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LICENSES, TRADEMARKS, AND BANKRUPTCY, OH MY!: TRADEMARK LICENSING AND THE PERILS OF LICENSOR BANKRUPTCY

INTRODUCTION

The current complexity of bankruptcy law creates a formidable forest through which businesses with trademark licenses¹ must

1. Trademark licensing involves a contract between the owner of a trademark and another business. The owner allows another to utilize the owner's trademark in connection with his own business, as long as the parties meet certain requirements. This relationship is generally governed by the Lanham Act, a federal statute which regulates trademark law. 15 U.S.C. § 1501 (1988). The licensor must control the licensee with respect to the nature and quality of the goods or services connected with the trademark, 15 U.S.C. § 1127 (1988), and the trademark must not be used in such a way as to deceive the public, 15 U.S.C. § 1055 (1988). There are two conditions involved when businesses comply with the Lanham Act's requirement of preventing public deception. The first condition is that the businesses must maintain the uniformity of the product they produce under the mark "regardless of which of the related companies manufacture or distributes the goods." Ronald B. Coolley, *Related Company: The Required Relationship in Trademark Licensing*, 77 TRADEMARK REP. 299, 305 (1987). The basis for this requirement is that the trademark performs its intended function only if it represents the guaranty of its owner that the product conforms to its own standards of quality. *Id.* The second condition is that the trademark owner must be sufficiently vigilant to ensure that there is no deterioration in the product's quality. *Id.* The licensor usually protects against infringement, and must continually allow the licensee to use the trademark. See generally, 1 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION §§ 18:13 - 18:14 (2d ed. 1984).

More recently, the business community has developed three new forms of licensing: merchandising, collateral product licensing, and character licensing. See Alfred M. Marks, *Trademark Licensing: Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 646 (1988). Marks argues that the many ways in which businesses are expanding require a new look at the legal system's protections, because the trademark laws concerning quality control have not caught up with the realities of business practices. *Id.* at 647-48.

A typical license should describe in detail the following: (a) the mark involved; (b) the goods or services that relate to the licensee's use of the mark; (c) the standards of quality for the goods or services; (d) the methods of supervision and control; (e) any limitations of territory, sublicensing, or the sale of competing goods; (f) the duration of the license and reversion of all rights after termination; and (g) the termination of the rights of both parties for breach of the license agreement. BEVERLY W. PATTISHALL & DAVID C. HILLIARD, TRADEMARKS § 4.05 at 148 (1987).

The following two examples of a trademark license are typical of licensing agreements. In the first example, an owner of a trademark for men's apparel grants a licensee an exclusive license to use the EXECUTIVE trademark on its neckties. The necktie manufacturer's clothing is thus part of the "package" for a line of menswear that the licensor is developing. The licensor coordinates the color and style of the neckties in order to guarantee the same idea that the

carefully tread. A trademark owner's inept management or financial instability may force another business to lose its rights under a trademark license. For example, a business may license its trademark to a product manufacturer or distributor for use on collateral goods² which supplement the trademark owner's product. Alternatively, a t-shirt or pajama manufacturer may license a famous cartoon character exclusively for a sport team or entertainment company. If, however, the trademark owner files for bankruptcy after entering into the licensing agreement, it can reject the license agreement pursuant to existing bankruptcy law.³ Rejection extinguishes the right of the other business, the licensee, to use the trademark often with devastating consequences.⁴

Trademarks are symbols used to identify and distinguish prod-

licensor created for its line of menswear. Before production, the licensor examines and approves the patterns the licensee chooses. The agreement provides that the licensee may not use the trademark on any item that contains an unapproved design or material. The agreement may require the licensee to submit the labels, advertising, stationery, invoices, and other materials for licensor approval. *Cf. In re Rooster, Inc.*, 100 B.R. 228 (Bankr. E.D. Pa. 1989).

In the second example of a typical licensing agreement, a trademark owner that uses a mark KING on rayon yarn, permits another corporation to use the trademark on fabrics made from its yarn. The licensee purchases the yarn from the licensor, and a previously specified testing bureau approves the fabrics made from the yarn. The licensee can use the representation of the mark or "King Tested Quality" on labels, stickers, tags, or other forms of identification on the fabrics. The license may also require that the licensor control the form of the methods of identification. *Cf. Crown Fabrics Corp. v. American Viscose Corp.*, 145 F.2d 246 (C.C.P.A. 1944).

Franchise agreements are more complex than licensing agreements. Franchise agreements offer franchisees a complete method of doing business. *Principle v. McDonald's Corp.*, 631 F.2d 303, 309 (4th Cir. 1980), *cert. denied*, 451 U.S. 970 (1981). The franchisee pays "for the right to become a part of a system whose business methods virtually guarantee his success." *Id.* It is unrealistic to view a franchise as a mere trademark license. *Id.* See generally 1 MCCARTHY, *supra*, § 18:22, at 851-55. The franchisor not only grants a trademark license but often "controls, and leases to the franchisee, the real estate premises used by the franchisee. In addition, the franchisor almost always is the primary, even exclusive supplier of the franchisee's principal sale item." *Malone v. Crown Central Petroleum Corp.*, 474 F. Supp. 306, 309 (D. Md. 1979). This comment's proposal is aimed at licensing arrangements only and does not discuss franchise rejection in bankruptcy. See generally *Midas Int'l Corp. v. M & E Enters. (In re M & E Enters.)*, 23 B.R. 820 (Bankr. S.D. Fla. 1982) (termination of automobile service shop franchise).

2. "Collateral goods" are goods on which the trademark owner has not used a trademark but which are reasonably similar in nature to the goods on which the trademark owner has used the mark. Furthermore, collateral goods may include goods a consumer would use in connection with other goods. See Gregory J. Battersby & Charles W. Grimes, *Merchandising Revisited*, 76 TRADEMARK REP. 271, 274 (1986). For example, in 1981 Winnebago Industries began licensing the WINNEBAGO mark for sleeping bags, tents, and other outdoor camping gear although Winnebago Industries primarily used the mark for recreational vehicles. *Id.*

3. 11 U.S.C. § 365 (1988).

4. *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557, 562 (Bankr. D.R.I. 1990).

ucts.⁵ Trademark licensing is common for businesses wishing to expand their markets.⁶ The promise of large rewards⁷ associated with the good will⁸ of popular trademarks lures other businesses into licensing arrangements with trademark owners. Trademark owners allow these other businesses to place the owners' trademark on their own goods. Thus, the licensees profit from the trademark

5. Scott W. Putney, *Bankruptcy Code v. Lanham Act and Controlled Licensing*, 80 TRADEMARK REP. 140, 140 (1990). The definition of "trademark" under Section 45 of the Lanham Act is, "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify and distinguish his goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown." 15 U.S.C. § 1127 (1988).

6. In 1986, the volume of merchandising activity had grown by several hundred percent from 1980. See Battersby & Grimes, *supra* note 2, at 275. American Greetings, one of the largest greeting card companies in the world, teamed up with General Mills' toy operations and successfully marketed the STRAWBERRY SHORTCAKE character. *Id.* at 273-74. Furthermore, in 1985, The Coca-Cola Company authorized Murjani International, Ltd. to design and manufacture COCA-COLA apparel which grossed an estimated \$100 million. Marks, *supra* note 1, at 647.

7. Consumers rely on trademarks in making purchasing decisions. Comment, *Trademark Licensing: The Problem of Adequate Control*, 1968 DUKE L.J. 875. Because of this reliance by consumers, a company using a well-known trademark through a licensing agreement can expect to draw a large amount of income. For example, it was estimated that the retail sales of STAR WARS and THE EMPIRE STRIKES BACK merchandise exceeded \$1.5 billion since the release of the original motion picture. Battersby & Grimes, *supra* note 2, at 273 n.7. Furthermore, UCLA earned nearly \$500,000 in licensing royalties in 1986. *Id.* at 272. The Battersby & Grimes article notes that a manufacturer who takes a license under a widely recognized trademark, with little or no capital investment, is able to distinguish immediately his products from those of his competition. Battersby & Grimes, *supra* note 2, at 273.

8. "Good will" is the "favorable consideration shown by the purchasing public to goods known to emanate from a particular source." 1 MCCARTHY, *supra* note 1, § 2:8, at 32. Good will is not a tangible or physical object that one can see or feel, but is instead in the minds of the buying public. *Id.* Good will is a business value reflecting the basic human propensity to continue doing business with a company that has offered goods or services which the customer likes and has found adequate for his needs. *Id.* Good will includes good credit, honesty, reliability, or even technical efficiency. 1 RUDOLF CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 1.11, at 36 (1981). Good will is the reasonable expectation of future patronage based on past satisfactory dealings and identification. EDWARD S. ROGERS, GOOD WILL, TRADEMARKS AND UNFAIR TRADING 13 (1914).

Congress did not intend to establish an open market in trademarks that are not associated with any particular goods and consequently enacted a good will requirement for licensing and assignments to prevent such an open market. *Patterson Lab., Inc. v. Roman Cleanser Co.* (*In re Roman Cleanser Co.*), 802 F.2d 207, 209 (6th Cir. 1986). The right to a particular mark derives from its use in connection with an established business or trade. *Sheila's Shine Prods., Inc. v. Sheila Shine, Inc.*, 486 F.2d 114 (5th Cir. 1973). "There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed." 1 MCCARTHY, *supra* note 1, § 2:7, at 28. A trademark, however, may be more than a mere symbol of good will. The mark itself may be an instrument for creating good will. *Id.*

owners' established reputation for quality, or good will.⁹

If a licensee's entire business, however, depends on a trademark license,¹⁰ the owner's rejection may destroy the licensee's business. Rejection of the licensing agreement causes the licensee to forfeit its right to use the trademark regardless of whether a trademark owner intends to continue its own business, either personally or through assignment, after it exits the bankruptcy system. This risk of license rejection creates uncertainty in trademark licensing arrangements and consequently threatens development of economically efficient business practices.

Under Section 365 of the United States Bankruptcy Code ("Section 365"),¹¹ a bankruptcy debtor¹² can reject executory contracts,¹³

9. A manufacturer, by placing a widely recognized trademark on his product, creates instant demand for his product because of the good will already existing in the mark. Battersby & Grimes, *supra* note 2, at 272.

10. See Putney, *supra* note 5, at 155. The licensee usually makes substantial investments in the license, as well as other tangibles and intangibles that are necessary to the formation of a business. Jeffrey R. Seul, Comment, *License and Franchise Agreements as Executory Contracts: A Proposed Amendment to Section 365 of the Bankruptcy Code*, 59 U. COLO. L. REV. 129, 133 (1988).

11. 11 U.S.C. § 365(a) (1988). Section 365(a) reads in pertinent part as follows: "Except as provided in Sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." *Id.*

The debtor can assume an executory contract provided that he cures any defaults or provides adequate assurance that he will promptly cure such defaults. 11 U.S.C. § 365(b)(1)(B) (1988). The debtor can thereafter assign the contract provided that the assignee gives adequate assurance of future performance. 11 U.S.C. § 365(f)(2)(B) (1988). Furthermore, a party may request that the bankruptcy court order the debtor to decide whether to assume or reject the contract within a specified period. 11 U.S.C. § 365(d)(2) (1988). If a debtor-licensor decides to assume the license agreement and assign the trademark, he must do so in accordance with trademark law; specifically, he can only assign the trademark with its associated good will. See Richard Lieb, *The Interface of Trademark and Bankruptcy Law*, 78 TRADEMARK REP. 307, 315-20 (1988). This comment is concerned with debtor-licensor rejection of executory license agreements and does not address debtor-licensee rejection or debtor-licensor and debtor-licensee assumption of executory contracts. The IPBPA only remedied debtor-licensor rejection of executory intellectual property license agreements. See 11 U.S.C. § 365(n)(1) (1988); S. REP. NO. 505, 100th Cong., 2d Sess. 5 (1988). For a discussion of licensee bankruptcy and rejection of software license agreements, see generally J. Dianne Brinson, *Software Distribution Agreements and Bankruptcy: The Licensor's Perspective*, 64 WASH. L. REV. 499 (1989). See also Victoria L. Gres, Comment, *Rejection of Computer Software Licensing Agreements in Bankruptcy*, 8 CARDOZO L. REV. 361 (1986).

12. The Bankruptcy Code refers to the "trustee." However, 11 U.S.C. § 1107 (1988) and Bankruptcy Rule 9001(10) provide that the word "trustee" includes a debtor in possession. Therefore, a debtor in possession is vested with essentially the identical authority granted to a bankruptcy trustee, 11 U.S.C. § 1106 (1988), including the authority to operate the debtor's business. 11 U.S.C. § 1108 (1988). Thus, the rights and remedies of a debtor discussed in this comment apply equally to a trustee under chapter 11 or chapter 7. See Richard Lieb, *The Interrelationship of Trademark Law and Bankruptcy Law*, 64 AM. BANKR. L.J. 1, 6 n.24 (1990) ("trustee" includes debtor in possession); Robert L. Tamietti, *Technology Licenses Under the Bankruptcy Code: A Licensee's Mine*

subject to court approval.¹⁴ A debtor that has granted another the right to use its trademark ("debtor-licensor") can consequently reject the executory license agreement.¹⁵ This rejection unilaterally

Field, 62 AM. BANKR. L.J. 295, 297 n.14 (1988) (debtor in possession has identical authority as trustee).

13. The Bankruptcy Code does not define "executory contract." However, the bankruptcy courts generally rely upon the following definition: "[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, 460 (1973). See *Sharon Steel Corp. v. National Fuel Gas Distrib.*, 872 F.2d 36, 39 (3rd Cir. 1989) (relying on Countryman's definition); *Lubrizol Enters. v. Richmond Metal Finishers (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043, 1045 (4th Cir. 1985) (relying on Countryman's definition), *cert. denied*, 475 U.S. 1057 (1986); *Wilson v. TXO Production Corp. (In re Wilson)*, 69 B.R. 960, 962 (Bankr. N.D. Tex. 1987) (relying on Countryman's definition); *General Motors Acceptance Corp. v. Rose (In re Rose)*, 21 B.R. 272, 275 (Bankr. D.N.J. 1982) (citing Countryman's definition).

The legislative history of Section 365 states, "Though there is no precise definition of what contracts are executory, it generally includes contracts on which performance remains due to some extent on both sides." H.R. REP. NO. 595, 95th Cong., 1st Sess. 347 (1977); S. REP. NO. 989, 95th Cong., 2d Sess. 58 (1978). See *Sharon Steel Corp. v. National Fuel Gas Distrib.*, 872 F.2d 36, 39 n.4 (3rd Cir. 1989) (citing Congress' definition); *Bregman v. Meehan (In re Meehan)*, 59 B.R. 380, 386 (E.D.N.Y. 1986) (citing Congress' definition); *In re Petur U.S.A. Instrument Co.*, 35 B.R. 561, 563 (Bankr. W.D. Wash. 1983) (relying on Congress' definition). See also *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990) (contract is executory if performance is due to some extent on both sides); *In re Chipwich, Inc.*, 54 B.R. 427, 429-30 (Bankr. S.D.N.Y. 1985) (contract is executory if performance is due to some extent on both sides).

The Countryman test is somewhat result oriented in that it is predicated on the policy of benefit to the estate. *In re Booth*, 19 B.R. 53, 57-58 n.6 (Bankr. D. Utah 1982). One court stated that definitions, such as the Countryman test, are helpful, but do not resolve this problem. The key, it seems, to deciphering the meaning of the executory contract rejection provisions, is to work backward, proceeding from an examination of the purposes rejection is expected to accomplish. If those objectives have already been accomplished, or if they can't be accomplished through rejection, then the contract is not executory within the meaning of the Bankruptcy Act.

Chattanooga Memorial Park v. Still (In re Jolly), 574 F.2d 349, 351 (6th Cir.), *cert. denied*, 439 U.S. 929 (1978). See generally Michael T. Andrew, *Current Developments in Executory Contract Law*, 489 PRAC. L. INST. 529 (1989).

14. See *infra* note 25 for a discussion of how a debtor can easily obtain court approval for its decision to reject an executory trademark licensing contract.

15. See *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557 (Bankr. D.R.I. 1990). In *Blackstone*, the debtor licensed its trademark for potato chips, BLACKSTONE, to the licensee for use on the licensee's popcorn. *Id.* at 559. The licensee rented space from the licensor and assumed truck rental payments. *Id.* The licensee further purchased certain inventory of the licensor. *Id.* The licensor produced popcorn for the licensee and allowed the licensee to use the trademark for four years. *Id.* The court held that the license was executory and authorized the licensor to reject the contract. *Id.* at 561. Thus, the valuable trademark right under the license agreement was unilaterally extinguished after the licensee spent considerable time negotiating and after the licensee established a four year expectation. The value of the trademark was considerable, and thus the debtor-licensor deter-

extinguishes the right of the licensee to use the licensed trademark.¹⁶ Until 1988, any debtor-licensor of intellectual property could reject its license agreements.¹⁷ With the passing of the Intellectual Property Bankruptcy Protection Act of 1988 ("IPBPA"),¹⁸ Congress amended the Bankruptcy Code to protect specifically defined¹⁹ intellectual property licensees. Unfortunately, however, Congress deliberately declined to address rejection of executory trademark, trade name²⁰ or service mark²¹ licenses, believing the

mined that it could bring assets into its estate by rejecting the license agreement. *Id.* at 559.

Trademark license agreements are always executory because there is an ongoing relationship between the parties, with the licensor continuously controlling the quality of the goods or services the licensee sells. *See* *Seul*, *supra* note 10, at 132.

16. The licensee, in effect, cannot display the trademark on its goods anymore if the licensor rejects the license. It must remove the trademarks from the labels and tags of the goods which it possesses. The licensee cannot distribute equipment on which the trademark is attached. In some situations, the licensee's entire business is built around the license agreement. For instance, a tie manufacturer who is licensed to display a certain trademark on his ties to distribute to resale outlets may be manufacturing only ties with that particular trademark. In this situation, the business may now have to find another source of business. Because the licensee was trading off of the good will that was presumably already built up in the trademark, the loss of the use of the trademark is a loss of a considerable investment.

17. *See* *Lubrizol Enters. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043 (4th Cir. 1985) (rejection of technology license), *cert. denied*, 475 U.S. 1057 (1986); *In re Chipwich, Inc.*, 54 B.R. 427 (Bankr. S.D.N.Y. 1985) (rejection of trademark license).

18. Pub. L. No. 100-506, 102 Stat. 2538 (codified as amended at 11 U.S.C. §§ 101(52)-(53), 365(n) (1988)).

19. As amended, the new § 101(52) of the Bankruptcy Code defines "Intellectual property" for purposes of § 365 as:

- (A) trade secret;
- (B) invention, process, design, or plant protected under title 35;
- (C) patent application;
- (D) plant variety;
- (E) work of authorship protected under title 17; or
- (F) mask work protected under chapter 9 of title 17.

11 U.S.C. § 101(52) (1988). The definition is broad and Congress intended courts to interpret it liberally to carry out its intent to remove the cloud *Lubrizol* cast upon the intellectual property licensing system. S. REP., *supra*, note 11, at 7. The Act does not define or alter any substantive intellectual property law, it merely refers to those rights which are already protected by applicable nonbankruptcy law. *Id.* However, note the absence of trademarks, trade names or service marks from the definition.

20. "Trade names" are "the names of titles lawfully adopted and used by persons, firms, associations, corporations, companies, unions, and any manufacturing, industrial, commercial, agricultural, or other organizations engaged in trade or commerce and capable of suing and being sued in a court of law." 15 U.S.C. § 1127 (1988). Trade names identify businesses, vocations, or occupations. *Id.*

21. "Service marks" are marks "used in the sale or advertising of services to identify and distinguish the services of one person, including a unique service, from the services of others and to indicate the source of the services, even if the source is unknown." 15 U.S.C. § 1127 (1988).

matter to be in need of more extensive study.²²

This comment discusses Congress' exclusion of trademarks²³ from the protection which the IPBPA affords other forms of intellectual property. Part I of this comment discusses the background of the executory contract rejection problem and the passing of the IPBPA in this context. Next, Part II examines the economic costs of executory trademark license rejection and the risks that a trademark licensee faces under the present bankruptcy law. Part III discusses Congress' reasons for excluding trademarks from the IPBPA, and advocates that Congress must afford trademark licenses similar protection.²⁴ Finally, Part IV proposes an amendment to Section 365 which would protect trademark licensees from deprivation of their license rights. This comment's proposal allows for a licensee's continuation of its license rights even if a debtor-licensor rejects its license agreement, as long as the debtor-licensor or an assignee intends to continue the business and the business' associated good will.

I. BACKGROUND TO EXECUTORY CONTRACT REJECTION AND THE IPBPA

Under Section 365, a debtor may reject an executory contract that the debtor, pursuant to its business judgment, deems burdensome.²⁵ A rejection acts as a breach²⁶ which replaces the nondebtor's contract rights with a pre-petition general unsecured claim for the resulting damages under Section 502(g) of the Bank-

22. S. REP., *supra* note 11, at 5. Interestingly, the United States Trademark Association objected to including trademarks in the IPBPA. G. Gervaise Davis III, *Issues and Concerns in Software Licenses and Support Agreements*, 272 PRAC. L. INST. 465, 473 (1989).

23. This comment will use the term "trademark" to include both "trademarks" and "service marks."

24. Trademarks are a different form of intellectual property than patents and copyrights. See 1 MCCARTHY, *supra* note 1, § 6:1, at 73. Their unique characteristics, however, should not prevent a similar treatment under the Bankruptcy Code. But in a similar vein, merely because trademarks are tagged "intellectual property" does not mean that the law should treat trademarks the same as other intellectual property in all circumstances. Therefore, this comment will not rely upon a simple analogy between trademarks and patents and propose that all intellectual property be treated alike. See FRANCIS H. UPTON, TREATISE ON THE LAW OF TRADEMARKS 14 (1860) ("The right of property in trademarks does not partake in any degree of the nature and character of a patent or copyright, to which it has sometimes been referred—nor is it safe to reason from any supposed analogies existing between them").

25. See *Lubrizol Enters. v. Richmond Metal Finishers, Inc.* (*In re Richmond Metal Finishers, Inc.*), 756 F.2d 1043 (4th Cir. 1985), (rejection of technology license pursuant to business judgment) *cert. denied*, 475 U.S. 1057 (1986); *In re Chipwich, Inc.*, 54 B.R. 427 (Bankr. S.D.N.Y. 1985) (rejection of trademark license pursuant to business judgment). A debtor cannot reject parts of a contract and assume others. Brinson, *supra* note 12, at 513. Property which is burdensome would diminish rather than benefit an estate available for distribu-

ruptcy Code.²⁷ Rejection allows a debtor to disassociate itself from burdensome entanglements, and relieves the debtor's property from any further contractual restrictions.²⁸ In addition, rejection furthers the underlying policy of reorganization under chapter 11 of the Bankruptcy Code, which is to avoid liquidation of assets, and to thus preserve the jobs and economic resources which the debtor's business creates.²⁹ Nevertheless, rejection creates an unjust forfeiture of property rights when a nondebtor has obtained a property interest in connection with a debtor's executory contract. Many commentators have criticized the inequity which Section 365 creates,³⁰ and Congress has subjected the section to a number of

tion to the debtor's creditors. See Lee Silverstein, *Rejection of Executory Contracts in Bankruptcy and Reorganization*, 31 U. CHI. L. REV. 467, 472 (1964).

The standard which bankruptcy courts generally follow to determine whether to approve rejection of an executory contract is the "business judgment" test which requires a factual finding that the contract is burdensome. *NLRB v. Bildisco & Bildisco*, 465 U.S. 513 (1984); *Lubrizol*, 756 F.2d at 1045; *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557 (Bankr. D.R.I. 1990). The bankruptcy courts defer to the debtors' judgment and will not substitute their judgment for the debtor's. *Lubrizol*, 756 F.2d at 1047 (courts should defer to, and should not interfere with, decisions of corporate directions upon matters entrusted to their business judgment).

Debtor-licensors have effectively used Section 365 in recent years to reject license agreements they consider burdensome. See *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990). A bankruptcy court will not, however, authorize rejection if the debtor does not act both in good faith and with a valid reorganization purpose. *In re Southern California Sound Sys., Inc.*, 69 B.R. 893, 899 (Bankr. S.D. Cal. 1987). In other words, the sole objective of filing for bankruptcy relief cannot be to reject a hastily-formed contract. *Id.* at 898.

26. 11 U.S.C. § 365(g)(1) (1988).

27. 11 U.S.C. § 502(g) (1988). A bankruptcy court may discount the amount of any claim for damages to its present value as of the date of commencement of the debtor's chapter 11 case. *In re O.P.M. Leasing Servs.*, 79 B.R. 161, 165-66 (S.D.N.Y. 1987).

28. Tamietti, *supra* note 12, at 299. In *Lubrizol Enters. v. Richmond Metal Finishers, Inc. (In re Richmond Metal Finishers, Inc.)*, 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986), the debtor sought to reject the contract in order to facilitate a sale or license of its technology uninhibited by the restrictive provisions in the license with the licensee. *Id.* at 1045.

29. *Lubrizol*, 756 F.2d at 1045.

30. See Michael A. Bloom & Bryna L. Singer, *The Revised Section 365: Lessor's Panacea?*, 63 AM. BANKR. L.J. 199 (1989); Hon. Howard C. Buschmann III, *Benefits and Burdens: Post-Petition Performance of Unassumed Executory Contracts*, 5 BANKR. DEV. J. 341 (1988); Ronald W. Truman, Comment, *Assumption of Unexpired Leases Under Section 365(d)(4)*, 1986 B.Y.U. L. REV. 1121; Diane Banks, Comment, *Section 365 of the Bankruptcy Code: Out of Balance After 1984?*, 1986 UTAH L. REV. 781. See also Benjamin Weintraub & Alan N. Resnick, *From the Bankruptcy Courts: What is an Executory Contract? A Challenge to the Countryman Test*, 15 U.C.C. L.J. 273 (1983) (discusses the criticisms of the Countryman test for determining whether a contract is executory). Congress emphasized that it viewed a comprehensive re-working of Section 365 as the best way in the long run of dealing with areas requiring special exceptions to Section 365. H.R. REP. NO. 1012, 100th Cong., 2d Sess. 3 (1988). "Section

exceptions.³¹

Prior to its amendment in 1988, Section 365 created an inequitable situation when an intellectual property licensee faced a debtor-licensor's rejection of its license agreement.³² The problem first became apparent in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*³³ In *Lubrizol*, the United States Court of Appeals for the Fourth Circuit held that a technology³⁴ licensor could unilaterally reject its license agreement under Section 365, consequently discharging the right of the licensee to use the intellectual property.³⁵ Because many businesses rely on intellectual property rights as a vital resource for survival,³⁶ many businesses were faced

365 should be revised as a whole and fashioned so as to apply consistency in all situations." *Id.*

31. The Bankruptcy Code currently provides protection from debtor rejection for real estate leases, 11 U.S.C. § 365(h)(1) (1988), timeshare interests, *id.*, contracts for the sale of real property, 11 U.S.C. § 365(i)(1) (1988), collective bargaining agreements, 11 U.S.C. § 1113 (1988), and health, life, and disability benefits promised to retired workers, 11 U.S.C. § 1114 (1988), as well as intellectual property, 11 U.S.C. § 365(n)(1) (1988).

32. See generally Tamietti, *supra* note 12. Senator DeConcini criticized the "technical dissection of intellectual property licensing agreements" which led to situations "where a completed transaction involving intellectual property is really nothing more than a promise that can be broken." S1626, 100th Cong., 1st Sess., 133 CONG. REC. S11,653 (1987).

33. 756 F.2d 1043 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986).

34. The technology involved in the *Lubrizol* license was a metal coating process. *Id.* at 1045. The licensor, Richmond Metal Finishers, owed three duties to the licensee, Lubrizol, under the agreement. The first duty was to notify Lubrizol of any patent infringement suit and to defend in such suit. *Id.* Second, the licensor had a duty to notify Lubrizol of any other use or licensing of the process, and to reduce royalty payments if a lower royalty rate agreement was reached with another licensee. *Id.* Third, the licensor had a duty to indemnify Lubrizol for losses arising out of any misrepresentation or breach of warranty by the licensor. *Id.* Lubrizol's reciprocal duties included accounting for and paying royalties for its use of the process and of canceling certain existing indebtedness. *Id.*

35. 756 F.2d at 1048. The *Lubrizol* court held that the license was executory and subject to rejection. *Id.* at 1046. The court went on to say that, even though Lubrizol could treat rejection as a breach, it could not seek to retain its rights under the contract and thus could not rely on the agreement for continued use of the technology. *Id.* at 1048. The court noted that it would not entertain equitable considerations with respect to this type of contract, reasoning that Congress plainly provided for the rejection of executory contracts notwithstanding the obvious adverse consequences on the contracting parties. *Id.* Mentioning that Congress has afforded special treatment for some types of executory contracts in the Bankruptcy Code, the *Lubrizol* court went on to say that the Code does not contain any comparable treatment of technology licensees. *Id.* "They share the general hazards created by section 365 for all business entities dealing with potential bankrupts." *Id.*

36. Licenses are an economic advantage for businesses and manufacturers. Companies which otherwise could not bring new products into the marketplace rapidly because of the expenditure of time and money on risky research and development projects can instead rely on license agreements. See Tamietti, *supra* note 12, at 296. Licenses are generally based on relatively small initial payments relative to the costs of acquiring the patented product or process it-

with financial ruin due to the precedent which the *Lubrizol* case established.³⁷

The IPBPA³⁸ was Congress' solution to the unjust results that the *Lubrizol* case presented. Congress was concerned about the

self. *Id.* This allows the manufacturer to avoid high initial acquisition costs as long as it regularly pays royalty payments to the licensor throughout the term of the licensee agreement. *Id.*

37. See *Infosystems Technology, Inc. v. Logical Software, Inc.*, Bankr. L. Rep. (CCH) 1,899 (D. Mass. 1987), *rev'g sub nom In re Logical Software, Inc.*, 66 B.R. 683 (Bankr. D. Mass. 1986) (remanded to determine whether rejection will benefit the general unsecured creditors thus requiring the balancing test). Senator DeConcini, when he introduced the IPBPA, stated that Congress was concerned that successful businesses would fold because they would no longer have access to the intellectual property that they built their foundation on in the first place. S1626, 100th Cong., 1st Sess., 133 CONG. REC. S11,653 (1987).

38. Pub. L. No. 100-506, 102 Stat. 2538 (codified as amended at 11 U.S.C. §§ 101(52)-(53), 365(n)). The IPBPA amended 11 U.S.C. § 365 to read in pertinent part as follows:

(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect

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

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

(i) the duration of such contract; and

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

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

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

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

(C) the licensee shall be deemed to waive

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

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

(3) If the licensee elects to retain its rights . . . then on the written request of the licensee the trustee shall

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

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

damaging effect that it anticipated the *Lubrizol* decision would have on technological development.³⁹ Not only did Section 365 relieve the debtor of its ongoing affirmative performance obligations⁴⁰ under the executory license agreement, but it also relieved the debtor of its passive obligation to permit the licensee to use the intellectual property.⁴¹ Under this view, rejection of the license resulted in valuable rights reverting to the bankruptcy estate.⁴² Once these rights revert to the bankruptcy estate, a licensee can no longer benefit from use of the intellectual property. The United States Senate stated that the instability that Section 365 created for intellectual property licensing relations would force parties, who would have formerly accepted licenses, to demand assignments.⁴³ This demand for outright transfers of ownership of the intellectual property is wasteful and chilling to business innovators who would otherwise benefit from keeping their ownership rights.⁴⁴

11 U.S.C. § 365(n)(1), (2), and (3) (1988).

Although the licensee waives any right to setoff and an administrative claim, it does not waive the general damages claim allowed under Section 365(g). S. REP., *supra* note 11, at 10. See Andrew, *supra* note 13, at 557. For a discussion of the status of a general damages claim, see *infra* text accompanying notes 71-73.

39. S. REP., *supra* note 11, at 1. Licensing of technology plays a substantial role in the process of technological development. *Id.* at 3. The Senate noted that the process of innovation "begins with an inventive concept and must proceed through an expensive and risky series of steps including research, development, manufacturing and marketing. At each step, both money and additional refinement are only available through the participation of persons other than the original innovator." *Id.*

40. Such on going affirmative performance obligations would include the duties to update the technology, to maintain the technology, and to inform the licensee of changes or improvements in the technology. See Seul, *supra* note 10, at 146.

41. S. REP., *supra* note 11, at 2.

42. *Id.* at 2-3.

43. *Id.* at 3.

44. *Id.* The Senate noted that, when technology licenses are assigned as opposed to licensed, the creator is then "either totally alienated from his creation or, at best, given a license by the assignee. Such circumstances create obvious disincentives to the full development of intellectual property." S. REP., *supra* note 11, at 4. Licensing allows the original innovator to retain ownership of his invention so that he shares in the ultimate economic reward, while also sharing that reward as reimbursement to those who have provided the financing and refinement necessary to achieve economic success. *Id.* at 3. Licensing is a mechanism whereby the innovator can seek others to help market in identified areas in which the invention may have uses without risking the probability that one developer's narrow focus will deny him the rewards of development in another area. *Id.* In introducing the bill, Senator DeConcini stated that the system of licensing as opposed to assignment, evolved to assure "a full and fair development opportunity for patents, copyrights, trade secrets, and trademarks. Through the use of nonexclusive licenses, different commercial applications of intellectual property develop in different geographic markets." S1626, 100th Cong., 1st Sess., 133 CONG. REC. S11,653 (1987).

Thus, to countermand these negative results, Congress passed the IPBPA. The IPBPA provides that, in the event a bankruptcy debtor rejects an intellectual property license, the licensee has two options: either (1) treating the license as terminated; or (2) retaining the rights granted prior to the filing of the bankruptcy petition, with the exception of the right to compel specific performance.⁴⁵ This provision allows a business relying on a license agreement to continue its use of the intellectual property⁴⁶ while still relieving the debtor of its obligations under the license agreement. The IPBPA, however, failed to cover trademark licensing agreements.⁴⁷

45. 11 U.S.C. §§ 365 (n)(1)(A) and (B) (1988). See Andrew, *supra* note 13, at 554-55; Daniel T. Brooks, *Intellectual Property Bankruptcy Protection Act of 1988*, 272 PRAC. L. INST. 575, 634-35 (1989); Thomas M.S. Hemnes, *Senate 1626: Battling the Windmills of Bankruptcy*, 255 PRAC. L. INST. 715, 720-21 (1988); Lieb, *supra* note 11, at 314 n.35; Lieb, *supra* note 12, at 37; Putney, *supra* note 5, at 156; Cary H. Sherman & Jonathan S. Berck, *A Practitioner's View of Source Code Escrows*, 259 PRAC. L. INST. 173, 198 (1988); Seul, *supra* note 10, at 144 n.81. "Retention of contractual rights, both in extent and quality, is a central aim of the [IPBPA]." S. REP., *supra* note 11, at 9.

46. Putney, *supra* note 5, at 156. However, the licensor's duties to service the licensed technology, to provide updates and improvements for the licensed technology, to provide the licensee with continued training in the use of the technology, or to indemnify or defend the licensee from infringement claims are no longer operational. See H.R. REP., *supra* note 30, at 7. Debtor-licensors are still "able to free themselves of burdensome obligations by rejecting license agreements" under the IPBPA, only the licensees now "have the assurance of being able to continue to use the licensed intellectual property after rejection." *Id.* at 5. The licensee must still prepare for the loss of these contractual rights. Tamietti, *supra* note 12, at 310. However, a licensee that retains its rights under the rejected license agreement "remains bound by the other obligations or duties required under the contract except for those so directly related to obligations or duties that the licensor has been freed from by rejection as to make it inequitable to bind the licensee to them." H.R. REP., *supra* note 30, at 7.

47. The original draft of the IPBPA contained a proposal for protecting trademarks but it was subsequently dropped. This proposal provided, in pertinent part:

(n)(2) . . . The trustee may not interfere with the grantee's rights

(C) in the case of a trademark, trade name, service mark, or similar intellectual property, to permit existing grantees to continue in concert the quality assurance procedures of the licensor.

S1626, 100th Cong., 1st Sess., 133 CONG. REC. S11,653 (1987). See Hemnes, *supra* note 45, at 722. Hemnes notes that this proposal "invited disapprobation from the trademark bar" because it presumes that the licensee enjoys a "right" to "permit" other licensees to continue the quality control provisions. *Id.* Hemnes labels this presumption as "nonsensical." *Id.* However, the problem with the original draft was in its drafting, not in its effect. Licensees surely do not have a "right" to allow other licensees to continue the quality control, however, licensees would still have a *duty* to maintain the quality and would still have the right to enjoy the use of a trademark without a licensor's interference.

II. REJECTION OF EXECUTORY TRADEMARK LICENSES: THE PROBLEM

The economic costs that rejection of a trademark license agreement poses becomes apparent when one weighs the value and purpose of trademarks against the effects of the loss of the licensee's rights. Trademarks and trademark licenses serve a valuable economic function. Rejection, on the other hand, creates no measurable benefit and only hinders economic development. Coupled with these costs, the ease with which rejection is possible creates a considerable risk to a licensee wishing to effectively compete in its industry through its use of licensing agreements.

Federal trademark law satisfies two basic purposes.⁴⁸ It protects the public,⁴⁹ and it protects a trademark as a valuable property right.⁵⁰ First, trademark law protects the public by fostering bene-

48. Both common law and statutory trademark rights and remedies are directed toward a dual purpose. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412-13 (1916). Though the trademark provides a means for an entrepreneur to capitalize on any good will his business has created, protection of the public seems to be the more dominant theme in the trademark cases. Comment, *supra* note 7, at 878-79 n.7.

The intent of the Lanham Act, as stated in § 45, is as follows:

The intent of this Act is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce . . . to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks.

15 U.S.C. § 1127 (1988). The most important of the Lanham Act's benefits are constructive notice, incontestability, and the right to a federal cause of action. *PATTISHALL & HILLIARD, supra* note 1, § 3.02, at 88 (1987). Registration under the Lanham Act also provides prima facie evidence of the validity of the registration, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the mark in commerce on the goods or services specified in the registration certificate. 15 U.S.C. § 1057(b) (1988). The Lanham Act provides civil remedies for infringement. 15 U.S.C. §§ 1116-20 (1988).

49. See Stephen L. Carter, *The Trouble with Trademark*, 99 *YALE L.J.* 759, 579 (1990). Carter states that the legal protection of trademarks provides incentives for firms to make investments aimed at gaining consumer confidence in their marks. *Id.* "Successful marks are like packets of information. They lower consumer search costs, thus promoting the efficient functioning of the market." *Id.* See also Putney, *supra* note 5, at 157 ("Trademarks buttress our free enterprise system and stimulate our economy").

50. Lieb, *supra* note 12, at 5; *Patterson Lab. Inc. v. Roman Cleanser Co. (In re Roman Cleanser Co.)*, 43 B.R. 940 (Bankr. E.D. Mich. 1984), *aff'd*, 802 F.2d 207 (6th Cir. 1986). "In the sense of an 'exclusive right' trademarks can be categorized as a form of 'property': The right to use a trademark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has been actually used." 1 MCCARTHY, *supra* note 1, § 2:6, at 20. *But see* PATTISHALL & HILLIARD, *supra* note 1, § 1.03, at 5 ("The 'property' concept, nevertheless, is logically incompatible and irreconcilable with the historic deception as to source rationale for trade identity, trademark and unfair competition law."). While trademarks can be considered "property," this characterization often "creates more confusion than clarity." 1 MCCARTHY, *supra* note 1, § 2:6, at 20.

ficial economic practices. Trademarks themselves promote technological advancement through competition and improve the quality of life.⁵¹ Trademarks foster economic freedom by encouraging entrepreneurial investment and by preventing public deception.⁵² Second, federal trademark law protects the trademark's drawing power,⁵³ which is valuable to any business.⁵⁴ This value, independent of the trademark's role in source differentiation and identification, makes it a form of property many businesses desire to use.

A trademark license permits another to market goods using the licensor's trademark.⁵⁵ The grant of a license is in the nature of a conveyance of a property right.⁵⁶ The essential element in any

51. Putney, *supra* note 5, at 157. See *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985) (trademarks foster competition and the maintenance of quality).

52. Putney, *supra* note 5, at 144. Putney states:

The legal protection given to trademarks secures to the owners thereof the good will created by the sale of products of high quality. The investment in quality symbolized by a trademark is protected against infringement. Competition in quality is fostered, and the public is protected from deceit and assured that it is purchasing the product represented by a known trademark.

Id. A business whose goods are known on the market and distinguished from others has good will which courts protect against another's use or imitation in any way likely to deceive the public as to the origin of the product. See *PATTSHELL & HILLIARD, supra* note 1, § 1.02.

53. See *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942). In *Mishawaka Rubber*, Justice Frankfurter stated,

The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the *drawing power* of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.

Id. at 205. A trademark's drawing power is evident in that consumers almost entirely make purchasing decisions based upon trademarks. Comment, *supra* note 7, at 875.

54. The value of a trademark is proportional to the good will that it signifies. Carter, *supra* note 49, at 761 n.5. Carter's article describes how the full cost of goods to a consumer is the price of the goods plus the consumer's cost of searching for the goods. *Id.* at 763. The value to the company comes from the increased good will behind the trademark and the larger number of consumers who attach a positive association to the trademark. *Id.* The company will consequently make more sales at a higher price. *Id.* After a company has invested in features that make a trademarked product appealing to the public, any business which uses the mark through a license has instant good will and an instant market. Cf. *Battersby & Grimes, supra* note 2, at 273 (licensee can immediately distinguish his product from his competitor's).

55. Putney, *supra* note 5, at 140.

56. Lieb, *supra* note 12, at 36.

trademark license is the continuing obligation of the licensor to permit the licensee's use of the trademark⁵⁷ in connection with the sale of the licensee's goods.⁵⁸ In exchange, the licensee has a continuing obligation to pay royalties to the licensor and to maintain the quality of the product which bears the trademark.⁵⁹ Licensing agreements save the licensee from the initial costs of establishing a business and acquiring its own trademark. Businesses have recently developed additional forms of trademark licensing, such as merchandising,⁶⁰ collateral product licensing,⁶¹ and character licensing, which are different from standard licensing agreements.⁶² These growing forms allow the use of a mark on goods that are different from those goods which the owner first produced with the mark.⁶³ The business community's increased activity in these forms of licensing exemplifies the importance of trademark licensing.

A licensee's loss of its trademark rights has broad economic costs. The trademark is, at least temporarily, removed from the market. This removal potentially diminishes the debtor-licensor's good will because the public is no longer exposed to the debtor-licensor's trademark. Thus, the public is unable to identify that owner as the source of any desirable product. Furthermore, removal of the trademark from the market increases consumer search costs.⁶⁴ Because trademarks are "packets of information,"⁶⁵

57. Trademarks are more commonly used by placing the mark on product packages, signs, tags, and through advertising. 1 MCCARTHY, *supra* note 1, § 17:14 C. The licensee need not display the licensor's trade name on the tags and packages, only the licensed mark and the name of the licensee need appear. Coolley, *supra* note 1, at 317; 1 MCCARTHY, *supra* note 1, § 18:14 C.

58. Putney, *supra* note 5, at 140.

59. *Id.*

60. Historically, "merchandising" was sales promotion which comprehensively consisted of market research, development of new products, coordination of manufacture and marketing, and effective advertising and selling. Battersby & Grimes, *supra* note 2, at 271. Today, a large part of the merchandising format is the use of words, names, titles, symbols, designs, character or personality images or likenesses, or combinations thereof which have acquired a wide degree of public recognition through mass media exposure. *Id.* at 272. Different identifiable forms of merchandising may include character licensing, national brands, designer names, athletic teams and their star players, rock stars, colleges, and universities. *Id.* This use is primarily on goods and for the sole purpose of arousing consumers who identify with the various symbols and compelling them to buy those goods because they do identify with the marks. *Id.*

61. See *supra* note 2.

62. Marks, *supra* note 1, at 646.

63. *Id.*

64. For a thorough economic analysis of the value of trademarks in relation to consumer search costs, see William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268-70 (1987). See also 1 MCCARTHY, *supra* note 1, § 2:1, at 47-49 (economic analysis of trademarks).

removal of the trademark from the market environment decreases the net economy of information available to the public.⁶⁶ Consequently, the economy suffers from the increased costs to consumers who must find products comparable to those with which they are familiar by resorting to alternate channels of information.

Moreover, trademark license rejection creates no measurable benefits, and the costs of rejection are unduly one-sided. Because a trademark owned by a title 11 debtor is an executory contract within the meaning of Section 365 of the Bankruptcy Code,⁶⁷ the owner of the mark is entitled to exercise the right of rejection.⁶⁸ Thus, the debtor-licensor may terminate the right of the licensee to use the trademark or to enjoy any other rights⁶⁹ the licensor granted in the agreement. Section 502(g)⁷⁰ of the Bankruptcy Code replaces these contract rights with an unsecured claim for the resulting damages.⁷¹ However, because the Bankruptcy Code treats the nondebtor as a mere unsecured creditor,⁷² the licensee will likely receive only a small proportion of its total damage claim from the estate's distribution to its unsecured creditors.⁷³ As a result, the licensee not only loses its rights when the trademark reverts back to the bankruptcy estate, but it receives little or no compensation.⁷⁴

65. Carter, *supra* note 49, at 759.

66. See Carter, *supra* note 49, at 762-63. With the removal of the trademark, even if only temporarily, consumers are forced to find products of similar quality to that of the original business which has presumably already built up its good will. This creates increased product search costs because consumers must now purchase and test other products to determine whether those products are compatible with those which the consumers have been purchasing. Because trademarks serve an informational purpose, removal of the trademark lowers the net economy of information available to consumers from which consumers make their purchasing decisions. See *id.*

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

68. *Id.*

69. The other rights typically accompanying a trademark license may include the right to have the licensor inform the licensee of new creative developments, the right to have the licensor refrain from entering into other agreements or marketing the subject of the agreement on its own, and the right to have the licensor defend or prosecute infringement suits. See Seul, *supra* note 10, at 133.

70. 11 U.S.C. § 502(g) (1988).

71. Seul, *supra* note 10, at 146-47.

72. A general unsecured creditor includes an "entity that has a claim against the debtor that arose at the time of or before the order for relief concerning the debtor," and an entity that has a claim against the estate under Section 502(g), such as a licensee whose license the licensor rejected. 11 U.S.C. § 101(9) (1988).

73. Seul, *supra* note 10, at 146-47.

74. Prohibiting the use of a licensor's trademark would disrupt the licensee's business. To remain in business, the licensee must change all of its signs, product lines, and advertising to eliminate the trademarks thus incurring substantial expense. Cf. Culligan Intn'l Co. v. Culligan Water Conditioning, Inc., 563 F. Supp. 1265, 1272 (D. Minn. 1983) (substantial disruption of business re-

Furthermore, the ease with which a licensor can reject its license agreements under Section 365 creates a substantial risk of license divestiture to a licensee. The bankruptcy courts follow a "business judgment" test when authorizing a debtor-licensor's rejection of its license agreement, which a debtor-licensor can easily satisfy by demonstrating that the license is burdensome.⁷⁵ Bankruptcy courts defer to the business judgment of a debtor.⁷⁶ Currently, the law does not afford trademark licensees protection from a debtor-licensor's mere exercise of its business judgment to breach its contract.⁷⁷ Thus, the risk of a debtor-licensor's rejection creates uncertainty for licensees because they can not expect any genuine finality to license agreements. For example, a licensee's rights under a license may not continue as long as it originally planned. Consequently, its business plans are subject to unforeseeable and uncontrollable time limitations. This uncertainty may decrease a licensee's cost in procuring an agreement because the parties may deduct a risk factor from the royalties payable to a licensor. However, the risk also significantly lowers the overall value of the license to a licensee.

Based on the preceding facts, it is apparent that rejection not only hinders economic development, but also imposes unjustifiable costs on individual businesses. The law should not create an atmosphere that favors forfeiture and diminishes progress. Small businesses and consumers should not bear the cost of uncertainty in business affairs without compelling reasons.

III. CONFRONTING THE REASONS FOR EXCLUSION

Congress refused to include trademarks in the Bankruptcy Code's definition of "Intellectual Property,"⁷⁸ thus excluding them from the protection of the IPBPA, for three reasons. First, Congress was concerned that Section 365 would inhibit technological

sults when business is forced to change advertising to eliminate trademark); *In re Vylene Enters.*, 63 B.R. 900, 911 (Bankr. C.D. Cal. 1986) (preliminary injunction prohibiting use of trademarks would require change of signs and advertising). The licensee's whole marketing strategy would change and the licensee would certainly have to find another trademark to do business under. Finding another trademark can be time consuming and expensive, involving search costs, equipment, and sign changes.

75. See *supra* note 25 and accompanying text for a discussion of the business judgment test.

76. See *supra* note 25 and accompanying text for a discussion of the deference given to a debtor's business judgement.

77. See Lieb, *supra* note 12, at 4 ("At present there is no bankruptcy law statute which deals specially with trademarks or one that even uses the word 'trademark.' Nor is there any reference to 'bankruptcy' in the statutory law dealing with trademarks.").

78. See *supra* note 19 for the Bankruptcy Code's definition of "Intellectual Property" for purposes of Section 365.

development which is associated more with patents and other forms of intellectual property.⁷⁹ Second, Congress noted that trademark licensing relationships are unique in that they depend to a large extent on the licensor's control of the quality of the products or services that the licensee sells.⁸⁰ Third, Congress determined that it should postpone action in this area to allow the bankruptcy courts the opportunity to develop an equitable treatment of the problem.⁸¹ However, none of these reasons survive careful scrutiny.

First, Congress' concern with Section 365's effect on technological development, coupled with Section 365's potentially damaging effect on economic development, must also persuade Congress to treat trademarks similarly. A licensee's loss of trademark license rights has a hindering effect on both technological development and economic development.⁸² Trademarks promote technological advancement.⁸³ In fact, trademark licenses frequently accompany technology licenses⁸⁴ and thereby generate incentives to invest in

79. See discussion in S. REP., *supra* note 11, at 2-5.

80. *Id.*

81. *Id.*

82. Congress was most concerned with Section 365's effect on technological development. *Id.* However, competition is another value that the licensing laws should encourage. The risks of bankruptcy and the atmosphere of fear Section 365 creates should not dampen that value.

83. Putney, *supra* note 5, at 157.

84. Comment, *supra* note 7, at 885. See *Adam v. Folger*, 120 F. 260 (7th Cir. 1903). In *Adam v. Folger*, the Seventh Circuit held that a particular trademark license was a natural consequence of the patent license. *Id.* at 264. The process of technology licensing involves an inventive concept which proceeds through an expensive series of steps including manufacturing and marketing. See S. REP., *supra* note 11, at 3. The manufacture and marketing of patents or software would thus involve a scheme by which the owner would "name" his product with a trademark in order to quickly develop good will and public recognition.

In some situations, the use of a trademark is a material part of the value of software licenses. Davis, *supra* note 22, at 473. Thus, the loss of the right to use the trademark in conjunction with the software may create an alarming problem. Davis states,

For the present, no one seems to know how best to deal with this situation, except that it would seem important to provide [in the license agreement] that the licensee may continue to use the software, but be relieved of any obligation to use the trademark. As many software licenses require that the trademark be used, in order to protect the quality and preserve some uniformity, some [contract] provision is needed.

Id. at 474.

An example of this situation is where an owner of a computer software program, which is capable of proofreading grammar for a particular word processor, licenses its software to a company which produces different types of personal word processing units. The licensee uses the software for its word processor and must affix the trademark on its packages and products. If the licensor rejects the license agreement, the licensee must remove the trademarks from its word processors, packages, and marketing methods. The agreement may have provided that the licensee only use the software in conjunction with the trademark, in order to preserve uniformity with other uses of the

technology. The uncertainty in the licensing environment, however, makes businesses apprehensive about entering into a complex marketing or manufacturing scheme for fear of having to later start over again. Congress was, thus, incomplete in its protection of technology under the IPBPA. Therefore, the equally important economic function of trademarks, coupled with rejection's hindrance of technological development, requires an equal level of concern for trademarks.

Second, the unique nature of the licensor's duty of quality control⁸⁵ is inconsequential to exempting trademarks from rejection under Section 365. The duty of a licensor to control the quality of a licensee's goods under a license agreement does, at first glance, seem incompatible with the rejection provision of the Bankruptcy Code.⁸⁶ On the surface, a licensor's duty is incompatible with rejection because the duty is burdensome and potentially draining on the bankruptcy estate's assets. Furthermore, any trimming of the trustee's power of rejection makes administering the estate more difficult and reduces the recovery of unsecured creditors.⁸⁷

However, Congress has created exceptions for similar situations. The quality control requirements in trademark licensing agreements are similar to the requirements of other intellectual property relationships. Patent license agreements, for instance, frequently require obligations on the part of the licensor. These duties include the licensor's obligation to continually update and maintain the technology included in the license agreement.⁸⁸ These requirements inure to the benefit of consumers to some degree.⁸⁹ Because

software which the owner may license to others, and to indicate the source of the quality of the particular program. In cases where the licensee sells to a particularized market, the trademark may be an important component to symbolize the high quality of the components of the particular goods.

85. Quality control is an important function in trademark licensing. See 1 MCCARTHY, *supra* note 1, §§ 18:14 - 18:18. The requirement of quality control is construed in light of the need to prevent deception of the public. *Embedded Moments, Inc. v. International Silver Co.*, 648 F. Supp. 187, 194 (E.D.N.Y. 1986). Thus, the Lanham Act places an affirmative duty on a licensor to take reasonable measures to detect and prevent his licensees' misleading uses of his trademark or potentially be subject to cancellation of his federal registration. *Accurate Merchandising, Inc. v. American Pacific*, 186 U.S.P.Q. 197, 200 (S.D.N.Y. 1975).

86. Some view the trustee's power to reject executory contracts as central to the administration of a debtor's estate. See Hemnes, *supra* note 45, at 719. Hemnes argues that it is part of the trustee's responsibility "to get rid of 'property' that is burdensome to the debtor's estate." *Id.* Further, it is necessary that all creditors of the same class be treated equally. *Id.*

87. *Id.*

88. See Seul, *supra* note 10, at 146.

89. Technology is protected by the patent laws because of its benefit to society through encouraging creative genius and through the supply of efficient advanced equipment. See Tamietti, *supra* note 12, at 296. Many licensee's cannot continue using the intellectual property which another company has licensed to

Congress protected patent licensees even in the absence of the licensors' affirmative performance obligations of maintaining technology, Congress has demonstrated that it is possible to afford similar treatment for trademark licensees without burdening the bankruptcy system.

Moreover, Congress' fears of undermining the quality control function of trademark licenses with a comparable treatment under the Bankruptcy Code are unfounded. In theory, the legal protection that federal law affords trademarks provides incentives for businesses to make investments aimed at gaining consumer confidence in the marks.⁹⁰ This incentive is attractive to licensees as well.⁹¹ Under an amendment similar to the IPBPA, a licensee would still be under the obligations of the license agreement even though the licensor has rejected it.⁹² More importantly, however, a licensee's sale of trademarked goods of a quality differing from the licensor's set standards constitutes trademark infringement⁹³ and

them without the continued performance of the licensor. See *Seul*, *supra* note 10, at 146. Without this support, the equipment becomes useless and society loses the benefit of its availability. Computer software, for the most part, is not patentable. See Duncan M. Davidson, *Protecting Computer Software: A Comprehensive Analysis*, 23 JURIMETRICS J. 337, 359 (1983). However, most license agreements concerning computer software involve support agreements also. See Viktoria L. Gres., Comment, *Rejection of Computer Software Licensing Agreements in Bankruptcy*, 8 CARDOZO L. REV. 361, 368 (1986). Computers have increasing application in accounting systems and monitoring and controlling production lines in manufacturing plants. *Id.* at 361. Reason would dictate that such software programs may be useless without support maintenance from the licensor and technological updates.

90. Carter, *supra* note 49, at 759.

91. *But see* Taggart, *Trade-Marks and Related Companies: A New Concept in Statutory Trade-Mark Law*, 14 LAW & CONTEMP. PROB. 234, 235 (1949) (licensees may have the opportunity to dilute the quality of the goods associated with the trademark and thereby deceive the public). As one commentator pointed out, however, a licensing arrangement permits varying quality levels within the standard the public expects. Comment, *supra* note 7, at 879 n.20.

92. For example, the House Report accompanying the IPBPA stated that,

A licensee that retains its rights under a rejected contract remains bound by the other obligations or duties required under the contract, except for those so directly related to obligations or duties that the licensor has been freed from by rejection as to make it inequitable to bind the licensee to them.

H.R. REP., *supra* note 30, at 7. Similarly, the license would still bind a trademark licensee retaining its rights under a rejected contract if the amendment does not depart from the provisions of the IPBPA. It would certainly not be inequitable to bind the licensor to the quality control provisions in order to protect the public from deception.

93. See *Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 212 F. Supp. 715 (E.D. Pa. 1962) (defendant's sale of goods in breach of quality standards held to be trademark infringement of licensed trademark). Cf. *Franchised Stores of N.Y., Inc. v. Winter*, 394 F.2d 664 (2d Cir. 1968) (sale of non-authorized goods by franchisee held to be trademark infringement).

unfair competition.⁹⁴ As a result, there are already incentives for licensees to maintain the licensor's quality control provisions lest a court find the licensee liable for infringement.⁹⁵ The licensee is also, in effect, warranting to the public that its goods are of the same level of quality that the trademark signifies.⁹⁶ Thus, the mechanism of market forces and the anti-fraud laws make it highly

94. See *Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 212 F. Supp. 715, 740 (E.D. Pa. 1962) (sale of sweaters at a quality standard below that of licensor constituted unfair competition).

95. A trademark infringement occurs when another person uses in commerce a reproduction of another's trademark or uses a mark in commerce which is likely to cause confusion, or to cause mistake, or to deceive. 15 U.S.C. 1114(1) (1988). A basis for confusion includes similarity of appearance, sound, or connotation. *PATTISHALL & HILLIARD*, *supra* note 1, § 5.02.

In order to recover for trademark infringement, the plaintiff must first have a protected trademark. *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1014 (9th Cir. 1985), *cert. denied*, 474 U.S. 1059 (1986). A trademark is created by prior use in commerce. *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1264-65 (1975). There are four classifications of potential trademarks: (1) generic, (2) descriptive, (3) suggestive, and (4) distinctive. See generally 1 MCCARTHY, *supra* note 1, §§ 11:1 - 11:24. Distinctive marks can be further characterized as coined, fanciful, or arbitrary. See *PATTISHALL & HILLIARD*, *supra* note 1, § 2.04, at 50. For a descriptive mark to obtain protection, it must first acquire secondary meaning. *Id.* Secondary meaning means that a name has established a general reputation. *Hot Shoppes, Inc. v. Hot Shoppe, Inc.*, 203 F. Supp. 777, 782-83 (M.D.N.C. 1962). A court looks at various factors to determine whether a mark has established secondary meaning, including: "(1) the length and manner of use of the mark in question; (2) the nature and extent of advertising and promotion of the mark; and (3) the efforts toward promoting a conscious connection in the public mind between that mark and a particular product." *Id.* at 783. "The essence of secondary meaning is popularity and public acceptance of the mark." *Id.* Secondary meaning is established as long as a substantial section of the purchasing public identifies the trade name of the producer's goods. *Id.* If the primary significance of the term in the minds of the consuming public is not the product, but the producer, then an owner has established secondary meaning for a descriptive mark. *Transgo*, 768 F.2d at 1015. Some courts hold that evidence of likelihood of confusion can establish secondary meaning. See *Transgo*, 768 F.2d at 1015; *Norm Thompson Outfitters, Inc. v. General Motors Corp.*, 448 F.2d 1293, 1297 (9th Cir. 1971).

96. A trademark implicitly represents that a particular standard of quality is associated with the good will of the owner. *Lieb*, *supra* note 12, at 6. Thus, by placing the trademark on its goods, the licensee is, in effect, certifying that it is maintaining the same quality level as that associated with the owner. For instance, a study has found that a brand name on a product influences the perception of the quality of a product greater than the price. Margaret F. Goldstein, *Products Liability and the Trademark Owner: When a Trademark is a Warranty*, 67 TRADEMARK REP. 587, 598 (1977). Unfortunately, this warranty theory also imposes liability upon the trademark owner if the product causes injury. See *Kosters v. Seven-up Co.*, 595 F.2d 347 (6th Cir. 1979); *Kenneth B. Germain, Tort Liability of Trademark Licensor in an Era of "Accountability": A Tale of Three Cases*, 69 TRADEMARK REP. 128 (1979); Goldstein, *supra* at 598. If the licensee fails to maintain the quality, then the trademark owner may still be held vicariously liable in some jurisdictions. See *Drexel v. Union Prescription Centers, Inc.*, 582 F.2d 781 (3d Cir. 1978) (respondeat superior); *City of Harford v. Associated Constr. Co.*, 34 Conn. Supp. 204, 384 A.2d 390 (Conn. Super. Ct. 1978) (strict products liability); *Cornelly v. Uniroyal, Inc.*, 389 N.E.2d 155 (Ill. 1979) (strict products liability), *cert. denied*, 444 U.S. 1060 (1980).

unlikely that licensees will abandon the quality standards to which they originally agreed.⁹⁷ As these many factors illustrate, a similar treatment of trademarks under the Bankruptcy Code would not undermine quality control.

Third, Congress cannot shift the responsibility for developing an equitable treatment of trademark license rejection problem to the bankruptcy courts. The bankruptcy courts' development of an equitable treatment of license rejection under Section 365 has proved to be somewhat futile. Most bankruptcy courts have been reluctant to exercise broad equitable powers.⁹⁸ Furthermore, the bankruptcy courts have exercised equitable powers only in those situations which will result in the unjustified and total destruction of a licensee's business.⁹⁹ This "balancing of the equities" test which the courts apply, however, does not remedy the majority of trademark situations and therefore will result in the loss of important property rights of many deserving licensees.¹⁰⁰

97. See *Patterson Lab., Inc. v. Roman Cleanser Co.* (*In re Roman Cleanser Co.*), 802 F.2d 207, 209 (6th Cir. 1986).

98. See *Robertson v. Pierce* (*In re Chi-Feng Huang*), 23 B.R. 798 (9th Cir. 1982); *Bregman v. Meehan* (*In re Meehan*), 59 B.R. 380 (E.D.N.Y. 1986); *In re Midwest Polychem, Ltd.*, 61 B.R. 559 (Bankr. N.D. Ill. 1986). But see *In re Smith Jones, Inc.*, 26 B.R. 289, 292 (Bankr. D. Minn. 1982) ("I am satisfied that this being a court of equity, the court is obliged to measure the relative effects of rejection"). At least one court and commentator have suggested, prior to *Lubrizol*, that patent, copyright and trademark licenses are not rejectable because of a judicially created policy of protection and encouragement of creative genius, regardless of their executory nature. *In re Booth*, 19 B.R. 53, 57 n.6 (Bankr. D. Utah 1982) (quoting Lee Silverstein, *Rejection of Executory Contracts in Bankruptcy and Reorganization*, 31 U. CHI. L. REV. 467, 482 (1964)).

99. See *In re Petur U.S.A. Instrument Co.*, 35 B.R. 561, 564 (Bankr. W.D. Wash. 1983); *Seul*, *supra* note 10, at 143. Generally, the bankruptcy courts are most likely to accept the hardship argument when rejection will not guarantee the debtor's survival and where it will certainly guarantee the other party's demise. *Brooks*, *supra* note 45, at 609. The courts balance the potential destruction of the licensee's business and the size of the resulting damage claim under Section 365(g) with the benefit derived by the general creditors. *In re Petur*, 35 B.R. at 563. If the resulting damage to the licensee would be grossly disproportionate to any benefit derived from rejection, then the courts refuse to authorize the rejection of the license. *Id.*

100. The Senate suggested that bankruptcy courts use their equitable powers to prevent the unjustifiable destruction of licensee rights. S. REP., *supra* note 11, at 5. Specifically, Congress stated that it would postpone action to allow for development of equitable treatment by the bankruptcy courts. *Id.* This suggests that bankruptcy courts may apply more liberal rules to trademark license rejections, not just that Congress has approved the "balancing of equities" test. But see *Putney*, *supra* note 5, at 156 ("In effect, Congress endorsed the balancing of equities approach"). The "balancing of equities" test which bankruptcy courts have increasingly used does not provide the best remedy. However, it does show an increased willingness on the part of the bankruptcy courts to react compassionately to inequitable results of the rejection provision of Section 365. See, e.g., *Info Systems Technology, Inc. v. Logical Software, Inc.*, Bankr. L. Rep. (CCH) 1899 (D. Mass 1987), *rev'g sub nom In re Logical Software, Inc.*, 66 B.R.

Congress' reasons for excluding trademarks from the IPBPA are not compelling. Therefore, these reasons should no longer preclude affording a similar protection for trademarks with that which currently exists for other forms of intellectual property. Handled properly, an amendment to the Bankruptcy Code can protect a licensee's investment. As one commentator noted, "The policy of rehabilitation of the debtor should not spawn additional bankruptcies and associated unemployment."¹⁰¹ A solution to the licensing problem is, thus, essential.

IV. THE SOLUTION: AN AMENDMENT TO SECTION 365

Congress must amend the Bankruptcy Code to effectively resolve the problem of debtor-licensor rejection of executory trademark license agreements. A six point revision to the Bankruptcy Code is necessary to achieve this goal. First, a trademark licensee must have the option to retain its rights under the license agreement. Second, the amendment must provide for protection of the public by requiring the bankruptcy courts to make two preliminary determinations, one concerning trademark abandonment and the other concerning quality control. These determinations make a licensee's choice to maintain its rights contingent on a court's approval. Third, the amendment must provide for the delivery of any materials which were promised in the license agreement. Fourth, the amendment must guarantee a licensee's quiet enjoyment of the

683 (Bankr. D. Mass. 1986) (holding that the balancing of the equities approach was the proper test to use).

Prior to congressional action, however, potential licensees are still at risk of losing their investments. With the cooperation of the bankruptcy courts, the atmosphere under Section 365 can be less apprehensive. Thus, in the interim before Congressional action, bankruptcy courts must expand the use of their equitable powers to prevent the destruction of businesses. The bankruptcy courts are courts of equity, *In re Petur*, 35 B.R. at 563; *In re Booth*, 19 B.R. 53, 58 (Bankr. D. Utah 1982), and should freely exercise equitable powers when confronted with a debtor-licensor's rejection of an executory trademark license agreement. The Bankruptcy Code itself states that rejection is subject to court approval. 11 U.S.C. § 365(a) (1988). Therefore, the bankruptcy courts will not be overreaching by refusing or conditioning rejection.

101. Putney, *supra* note 5, at 155. The bankruptcy court in *In re Petur* took judicial notice that, since the effective date of the Code, only three and one half percent of the hundreds of Chapter 11 cases filed in its district had resulted in confirmed plans, and that most of the cases confirmed involved partial or total liquidation as opposed to reorganization and the continuation of the business. *In re Petur U.S.A. Instrument Co.*, 35 B.R. 561, 564 (Bankr. W.D. Wash. 1983). The court went on to say that it would be anomalous to permit the rejection, and if the licensee was thus forced out of business, for the debtor-licensor to "go the way of the ninety-six and one-half percent" of the district's Chapter 11 cases. *Id.* Bankruptcy courts traditionally have been concerned more with rehabilitation of the debtor than with protection of trademarks and the consuming public. Putney, *supra* note 5, at 157-58. Because the success rate of reorganization is approximately ten percent, this emphasis on rehabilitation is misplaced. *Id.*

right to use the trademark. Fifth, the licensee must continue payment of royalties to the licensor or its bankruptcy estate. Last, the licensee must be able to continue its rights under the license for the duration through which the licensor originally promised. This proposal attempts to maintain the Bankruptcy Code's established policy of encouraging both debtor rehabilitation and equality of distribution among creditors.¹⁰²

First, the amendment to the Bankruptcy Code for protecting trademark licensees must provide the same options as the current Section 365(n) provides for other forms of intellectual property. Under the amendment, if a debtor-licensor rejects the executory license agreement, a licensee would have an option to elect to preserve its rights under the agreement.¹⁰³ This option protects the legitimate business interests of licensees and allows for continued consumer satisfaction through continued availability of trademarked goods. A licensee's option to retain its rights under its licensing agreement, however, must be contingent on the debtor-licensor's lack of an intent to abandon the trademark and on the licensee's maintenance of the quality control procedures it originally agreed to in the license agreement.

To achieve the first point of this amendment, a second change is required. The amendment must provide that a bankruptcy court make two preliminary determinations before it authorizes the licensee to retain its rights under the agreement: one concerning abandonment,¹⁰⁴ and one concerning quality control. Initially, the bankruptcy court must determine that the debtor-licensor has not or will not abandon the trademark. Bankruptcy is not an abandon-

102. See Lieb, *supra* note 11, at 315.

103. Accord Putney, *supra* 5, at 159.

104. Abandonment of a trademark occurs when a trademark owner intends not to continue use of the mark in commerce after it has discontinued its use. 15 U.S.C. § 1127 (1988). A court will presume an intent to abandon if the owner does not use the mark for two years. *Id.* An owner can rebut this presumption with evidence of an intent to resume use of the mark. *Sterling Brewers, Inc. v. Schenley Indus.*, 441 F.2d 675, 669 (C.C.P.A. 1971). Because abandonment of a trademark is a forfeiture of a property interest, the courts will require strict proof of the abandonment. *Saratoga Vichy Spring Co. v. Lehman*, 625 F.2d 1037, 1044 (2d Cir. 1980). Bankruptcy is not an abandonment. See *infra* note 105.

A court will also deem a trademark abandoned if the owner causes the mark to lose its significance as an indication of origin. 15 U.S.C. § 1127 (1988). A trademark can lose its significance as to origin if the owner assigns the mark without also assigning the good will associated with the mark. 15 U.S.C. § 1060 (1988); *Defiance Button Mach. Co. v. C & C Metal Prods.*, 759 F.2d 1053, 1059 (2d Cir.), *cert. denied*, 474 U.S. 844 (1985). An assignment in connection with different good will would result in fraud on the purchasing public who reasonably assumes that the mark signifies the same good will as had previously existed. *Defiance Button*, 759 F.2d at 1059. However, the central purpose of the rules regarding assignment of trademarks is to protect the consuming public. 1 MC-CARTHY, *supra* note 1, § 18:1 C. Hence, the rules were not evolved for the purpose of invalidating all assignments which do not satisfy a particular set of

ment, *per se*.¹⁰⁵ If, however, the debtor does not continue to use the trademark and does not intend to resume use of the trademark, then the mark will become an abandoned mark.¹⁰⁶ Before allowing a licensee to continue using a trademark, the bankruptcy court must find that the debtor-licensor does not intend to abandon¹⁰⁷ the mark or that it intends to continue its use in commerce either personally or through assignment.¹⁰⁸ Otherwise, if a licensee contin-

formalities. *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 315 F. Supp. 45 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971).

The owner can further cause a mark to lose its significance as to its source if it enters into a "naked license," or in other words, enters into a licensing agreement without taking measures to assure quality. *Defiance Button*, 759 F.2d at 1059. If the owner allows others to misuse his mark, including the licensee, he may find that he has lost the mark due to abandonment. *Sheila's Shine Prods., Inc. v. Sheila Shine, Inc.*, 486 F.2d 114, 125 (5th Cir. 1973). Again, because insufficient control remains a forfeiture, the party asserting insufficient control must meet a strict requirement of proof. *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985), *cert. denied*, 474 U.S. 1059 (1986).

105. See 1 MCCARTHY, *supra* note 1, § 17:4. In *Merry Hull & Co. v. Hi-Line Co.*, 243 F. Supp. 45 (S.D.N.Y. 1965), the federal district court held that even after the passage of several months after filing for bankruptcy, followed by one more month after the trustee stopped filling orders for its product, and a delay of several months before the purchaser of the trademark began production under the mark, the owner did not abandon the trademark. *Id.* at 50. See also *Lawyers Title Ins. Co. v. Lawyers Title Ins. Corp.*, 109 F.2d 35, 45 n.47 (D.C. Cir. 1939) (business reorganization), *cert. denied*, 309 U.S. 684 (1940); *Miller Brewing Co. v. Oland's Breweries, Ltd.*, 548 F.2d 349 (C.C.P.A. 1976) (business reorganization).

It is fundamental that there be a going business and existing good will for trademark protection to continue. *Hot Shoppes, Inc. v. Hot Shoppe Inc.*, 203 F. Supp. 777, 781 (M.D.N.C. 1962). However, merely closing down for a short period of time during bankruptcy is not a break in the operations of the business sufficient to constitute an abandonment of the trademark. *Id.* Because bankruptcy does not destroy the good will of a company, the Bankruptcy Code should allow the licensee to continue to use the trademark and maintain quality so the public does not lose its benefit of the mark's informational value.

106. If a debtor has not, in a reasonable time, demonstrated an intention to use the good will or associated trademarks, then a court will rule that the trademarks are abandoned. *Reconstruction Fin. Corp. v. J.G. Menihan Corp.*, 28 F. Supp. 920 (W.D.N.Y. 1939); *In re Jaysee Corset Co.*, 201 F. 779 (D.C.N.Y. 1911).

107. The Second Circuit, in *Defiance Button Mach. Co. v. C & C Metal Prod. Corp.*, 759 F.2d 1053 (2d Cir.), *cert. denied*, 474 U.S. 844 (1985), makes it clear that courts should not lightly declare an abandonment of a valuable mark which an owner still intends to use because the public is not deceived. *Id.* at 1060. The court stated that good will does not disappear or completely lose value overnight. *Id.*

108. See *supra* notes 104-07 for discussion of abandonment. The factors a bankruptcy court should consider in deciding whether to allow the licensee's continuation of its rights are: (a) whether the good will of the mark has not dissipated; (b) whether the owner or potential assignee retains the intent to produce or market within a reasonable time a product or service substantially the same in nature and quality as that which the trademark formerly was associated; and (c) whether such resumption of operations will occur within a reasonable time under the circumstances. See *Defiance Button*, 759 F.2d at 1060. The requirement that the bankruptcy court determines that the licensor or assignee intends to produce the same or similar product within a reasonable time

ues using a trademark which the licensor intends to abandon during bankruptcy, the licensee risks deceiving the public because the mark no longer indicates a source of origin or a guarantee of quality.

The amendment must also require the bankruptcy court to make a preliminary finding that the licensee can maintain the quality control provisions in the absence of the licensor's actual direct control,¹⁰⁹ before authorizing the licensee to elect to continue its rights under the agreement. A licensee should be able to continue using the mark so long as it does not actually diminish the original approved quality of the goods or services, and the licensee's use does not harm or deceive the public. Consumers' expectations of quality and value are protected only so long as the licensee maintains the licensor's quality standards.¹¹⁰

Quality control is the most important and most complex aspect of this amendment, requiring a resolution of many factors. The court should find the quality control requirement satisfied if, under all the circumstances, the court finds that the adopted control measures are reasonably effective to ensure a licensee's maintenance of an appropriate quality standard, even if control may be in the hands of a third party or the licensee itself.¹¹¹ Because informal controls

is similar to a finding of adequate assurance of future performance. See, e.g., 11 U.S.C. § 365(b)(1)(C) (1988).

109. See *infra* note 111 for a discussion of the courts' reluctance to hold control requirements insufficient even in the absence of actual direct control. Notwithstanding the courts' deference to quality control requirements, the debtor-licensor may still find alternate means to police quality in a cost efficient manner to prevent the loss of its trademark during reorganization. If a mark is valuable, a debtor will most likely continue to control its licensee's use of the mark or will arrange its sale. Putney, *supra* note 5, at 158.

110. Marks, *supra* note 1, at 654. The Marks article asserts that, so long as the public obtains what it expects, there is no harm whether or not the licensor exercises the quality controls. *Id.* Only if the licensee actually changes the quality are the public's expectations disturbed. *Id.*

111. William M. Borchard & Richard M. Osman, *Trademark Sublicensing and Quality Control*, 70 TRADEMARK REP. 99, 102 (1980). One author notes that courts are generally reluctant to examine the issue of actual control and thus undercut the Lanham Act's control requirement. Seul, *supra* note 10, at 902. Seul states that the right to challenge improper licensing has become largely illusory as exemplified by the scarcity of cases which invalidate trademark rights on the basis of a licensor's inadequate control. *Id.*

This conclusion is supported by a plethora of case law which does show that courts have consistently upheld control systems or measures as sufficient in circumstances where actual control was not conclusively present. See *Transgo, Inc. v. Ajac Transmission Parts Corp.* 768 F.2d 1001, 1017-18 (9th Cir. 1985) (control held sufficient where licensor manufactured 90% of automobile components licensee sold, although licensor never directly inspected or tested final product and where association between licensor and licensee over ten years established basis for reliance on licensee's ability to maintain high quality standards), *cert. denied*, 474 U.S. 1059 (1986); *Land O'Lakes Creameries v. Oconomowoc Canning*, 330 F.2d 667, 670 (7th Cir. 1964) (reliance on integrity of a licensee is sufficient to fulfill the control requirement where a history of

can adequately protect the public from a licensee's misuse of a

trouble-free manufacture provides basis for such reliance); *Dawn Donut Co. v. Hart's Foods Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959) (reasonable degree of supervision and control over licensees present, despite the lack of evidence as to the nature or frequency of inspections, where evidence showed that some sales representatives visited their particular customers to inspect and observe the operations of the licensees); *Embedded Moments, Inc. v. International Silver Co.*, 648 F. Supp. 187 (E.D.N.Y. 1986) (license was not insufficient as a matter of law and contained sufficient supervisory control where licensor relied on integrity of licensee's president based on prior relationship); *Hurricane Fence Co. v. A-1 Hurricane Fence Co.*, 468 F. Supp. 975, 986 (S.D. Ala. 1979) (sufficient control found where licensor relied upon licensee's experience, licensee was corporation formed by two of the partners of licensor corporation, and the licensor and licensee were both companies formed by four brothers); *Accurate Merchandising, Inc. v. American Pacific*, 186 U.S.P.Q. 197, 200 (S.D.N.Y. 1975) (control sufficient where the supervision of quality is reserved in a representative which the licensor appointed); *Syntex Lab., Inc. v. Norwich Pharmacal Co.*, 315 F. Supp. 45 (S.D.N.Y. 1970) (licensor's responsibility to supervise the quality of the product was satisfied where licensee was subject to FDA regulations governing manufacturing practices, licensee was experienced in the product, and licensor inspected licensee's product during negotiations prior to the agreement), *aff'd*, 437 F.2d 566 (2d Cir. 1971); *Taffy Original Designs, Inc. v. Taffy's Inc.*, 161 U.S.P.Q. 707, 713 (N.D. Ill. 1966) (degree of control is adequate where the president of licensor is sister of president of licensee, even though there is no formal control); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 221 F. Supp. 576 (E.D. Wis. 1963) (reliance upon integrity of a licensee sufficient to fulfill the control requirement where a history of trouble-free manufacture provides basis of such reliance), *aff'd*, 330 F.2d 667 (7th Cir. 1964); *Stockpot, Inc. v. Stock Pot Restaurant, Inc.*, 220 U.S.P.Q. 53, 60-61 (T.T.A.B. 1987) (control requirement found satisfied on basis of right to control in license agreement, experience of licensee, the licensee's maintenance of same quality of goods and services, and licensor's opportunity to observe operations of business); *Ideal Toy Corp. v. Cameo Exclusive Prod., Inc.*, 170 U.S.P.Q. 596, 598 (T.T.A.B. 1971) (right to control found sufficient to satisfy the control requirement).

In light of the case authority, one author has argued for a more flexible standard of quality control than an actual control standard. See Marks, *supra* note 1, at 650-57. Marks states that, although none of the cases clearly support the proposition that quality control may be dispensed with in certain situations, both logic and the practical needs of the market raise the question of whether the trademark owner's direct and actual quality control is necessary. *Id.* at 650. His scheme, however, requires the licensor to at least initiate the relationship by specifying the quality of the goods to be produced in detail or by reference to some objective standard. *Id.* at 653-54. Nonetheless, he favors a relaxed quality control standard overall. *Id.* at 657. His proposal, however, recognizes that standard licensing, which includes situations where the quality of a licensed product may be important to the public or where the guaranty of quality function is a paramount importance, may not be able to support a flexible standard. *Id.* at 655 n.47.

The Lanham Act requires that, for a related company to legitimately use a license, the related company must not use the trademark in such a manner as to deceive the public. 15 U.S.C. § 1055 (1988). A "related company" is defined as "any person who legitimately controls or is controlled by the registrant [owner] . . . in respect to the nature and quality of the goods or services in connection with which the mark is used." 15 U.S.C. § 1127 (1988). Therefore, the licensor must actually control the licensee: a right to control is not enough. See 1 MC-CARTHY, *supra* note 1, § 18:17 C. But see *Ideal Toy Corp.*, 170 U.S.P.Q. at 598 (right to control found sufficient to satisfy the control requirement). However, if the courts construe the control requirement in light of the purpose of

trademark,¹¹² a bankruptcy court could actually impose an informal control requirement on the licensee such as requiring it to submit samples and inspection reports to the licensor. The amount of control necessary to satisfy the preliminary finding would vary according to the facts particular to a given situation or product.¹¹³ The question whether the quality control requirement is satisfied would remain a question of fact¹¹⁴ for the bankruptcy court to decide.

When a bankruptcy court is determining whether a licensee can maintain quality standards in a case where the licensor has not delegated the obligation to control quality to a third party,¹¹⁵ the bankruptcy court should establish whether the public can rely on the licensee's maintenance of quality control. For example, a history of trouble-free manufacture may be the basis of reliance and thus fulfill the quality control requirement.¹¹⁶ If the quality control does actually cease, then a preliminary injunction would be appropriate to prevent harm or deception and to protect the debtor's trademark.¹¹⁷

preventing deception of the public, then minimal procedures should be sufficient under the facts of a given licensing agreement.

112. *Taffy Original Designs, Inc. v. Taffy's, Inc.*, 161 U.S.P.Q. 707, 713 (N.D. Ill. 1966). See *Coolley, supra* note 1, at 308. *Coolley* states that sufficient control "exists if the licensor specifies the various processes for producing the goods under the mark and carefully monitors the licensee's product. This requirement for control can normally be satisfied by the licensee's submission of samples of its goods to the licensor for quality approval." *Id.*

113. *Id.* "Intellectual property licensing arrangements are not generally standardized. Rather, the particular transaction is the product of the circumstances of the licensor, the licensee, and other interested parties." S. REP., *supra* note 11, at 3. Furthermore, it is "not unusual for the license agreement to be one of several agreements governing the working relationship between the licensor and licensee." *Id.*

114. See *Dawn Donut Co., Inc. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367-68 (2d Cir. 1959); *Embedded Moments, Inc. v. International Silver Co.*, 648 F. Supp. 187, 194 (E.D.N.Y. 1986).

115. See *Accurate Merchandising, Inc. v. American Pacific*, 186 U.S.P.Q. 197 (S.D.N.Y. 1975).

116. See *Syntex Lab., Inc. v. Norwich Pharmacal Co.*, 315 F. Supp. 45, 56 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971); *Land O'Lakes Creameries v. Oconomowoc Canning*, 330 F.2d 667, 670 (7th Cir. 1964). Reliance on the licensee's maintenance of quality standards is also more probable when the success of the licensee's business depends upon the continued quality of his products. *But see* 1 MCCARTHY, *supra* note 1, § 18:17 B, at 842 ("It is difficult to see how the licensor can fulfill his duty to take reasonable steps to control quality merely by leaving the job up to the licensee."). Courts have also validated licensing agreements in which the trademark was licensed along with the licensing of a patent. Comment, *supra* note 7, at 884. The theory is that because the trademark continues to be associated with its traditional product and the patentee is able to supervise the proper use of the patent, no problem of public deception is likely to arise. *Id.*

117. The bankruptcy courts can issue any order necessary to stop a threat to the property of a debtor. Lieb, *supra* note 11, at 328. Bankruptcy judges may hear and determine "all cases under title 11 and all core proceedings arising under title 11, or arising in a case under title 11 . . . and may enter appropriate

Because some quality control procedures may require a licensee to purchase goods and other materials exclusively from its licensor, the bankruptcy court must determine whether the licensee could permissibly go elsewhere for these materials without deceiving the public or diminishing the quality of the goods. Because "tying arrangements"¹¹⁸ are not generally favored under unfair competition law, it is not unusual for courts to allow a licensee to go elsewhere for its materials.¹¹⁹ If, on the other hand, comparable materials are unavailable from other sources and these materials are necessary for substantial quality control procedures,¹²⁰ then the bankruptcy court should refuse to authorize the licensee's option to retain its rights under the license agreement.¹²¹ Furthermore, the

orders and judgments." 28 U.S.C. § 157(b)(1) (1988). Section 157(b)(2)(M) of the Bankruptcy Code provides that a core proceeding includes "orders approving the use or lease of property." 28 U.S.C. § 157(b)(2)(M). See *Vylene Enters. v. Naugles, Inc. (In re Vylene Enters.)*, 63 B.R. 900, 905 (Bankr. C.D. Cal. 1986) (preliminary injunction to prohibit debtor from infringing franchisor's trademarks was core proceeding within the jurisdiction of the bankruptcy court); *Midas Int'l Corp. v. M & E Enters. (In re M & E Enters.)*, 23 B.R. 820 (Bankr. S.D. Fla. 1982) (injunction issued to prevent debtor franchisee from operating under the franchise agreement after franchisor properly terminated the agreement).

118. An unlawful tying arrangement is an arrangement which conditions a sale or lease of one product on the sale or lease of another separate product from the same seller. *General Motors Corp. v. Gibson Chem. & Oil*, 786 F.2d 105, 110 (2d Cir. 1986). A company can justify tying arrangements in a number of ways. First, a "new business" justification is available for short periods of time. See *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43, 51 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). Second, if a "marketing identity" purpose is required for preserving the distinctiveness, uniformity, and quality of a product then the tying arrangement may be justifiable. *Id.* See also *Principe v. McDonald's Corp.*, 631 F.2d 303 (4th Cir. 1980) (McDonald's unique franchising system did not amount to illegal tying arrangement where requirements were integral components of the business method being franchised and made up a package which made the franchise uniquely attractive to franchisees), *cert. denied*, 451 U.S. 970 (1981).

119. See 1 MCCARTHY, *supra* note 1, § 18:19, at 847. It may have to be a business judgment for the licensee as to whether it can find comparable materials from other sources because these materials may be more expensive.

120. See *id.*

121. Compare *Seul*, *supra* note 10, at 146. *Seul* proposes an alternate solution for situations where the services of the licensor may be of such great benefit to the licensee that continued operation without the performance is nearly impossible. *Id.* His proposal, modeled after Section 1113 of the Bankruptcy Code dealing with collective bargaining agreements, requires the debtor-licensor to engage in renegotiation toward a mutually acceptable modified agreement. *Id.* *Seul* argues that this renegotiation would strike the proper balance between the policies favoring the debtor's rejection and those favoring protection of related licensees from financial ruin. *Id.* The renegotiated agreement would be one that facilitates the debtor's reorganization efforts while limiting the impact on the licensee's business. *Id.*

Seul's proposal, however, does not strike the necessary balance. A debtor-licensor will not have the time or resources to negotiate new license agreements with the many possible licensee's under its marketing or distribution system. Reorganization would be slowed, not facilitated. Allowing the licensee to re-

amendment must provide that a licensor has a right to review or inspect the licensee's choice of comparable materials before the bankruptcy court allows a licensee to use materials from other sources.

Third, the amendment must require a licensor to deliver formulas, customer lists, goods, equipment, or other materials which it promised a licensee under the license and which were in the licensor's possession at the time of filing for bankruptcy. These requirements are not substantially different from the treatment of the other types of intellectual property under the current Bankruptcy Code. A patent licensor must deliver the licensed property which is in its possession at the time of filing the bankruptcy petition.¹²² However, it would be inequitable to require a debtor-licensor to continue production or supply of purchasing materials. Thus, the amendment must require the debtor-licensor to deliver only those materials already in its possession at the time of rejection of the license and must free the debtor-licensor from any obligation of future production and delivery. The licensee should then be required to find comparable materials from other sources, if the bankruptcy court has already authorized the licensee to do so.¹²³

Fourth, the amendment must require that a licensor refrain from interfering with a licensee's trademark rights under the agreement. The IPBPA contained this provision for the intellectual property defined under Section 101(52) of the Bankruptcy Code.¹²⁴ The provision is likewise important for similar treatment of trademark licenses. Otherwise, the licensee's option to continue using the trademark would be meaningless because the trademark owner could subsequently interfere with the licensee's use.

Fifth, a licensee must continue royalty payments¹²⁵ for its con-

view or inspect comparable materials or services by having the licensee submit the samples to the licensor best promotes reorganization and strikes a proper balance between the rights of the licensee, the rights of the licensor, and the right of the public to be free from deception. There are some situations where the support from the licensor may be too vital to protecting the public and where the support is too specialized to be trusted to other sources. It is in these situations where the licensee should not be allowed to continue using the mark to protect against the risk of public deception.

122. 11 U.S.C. § 365(n)(3)(A) (1988).

123. See *supra* text accompanying notes 118-21.

124. See 11 U.S.C. §§ 365(n)(2)(A) and (3)(B) (1988). The Senate report noted that "[r]eference to noninterference by the trustee is not intended to imply that the rights of the licensee enjoy any protection from the trustee's avoiding powers under Section 544 to 549 of the Code." S. REP., *supra* note 11, at 11.

125. Courts should look to the substance of the transaction and not the label when construing the term "royalty." H.R. REP., *supra* note 30, at 9. "The underlying nature of the payments must be considered. For example, payments based on the use of the intellectual property or on a percentage of sales of end products that incorporate or are derived from the intellectual property should be treated as royalty payments." *Id.*

tinued use of the trademark.¹²⁶ This provision guarantees that the licensee will treat the contract as a full obligation. The provision also maintains an income for the debtor for distribution to the unsecured creditors and avoids an unjust enrichment of the licensee.

Finally, the amendment must provide that the licensee's right to continue use of the trademark will continue as long as the original agreement provided.¹²⁷ As under the IPBPA, the right to use the trademark would continue through the periods in which the licensee would have had the right to renew the license. Allowing the rights to continue as the parties had originally agreed, preserves the licensee's expectations in its business planning.

In sum, this proposal maintains the Bankruptcy Code's policies of encouraging both debtor rehabilitation and equality of distribution by requiring the continuation of royalties and by relieving the licensor of its duties under the license agreement. The income from continued royalty payments will compensate for any diminished value to the estate's property that results from the existence of a license agreement. Most trademark licenses benefit the estate through royalty income from the licensees.¹²⁸ Thus, the licensee's continued royalty payments under an amendment similar to the IPBPA would not undermine the policies of payment to creditors and facilitation of reorganization, because the estate will still maintain a source of income. Also, the proposal only calls for allowing the licensee to continue its rights and duties under the license agreement. The debtor-licensor would no longer be under any affirmative obligations by virtue of the license agreement and could still focus its efforts on reorganization.

This amendment to the Bankruptcy Code is necessary to protect trademark licensees.¹²⁹ The amendment must allow the licen-

126. See 11 U.S.C. § 365(n)(2)(B) (1988). Compare *Seul*, *supra* note 10, at 145 (suggesting that licensees should be entitled to withhold from royalty payments an amount equal to the damages resulting from the failure of the licensor to perform services that it otherwise would be obligated to perform). Allowing for full payment of royalties and relegating the licensee to a pre-petition damages claim best furthers the policy of reorganization and maximizes payment to creditors under the Bankruptcy Code.

127. See 11 U.S.C. § 365(n)(1)(B)(i) and (ii) (1988).

128. Putney, *supra* note 5, at 156. The costs involved with controlling quality are usually less than the royalty payments. *Id.*

129. The following is a proposal for a draft of what the amendment could potentially look like. The italicized provisions are the words which must be added to Section 365. The word "stricken" must be deleted. The amendment must first add "trademarks" and "service marks" to the definition of "intellectual property" under 11 U.S.C. § 101(52).

(n)(1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect

(A) to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the

see to elect to maintain its rights under the licensing agreement. If

licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or

(B) to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), *subject to paragraph (1)(C) of this section if the licensee is a licensee of a right to a trademark, service mark, or similar intellectual property, as such rights existed immediately before the case commenced, for*

(i) the duration of such contract; and

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

(C) *in the case of a licensee of a right to a trademark, service mark, or similar intellectual property, to retain its rights as provided in paragraph (1)(B) contingent upon the following determinations made by the bankruptcy court, prior to authorizing the licensee to retain its rights:*

(i) *that the trustee does not intend to abandon the trademark, service mark, or similar intellectual property under applicable nonbankruptcy law or that it does intend to continue use in commerce, either personally or through assignment, within a reasonable time, a product substantially the same in nature and quality as that which the trademark, service mark, or similar intellectual property formerly was associated;*

(ii) *that the licensee can maintain the reasonable quality control provisions provided in such contract and can maintain an appropriate quality standard in the absence of the trustee's actual direct control. The bankruptcy court can make any order necessary to impose an informal control requirement or otherwise require the licensee to perform measures ensuring adequate control; and*

(iii) *in the case where quality control may require materials to be obtained exclusively from the licensor, that the licensee can guarantee the supply of comparable materials from another source, and subject to a right of review and inspection of the licensor. If comparable materials are unavailable from other sources and these materials are necessary for substantial quality control, then the bankruptcy court should refuse to authorize the licensee's option to retain its rights as provided in section (B) of this paragraph.*

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

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

(B) the licensee shall make all royalty payments due under such contract. . .

(3) If the licensee elects to retain its rights. . . then on the written request of the licensee the trustee shall

(A) to the extent provided in such contract, or any agreement supplementary to such contract, provide to the licensee any intellectual property (including such embodiment) *or in the case of a trademark, service mark, or similar intellectual property, goods, parts, customer lists, formulas, standards, or any similar material held by the trustee; and*

(B) not interfere with the rights of the licensee as provided in such contract, or any agreement supplementary to such contract, to such intellectual property (including such embodiment) from another entity; *and*

(C) *in the case of a trademark, service mark, or similar intellectual property, not interfere with the right of the licensee to find comparable*

the licensee elects to maintain the rights, then the bankruptcy court must determine whether the licensor intends to abandon the mark and whether the licensee can maintain the quality control procedures in the absence of the licensor's actual direct control. If purchasing requirements are necessary for substantial quality control, and comparable materials are not available, then the bankruptcy court must not authorize a licensee's option to retain its rights under the license agreement. If the court then determines that the licensee may continue exercising its rights under the license, the debtor-licensor must deliver the equipment and other materials which were in its possession prior to filing bankruptcy. The amendment to the Bankruptcy Code must also require that the debtor-licensor refrain from interfering with the licensee's trademark rights. Finally, the amendment must require the licensee to continue royalty payments for the licensee's continued use of the trademark. As a result, this amendment will provide a more equitable treatment of trademark licensees under the Bankruptcy Code.

CONCLUSION

Section 365 threatens economic and technological development by allowing a debtor-licensor to reject its trademark license. A trademark licensee risks the total abrogation of its right to use a trademark, a valuable property right. Congress has not announced any compelling reasons for excluding trademarks from the protection afforded other forms of intellectual property. Because the law and policy of trademark licensing agreements are compatible with other intellectual property licensing agreements, Congress must amend the Bankruptcy Code to provide trademark licensees similar treatment in the bankruptcy courts. Until Congress amends the Code, licensees must continue to bear the economic burden of trademark owners' mismanagement and thus needlessly risk the loss of their investments.

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