N.J. 2014).

[67]See, e.g., Matter of Spanish Peaks Holdings II, LLC, 872 F.3d 892, 899–900, 77 Collier Bankr. Cas. 2d (MB) 2039, Bankr. L. Rep. (CCH) P 83157 (9th Cir. 2017).

[68]See § 363(f) (providing for asset sale "free and clear" of interests only if (1) applicable nonbankruptcy law would permit the sale free and clear, (2) the entity consents, (3) the interest is a lien and the asset's value exceeds the sum of all liens on the asset, (4) the interest is in "bona fide dispute," or (5) the entity could be compelled, "in a legal or equitable proceeding," to accept money damages in lieu of the interest). By way of example, in *Spanish Peaks*, the Ninth Circuit cited Montana law, which allows for the termination of a lease interest upon the sale of property in foreclosure to satisfy a mortgage. See Spanish Peaks, 872 F.3d at 900. Thus, nonbankruptcy law clearly recognizes—under certain circumstances—the possibility that a counterparty's rights can be extinguished through a sale. As mentioned, whether any of the prongs of section 363(f) other than consent of the interest-holder could justify a sale free and clear of a license has not been decided.

[69]See § 363(e) ("[A]t any time, on request of an entity that has an interest in property used, sold, or leased, or proposed to be used, sold, or leased, by the trustee, the court, with or without a hearing, *shall* prohibit or condition such use, sale, or lease as is necessary to provide adequate protection of such interest." (emphasis added)); see also Qualitech, 327 F.3d at 548 ("Lessees like Precision are therefore not without recourse in the event of a sale free and clear of their interests. They have the right to seek protection under section 363(e), and upon request, the bankruptcy court is obligated to ensure that their interests are adequately protected.").

[70]See Meisler, Tullson et al., supra note 5, at 168 n.40.

[71]See Edo Royker, Foreign Patents Under U.S. Bankruptcy Code Section 365(n), 27 Emory Bankr. Dev. J. 497, 512–15 (2011).

[72]See § 101(35A).

[73]§ 101(35A).

[74]See § 101(35A).

[75]See Royker, supra note 71, 27 Emory Bankr. Dev. J. at 513.

[76]See 27 Emory Bankr. Dev. J. at 513.

[77]As mentioned, case law on whether foreign intellectual property is covered by the Bankruptcy Code's definition of "intellectual property" is sparse, and the authors are currently unaware of case law discussing these inherent ambiguities in the statute. However, several commentators have acknowledged them. Robert L. Eisenbach III & Richelle Kalnit, Intellectual Property Issues and Challenges in Bankruptcy Cases, 2015 Norton Ann. Surv. Of Bankr. L. 5 (2015), Peter M. Gilhuly et al., Intellectually Bankrupt?: The Comprehensive Guide to Navigating IP Issues in Chapter 11, 21 Am. Bankr. Inst. L. Rev. 1, 42 (2013); Royker, supra note 71, at 512–13.

[78]See S. Rep. No. 100-505, at 1–2 (1988) ("Certain recent court decisions interpreting Section 365 have imposed a burden on American technological development that was never

intended by Congress in enacting Section 365.").

[79]5 Nimmer on Copyright § 19A.06[C][2] (2018) (quoting 17 U.S.C.A. § 104).

[80]5 Nimmer on Copyright § 19A.06[C][2].

[81]Royker, supra note 71, 27 Emory Bankr. Dev. J. at 512–13.

[82]27 Emory Bankr. Dev. J. at 512–13.

[83]§ 541(a).

[84]§ 101(35A)(A).

[85]See generally Jaffe v. Samsung Electronics Co., Ltd., 737 F.3d 14, 58 Bankr. Ct. Dec. (CRR) 230, 108 U.S.P.Q.2d 1942 (4th Cir. 2013).

[86]737 F.3d at 17–18.

[87]737 F.3d at 17–18.

[88]737 F.3d at 18.

[89]737 F.3d at 22.

[90]737 F.3d at 29.

[91]737 F.3d at 30.

[92]737 F.3d at 32.

[93]737 F.3d at 23.