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Trademark License Rejection in Bankruptcy

Divergent standards for the treatment of rejected trademark licenses in bankruptcy have created a sharp divide among several circuits. The 1985 landmark case for license rejection in bankruptcy, the Fourth Circuit's *Lubrizol* decision allows trademark licensors in bankruptcy to reject trademark license agreements and revoke all licensee rights to use the relevant trademark.[1] The Third Circuit rendered a vastly different interpretation in 2010, holding that trademark agreements do not qualify as executory contracts, thereby preventing licensor debtors from rejecting license agreements.[2] In July of 2012, the Seventh Circuit released a decision stating that while a debtor may reject a trademark license agreement as an executory contract, rejection does not rescind a licensee's rights to use a licensed trademark.[3] Less than two months later, the Eighth Circuit directly contradicted the Third Circuit's decision by releasing an opinion holding that trademark license agreements did constitute executory contracts.[4]

The four-way split in the circuits stems, in part, from Congressional legislation. After the Fourth Circuit's *Lubrizol* decision, Congress passed the Intellectual Property Bankruptcy Protection Act of 1988 ("IPBPA").[5] The IPBPA enacted 11 U.S.C. § 365(n), which allows licensees of rejected intellectual property licenses to maintain rights under the contract while waiving claims against the licensor.[6] At first blush, this statute might seem to definitively disallow licensors in bankruptcy from rejecting trademark license

[1] Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043 (4th Cir. 1985) (Originally, the Fourth Circuit's holding applied to license agreements of intellectual property; however, Congress passed 11 U.S.C. § 365(n) in 1988, which granted license counterparties protections against rejection).
[2] In re Exide Technologies, 607 F.3d 957 (3d Cir. 2010).
[3] Sunbeam Products, Inc. v. Chicago American Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).
[4] Lewis Bros. Bakeries Inc. v. Interstate Brands Corp. (In re Interstate Bakeries Corp.)ecf, 690 F.3d 1069 (8th Cir. 2012).
[5] Pub. L. No. 100-506, 102 Stat. 2538.
[6] The licensee may retain operating rights and exclusivity rights, but must waive rights of set off and any

agreements; however, the Code defines "intellectual property" as trade secrets, patents, patent applications, plant varieties, copyrights, and mask work.[7] Because the Code purposely omits trademarks from the definition of intellectual property, the applicability of section 365(n) to trademarks has vexed courts, licensors, and licensees alike. The equitable powers of bankruptcy courts under 11 U.S.C. § 105(a) and Congress' delegation to bankruptcy courts of the "development of equitable treatment" of trademark license rejection further confuse the application of section 365(n).[8]

If practitioners examine trademark license agreements through the lens of protecting the bankruptcy debtor's fresh start, then the duties associated with licensing and franchising begin to look like a preexisting debt or duty that could hamper the debtor's financial recovery.[9] By relieving debtors of past obligations and affording debtors a true fresh start, the Fourth Circuit's *Lubrizol* decision blends the interests of bankruptcy policy with the realities of trademark licensing. As a result, licensors interested in rejecting and renegotiating trademark license agreements may find the Fourth Circuit an attractive jurisdiction for bankruptcy.

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administrative claims allowed under 11 U.S.C § 503(b).

[7] 11 U.S.C. § 101(35A).

[8] Szilagyi v. Chi. Am. Mfg., LLC (In re Lakewood Eng'g & Mfg. Co.), 459 B.R. 306, 344 (N.D. Ill. 2011) (quoting S. Rep. 100-505, at 5, reprinted in 1988 U.S.C.C.A.N. 3200 at 3204) (aff'd sub nom. Sunbeam Prods. v. Chi. Am. Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).

[9] *Lubrizol*, 756 F.2d at 1046-47 (noting that intellectual property rights comprised the debtor's principal asset).