No. 17-

IN THE

Supreme Court of the United States

MISSION PRODUCT HOLDINGS, INC.,
Petitioner,

v.

TEMPNOLOGY, LLC, N/K/A OLD COLD LLC,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether, under §365 of the Bankruptcy Code, a debtor-licensor's "rejection" of a license agreement—which "constitutes a breach of such contract," 11 U.S.C. §365(g)—terminates rights of the licensee that would survive the licensor's breach under applicable non-bankruptcy law.

2. Whether an exclusive right to sell certain products practicing a patent in a particular geographic territory is a "right to intellectual property" within the meaning of §365(n) of the Bankruptcy Code.

PARTIES TO THE PROCEEDING

Petitioner is Mission Product Holdings, Inc. Mission has no parent company and no publicly held company owns 10% or more of its stock.

Respondent is Tempnology, LLC, n/k/a Old Cold LLC.

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PETITION FOR A WRIT OF CERTIORARI

Mission Product Holdings, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the First Circuit.

INTRODUCTION

This case presents two important and closely related questions regarding the rights retained by a licensee of intellectual property after a debtor-licensor rejects the license agreement in bankruptcy. Below, the First Circuit decided both questions wrongly, worsening an existing circuit split regarding the effect of rejection on a licensee's rights, and dramatically undermining the effectiveness of the provision Congress enacted to protect those rights. Its decision thus casts a cloud of uncertainty over significant commercial transactions that are central to our nation's system for encouraging and rewarding innovation. It is critical that this Court step in to resolve the circuit split and dispel the confusion the First Circuit's decision creates.

1. The first question presented is whether a debtor-or-licensor's rejection of an intellectual property license agreement under §365 of the Bankruptcy Code[1]—which permits a debtor to "assume or reject any executory contract" and provides that rejection "constitutes a breach of such contract"—terminates the licensee's rights under the agreement. That question has given rise to a square, openly acknowledged, and long-standing division of authority among the courts of appeals, made deeper by the First Circuit's decision.

In 1985, the Fourth Circuit held that a debtor-licensor's rejection of an agreement to license technology terminated the licensee's right to use that technology. *Lubrizol Enters., Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1048 (4th Cir. 1985). *Lubrizol* was widely criticized for misunderstanding the effect of rejection, and Congress promptly enacted §365(n) to "correct[]" it, explaining that "[§]365 was [n]ever intended to be a mechanism for stripping innocent licensee[s] of rights." S. Rep. No. 100-505 (1988), *reprinted in* 1988 U.S.C.C.A.N. 3200, 3203. Section 365(n) permits a licensee to retain its rights to "intellectual property," including any exclusivity rights, under a rejected license agreement. §365(n)(1)(B). "[I]ntellectual property" was defined to include, among other things, patents and copyrights, but not trademarks, *see*

[1] Statutory citations are to 11 U.S.C. (the Bankruptcy Code) unless otherwise indicated.

§101(35A), which were "of concern" but viewed as warranting further study, S. Rep. No. 100-505, at 3204.

After §365(n)'s enactment, courts divided as to whether *Lubrizol*'s reasoning was applicable to trademarks or other rights not expressly protected by §365(n). In 2012, in *Sunbeam Products, Inc.* v. *Chicago Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012), the Seventh Circuit answered that question no, holding that rejection of a trademark license does not strip the licensee of its right to use the trademark. Stating that "*Lubrizol* does not persuade us," the Seventh Circuit reasoned that under §365(g), rejection is simply "'a breach'" of the rejected contract, and "in bankruptcy, as outside of it," following a breach, "the other party's rights remain in place." *Id.* at 376-378.

Below, the First Circuit was faced with the same question and reached the opposite conclusion. Recognizing that "other circuits [were] split," the First Circuit refused to follow *Sunbeam*. App. 2a. Aligning itself with *Lubrizol*, the court held that when the debtor-licensor, Tempnology LLC, rejected its license agreement with Mission, Mission lost all rights under the agreement that the court determined were not expressly protected by §365(n), including its trademark rights.

The split of authority is plain and squarely presented. And the First Circuit is wrong. Its holding contravenes the text and purpose of the Bankruptcy Code, as well as the weight of authority among courts and scholars regarding the meaning of rejection. Rejection of an executory contract is merely a breach. It enables the debtor to decline to perform its future obligations under a contract if the cost of doing so outweighs the contract's benefit to the estate. And it allows the estate to pay the resulting damages pro rata (typically in cents on the dollar) along with other claims that arose before the bankruptcy filing. But it does not enable the debtor to take back rights already granted to a licensee so that the debtor can cut a better deal for those rights.

2. The First Circuit compounded its error by holding that Mission's exclusive right to sell certain products practicing Tempnology's patents in the United States was not a "right to intellectual property" protected by §365(n). If this Court grants review of the first question presented—and it should—it should also grant review of this second, related question.

The First Circuit's crabbed reading of §365(n) is both clearly wrong and potentially far-reaching in its implications. A patent *is*, among other things, the right to sell the patented invention and to exclude others from selling it. The Patent Act says so. *See* 35 U.S.C. §154(a)(1). An agreement granting a licensee the exclusive right to sell products practicing a patented invention thus conveys one of the central rights the patentholder possesses. Nor does it matter, as the First Circuit seemingly believed, whether such an exclusive right encompasses all products that can be made with the patent or only some such products. A license need not transfer every stick in the bundle of patent rights to grant an exclusive right to intellectual property. Indeed, exclusive licenses to sell products practicing a patented invention within a particular field of use are extremely common, and a key part of the licensing scheme Congress sought to protect in §365(n). Until this case, to Mission's knowledge, it has never been suggested that such licenses do not convey rights to intellectual property.

3. Together, the First Circuit's mistaken holdings reinstate much of the confusion *Lubrizol* caused and

that Congress thought it had resolved with §365(n). Cutting off licensees' rights when a license agreement is rejected in bankruptcy "impose[s] a burden on American technological development that was never intended by Congress in enacting [§]365." S. Rep. No. 100-505, at 3200. Uncertainty as to the fate of those rights has the same effect, making it harder for licensees to be confident their rights are secure and thus harder for intellectual property owners to license that property.

As this Court has recognized, "[t]he Bankruptcy Code standardizes an expansive (and sometimes unruly) area of law" that requires courts to "interpret the Code clearly and predictably." *RadLAX Gateway Hotel, LLC* v. *Amalgamated Bank*, 566 U.S. 639, 649 (2012). The long-standing division of authority on the meaning of one of bankruptcy's central concepts, "rejection"—and the First Circuit's unprecedented narrowing of the Code's definition of "intellectual property"—demand this Court's review.

OPINIONS BELOW

The First Circuit's opinion (App. 1a-34a) is reported at 879 F.3d 389. The bankruptcy appellate panel's opinion (App. 35a-65a) is reported at 559 B.R. 809. The bankruptcy court's opinion (App. 69a-81a) is reported at 541 B.R. 1. The bankruptcy court's orders (App. 67a-68a, 83a-84a) are unpublished.

JURISDICTION

The First Circuit entered judgment on January 12, 2018. App. 1a. By order dated April 2, 2018 (Docket No. 17A1060), Justice Breyer granted an extension of time to file the petition until June 11, 2018. This Court has jurisdiction under 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

11 U.S.C. §365 provides in relevant part[2]:

(a) 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.

***

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

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

***

(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

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[2] Section 365 is reproduced in full at App. 85a-101a.

(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.

***

11 U.S.C. §101(35A) provides:

The term "intellectual property" means--

(A) trade secret;

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

(C) patent application;

(D) plant variety;

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

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

to the extent protected by applicable nonbankruptcy law.

STATEMENT

A. Statutory Background

1. Section 365(a) of the Bankruptcy Code provides that a bankruptcy trustee or debtor-in-possession,[3] with court approval, "may assume or reject any executory contract or unexpired lease of the debtor." An executory contract is one "'on which performance is due to some extent on both sides.'" *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984). Put differently, executory contracts are contracts that represent both an asset of the debtor—the right to obtain the counterparty's future performance—and a liability of the debtor—its obligation to perform in the future. *See* Andrew, *Executory Contracts in Bankruptcy: Understanding 'Rejection,'* 59 U. Colo. L. Rev. 845, 855 (1988) (hereinafter "Andrew"); Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 247-255 (1989) (hereinafter "Westbrook").

Section 365 enables the debtor to determine whether such a contract provides a net benefit or net detriment to the estate. The debtor may then choose to "assume" the contract—reaffirming that the estate will perform the debtor's obligations under the contract—or to "reject" the contract—declining to perform the debtor's future obligations under the contract and giving the counterparty a claim for damages for breach.

If the debtor determines that the value of the counterparty's future performance exceeds the cost of its own future performance, it may assume the contract.

[3] In Chapter 11 cases, the debtor typically remains in possession of the bankruptcy estate and assumes the rights and duties of a trustee. *See* §§1101, 1107(a). For simplicity, the trustee or debtor-in-possession will be referred to here as the debtor.

In that case, its obligations under the contract are treated as administrative expenses of the estate, which must be paid in full before any distribution is made to lower-priority claims, including general unsecured claims that arose "pre-petition," before the bankruptcy filing. §§365(b), 503(b)(1), 507(a)(2), 726(a), 1129(a)(9).

If, on the other hand, the debtor decides that the cost of performing its future obligations under the contract outweighs the benefit of the counterparty's future performance, it may reject the contract. The "rejection of an executory contract … constitutes a breach of such contract or lease … immediately before the date of the filing of the petition." §365(g)(1). That breach gives the counterparty to a rejected contract a claim against the debtor's estate for any damages arising from the breach. §502(g)(1). But because the breach is deemed to occur before the bankruptcy filing, the damages claim is treated like other pre-petition claims, which are typically paid cents on the dollar.

2. Thirty years ago, in *Lubrizol*, the Fourth Circuit analyzed the effect of rejection of an intellectual property license agreement under §365. The court held that a debtor's rejection of such an agreement not only relieved the debtor of its future performance obligations, but also stripped the licensee of its right to continue using the licensed intellectual property, enabling the debtor to take back the license and sell or license the technology to a third party. 756 F.2d at 1047-1048.

3. Congress quickly expressed its disagreement with *Lubrizol* by enacting §365(n). Section 365(n) was designed "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license pursuant to [§]365." S. Rep. No. 100-505, at

3200; *see id.* at 3201-3202 ("Congress never anticipated that … the licensee would lose not only any future affirmative performance required of the licensor under the license, but also any right of the licensee to continue to use the intellectual property as originally agreed in the license agreement.").

Section 365(n) provides that when a debtor rejects a contract "under which the debtor is a licensor of a right to intellectual property," the licensee may elect either to treat the contract as terminated or to "retain its rights (including a right to enforce any exclusivity provision of such contract …) under such contract … to such intellectual property." §365(n)(1)(B).

At the same time, Congress enacted §101(35A), which defined "intellectual property" to include, among other things, "any invention, process, design, or plant protected under title 35" (the Patent Act), copyrights, and trade secrets. The definition of "intellectual property" did not, however, include trademarks. The Senate Report noted that "rejection [of trademark licenses] is of concern because of the interpretation of [§]365 by the *Lubrizol* court," but explained that "these matters could not be addressed without more extensive study," and thus "it was determined to postpone congressional action in this area." S. Rep. No. 100-505, at 3204.

B. Factual Background

Debtor Tempnology is a New Hampshire-based company that developed chemical-free cooling fabrics, on which it held issued and pending patents. App. 2a-3a, 36a. Using those fabrics, it produced specialized clothing and accessories like towels, socks, and headbands that were designed to remain cool when used during exercise. App. 2a. Tempnology marketed these products using the COOLCORE and DR. COOL trademarks. *Id.*

On November 21, 2012, Mission and Tempnology executed a Co-Marketing and Distribution Agreement (the "Agreement"). App. 3a. The Agreement granted Mission a non-exclusive, worldwide, perpetual license to use for any purpose (including manufacture and sale) all of Tempnology's products, inventions, and designs and all of Tempnology's intellectual property rights (other than trademarks and domain names) with respect to those products, inventions, and designs. Agreement §15(b), App. 120a-121a. The Agreement also granted Mission a non-exclusive, worldwide (except for certain countries in East Asia) license to use Tempnology's trademarks on the Tempnology products Mission distributed (the "Cooling Accessories") for the term of the Agreement. Agreement §15(d), App. 123a-125a.

Importantly, the Agreement also carved out a territory for Mission—primarily consisting of the United States—in which Mission had the *exclusive* right to sell certain products (the "Exclusive Cooling Accessories"). Agreement §1(A)-(B), App. 103a-105a. Tempnology agreed that, within Mission's exclusive territory, it would not sell the Exclusive Cooling Accessories itself or license them to others. Agreement §§5-6, App. 109a-117a. In other words, the Agreement gave Mission the non-exclusive right to sell certain patented and trademarked Tempnology products throughout the world and the exclusive right to sell a subset of those patented and trademarked products within the United States. *See* Agreement §1(B), App. 105a.

The Agreement permitted either party to give notice of its intent to terminate the contract without cause, which would trigger a two-year wind-down period during which the Agreement's terms would remain in effect. It also permitted either party to terminate the Agreement immediately if the other party failed to cure a material breach. Agreement §3, App. 106a-108a. On June 30, 2014, Mission exercised its right to terminate the Agreement without cause, triggering the Agreement's wind-down period. App. 4a. The next month, Tempnology purported to terminate the Agreement for cause and stopped performing under the Agreement. *Id.* In June 2015, an arbitrator ruled that Tempnology's purported termination for cause was improper and that the Agreement remained in effect throughout the wind-down period—until July 1, 2016. App. 4a-5a, 40a. A second phase of arbitration was set to address Mission's claim that Tempnology had breached the Agreement by failing to perform. App. 40a.

On September 1, 2015, Tempnology filed a voluntary petition for Chapter 11 bankruptcy, halting the arbitration proceedings. App. 5a; *see* §362.

C. Procedural History

1. The day after its bankruptcy filing, Tempnology moved to reject the Agreement under §365(a). App. 5a. Mission objected to the motion and elected to retain its rights to intellectual property protected by §365(n). App. 6a. The bankruptcy court granted Tempnology's rejection motion, but noted that its order was "subject to Mission['s] election to preserve its rights under … §365(n)." App. 83a-84a.

In response, Tempnology filed a motion asking the bankruptcy court to determine the scope of the rights Mission would retain after rejection of the Agreement. App. 6a. The bankruptcy court noted that there was "no … dispute[]" that Mission retained its non-exclusive, worldwide license to use Tempnology's patents post-rejection, but held that rejection of the Agreement terminated Mission's trademark and exclusive-distribution rights. App. 78a-81a.

2. Mission appealed to the Bankruptcy Appellate Panel for the First Circuit ("BAP"), which affirmed the bankruptcy court's holding that Mission could not retain its exclusive-distribution rights. App. 49a-51a.

The BAP reversed, however, as to Mission's trademark rights, adopting the Seventh Circuit's reasoning in *Sunbeam*—that rejection is merely a breach and does not enable a debtor-licensor to revoke rights already granted to a licensee. App. 51a-60a; *see Sunbeam*, 686 F.3d at 376-377. The BAP concluded that "rejection of the Agreement did not vaporize Mission's trademark rights under the Agreement." App. 60a. Rather, "[w]hatever post-rejection rights Mission retained in [Tempnology's] trademark and logo [we]re governed by the terms of the Agreement and applicable non-bankruptcy law." *Id.*

3. On appeal, a divided First Circuit disagreed with the BAP in part and affirmed the bankruptcy court in full. App. 2a.

The court first agreed with the BAP that rejection terminated Mission's exclusive-distribution rights, reasoning that Mission's exclusive right to sell certain products practicing the licensed patents in the United States was not protected under §365(n). App. 12a-20a. In the court's view, "the right to sell a product is clearly not included within [the Bankruptcy Code's] definition of intellectual property," even though the court acknowledged that the products at issue were "made using a patent" that Tempnology had licensed to Mission. App. 15a. The court also opined that the exclusive-distribution right was not a right to intellectual property because the "only thing that is exclusive is the right to sell certain products, not the right to practice, for example, the patent that is used to make those products." *Id.*

The panel split 2-1 regarding the trademark rights, with the majority holding that rejection terminated those rights. App. 20a-27a. The majority recognized that the omission of trademarks from the Code's definition of "intellectual property" did not resolve the question, which turned on "exactly what rejection means" under §365. App. 20a-22a. Addressing that issue, the majority expressly refused to follow *Sunbeam* and endorsed the Fourth Circuit's reasoning in *Lubrizol*, holding that rejection stripped Mission of its right to use Tempnology's trademarks, leaving it with only a prepetition damages claim. App. 27a.

In reaching that conclusion, the majority opined that the Seventh Circuit's decision contravened "Congress's principal aim" in providing for rejection under §365—"'releas[ing] the debtor's estate from burdensome obligations that c[ould] impede a successful reorganization.'" App. 22a. The majority reasoned that it was not "possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark," stating that Tempnology would be required to "monitor and exercise control over the quality of the goods" produced by Mission to protect the "continued validity" of its trademarks. App. 22a-23a.

Accordingly, the majority concluded, it "favor[ed] the categorical approach of leaving trademark licenses unprotected from court-approved rejection, unless and until Congress should decide otherwise." App. 27a.[4]

In dissent, Judge Torruella "disagree[d] with the majority's bright-line rule" that Tempnology's rejection left Mission "without any remaining rights to use [Tempnology's] trademark and logo." App. 29a. He criticized the majority for "treat[ing] a debtor's rejection as a contract cancellation, rather than a contractual breach." App. 32a. The BAP, he concluded, "was correct to follow the Seventh Circuit's lead in finding that … [Tempnology's] rejection of the executory contract d[id] not rescind the Agreement" and did not "eviscerate any of Mission's remaining trademark rights." App. 33a-34a.

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[4] The First Circuit did not address Mission's argument that under *Sunbeam*'s correct interpretation of §365(g), rejection could not terminate its exclusive-distribution rights even if those rights were not protected by §365(n). The court stated that, in its view, the argument was not properly raised below and was waived. App. 20a. Mission disagrees. But, in any event, because the First Circuit squarely addressed and rejected *Sunbeam*'s interpretation of the statute in deciding the trademark issue, any purported waiver is no obstacle to granting review of the *Sunbeam* question in this case. Should this Court grant certiorari and reverse on that question, the application of its ruling to Mission's exclusive-distribution rights in light of any procedural waiver arguments can and should be addressed on remand.

REASONS FOR GRANTING THE PETITION

I. THE COURT SHOULD GRANT REVIEW OF THE QUESTION WHETHER REJECTION TERMINATES A LICENSEE'S RIGHTS

A. There Is A Square, Entrenched, And Openly Acknowledged Circuit Split On The Question

The First Circuit's decision openly chooses sides—rejecting the Seventh Circuit's position and aligning itself with the Fourth Circuit—in a long-standing circuit split on a fundamental bankruptcy question: the effect of a debtor's rejection of an executory contract, and, in particular, an agreement to license intellectual property. This conflict—resulting in dramatically different outcomes for licensees based on the happenstance of where the licensor declares bankruptcy—is entrenched and will not resolve itself without this Court's intervention. Review is warranted to restore uniformity on this question of exceptional importance.

1. The Fourth Circuit

In *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), the Fourth Circuit held that a debtor-licensor's rejection of an agreement to license intellectual property—there, a metal-coating process—terminated the licensee's right to continue using the intellectual property, allowing the debtor to sell or license it to a third party without any limitations imposed by the license previously granted. *Id.* at 1047-1048.

Although the court acknowledged that "§365(g) … treat[s] rejection as a breach," in its view, "the legislative history of §365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party." *Lubrizol*, 756 F.2d at 1048.

Hence, the court reasoned, the licensee "could not seek to retain its contract rights in the technology by specific performance even if that remedy would ordinarily be available upon breach of this type of contract." *Id.* The Fourth Circuit recognized that its decision "impose[d] serious burdens upon contracting parties" and "could have a general chilling effect upon the willingness" of parties "to contract at all with businesses in possible financial difficulty," but it concluded that Congress "plainly provided for the rejection of executory contracts, notwithstanding the obvious adverse consequences." *Id.*

Lubrizol has been intensely criticized for both its result and its reasoning—in particular, its view that rejection of a license agreement does not merely excuse the debtor from future performance obligations, but also allows the debtor to take back rights to intellectual property already granted to the licensee. *See, e.g.*, *Sunbeam Prods., Inc.* v. *Chicago Am. Mfg.*, 686 F.3d 372, 377 (7th Cir. 2012) ("Scholars uniformly criticize *Lubrizol*."); *In re SIMA Int'l, Inc.*, 2018 WL 2293705, at *4 (Bankr. D. Conn. May 17, 2018) ("This Court, like many others, does not endorse the reasoning in *Lubrizol* and is not alone in concluding that its reasoning is flawed."); Baird, *Elements of Bankruptcy* 122-123 & n.9 (6th ed. 2014) (hereinafter "Baird") ("*Lubrizol* … interpreted the power to reject too expansively."); Westbrook at 240, 305-315 (*Lubrizol* is "deeply disruptive of commercial expectations and needs.").

As discussed above, Congress found a partial solution in §365(n), which overruled *Lubrizol*'s holding with respect to licenses of certain types of intellectual property and made clear that Congress viewed the decision as mistaken. *See supra* pp. 9-10. But the legislation did not explicitly resolve the question whether *Lubrizol*'s view of the effect of rejection applied to intellectual property rights not clearly covered by §365(n), including trademark rights.

That question has now divided lower courts for three decades. Some have concluded that, because trademarks were omitted from the definition of "intellectual property" protected by §365(n), "*Lubrizol* controls and the [licensee's] right to use the trademarks stops on rejection." *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003); *see also, e.g.*, *In re Old Carco LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re Centura Software Corp.*, 281 B.R. 660, 668-674 (Bankr. N.D. Cal. 2002); *In re Backstone Potato Chip Co.*, 109 B.R. 557 (Bankr. D.R.I. 1990). Others have held that licensees' rights should not "succumb to the interests of maximizing the bankruptcy estate," especially when those rights are part of the same "licensing system which Congress sought to protect." *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 772 (Bankr. D.N.J. 2014).

2. The Seventh Circuit

In *Sunbeam*, the Seventh Circuit held that rejection of a trademark license does *not* terminate the licensee's right to use the debtor's trademarks. 686 F.3d at 376-378. The court expressly refused to follow *Lubrizol*, recognizing that its decision "create[d] a conflict among the circuits." *Id.* at 378 ("*Lubrizol* does not persuade us.").

The facts in *Sunbeam* were very similar to those here: The debtor-licensor contracted with the licensee to manufacture and sell box fans using the debtor's patents and trademarks. 686 F.3d at 374. The debtor filed for bankruptcy, rejected the license agreement, and argued that the debtor could no longer sell the trademarked box fans. *Id.*

In holding that rejection did not terminate the licensee's rights, *Sunbeam* first concluded that §365(n) created no inference that Congress "codified *Lubrizol* with respect to trademarks." 686 F.3d at 375. "[A]n omission is just an omission," the court explained, noting that the "limited definition [of 'intellectual property'] in §101(35A) means that §365(n) does not affect trademarks one way or the other." *Id.* It also noted that the legislative history indicated that "the omission [of trademarks] was designed to allow more time for study, not to approve *Lubrizol*." *Id.*

Sunbeam went on to reject the reasoning and holding of *Lubrizol*, asserting that the decision was "mistaken" and did not "correctly underst[an]d §365(g)." 686 F.3d at 376. Rather, in the Seventh Circuit's view, *Lubrizol* "confuse[d] rejection," which merely "'constitutes a breach'" under §365(g), "with … an avoiding power"—that is, a trustee's or debtor-in-possession's limited power to unwind a deal made before bankruptcy as a fraudulent transfer or preference. *Id.* at 376-377; *see infra* pp. 22-25.

The Seventh Circuit explained that "[w]hat §365(g) does by classifying rejection as [a] breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place." *Sunbeam*, 686 F.3d at 377. The "debtor's unfulfilled obligations are converted to damages" that are "treated as a pre-petition obligation, which may be written down in common with other debts of the same class." *Id.* "But nothing about this process implies that any rights of the other contracting party have been vaporized." *Id.* "Outside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property." *Id.* at 376. Thus, because "outside of bankruptcy, [the debtor] could not have ended [the licensee's] right to sell the [trademarked] box fans by failing to perform its own duties" under the agreement, the Seventh Circuit concluded that the debtor could not terminate that right through its rejection of the agreement in bankruptcy. *Id.* at 377.[5]

Although *Sunbeam* involved a trademark license, the Seventh Circuit's reasoning is not limited to trademarks. Rather, its interpretation of "rejection" under §365 applies equally to other rights granted to licensees, including, as relevant here, Mission's exclusive right to distribute certain products practicing Tempnology's patents within the United States.

[5] The Third Circuit has also addressed a case in which a debtor-licensor rejected a trademark license. *See In re Exide Techs.*, 607 F.3d 957 (3d Cir. 2010). The majority did not reach the question of the effect of rejection on the licensee's trademark rights, concluding that the contract was not executory and thus could not be rejected. *Id.* at 963-964. But in concurrence, Judge Ambro opined that the trademark licensee's rights should survive rejection in any event. *Id.* at 967. He explained that rejection "free[s] a bankrupt trademark licensor from burdensome duties that hinder its reorganization," but it does not "let a licensor take back trademark rights it bargained away." *Id.* Bankruptcy courts, he opined, should use "their equitable powers to give [the debtor] a fresh start without stripping [the licensee] of its fairly procured trademark rights"; otherwise, debtors could improperly use "bankruptcy more [as] a sword than a shield." *Id.* at 967-968. Although the Seventh Circuit reached the same outcome for some of the same reasons, it rejected the suggestion that courts should use an "equitable" approach, instead focusing its analysis on the text of §365(g). *Sunbeam*, 686 F.3d at 375-376.

3. The First Circuit

As noted above, *see supra* pp. 14-15, the First Circuit's decision discussed both *Lubrizol* and *Sunbeam*, acknowledging that "other circuits are split" on the question of the effect of rejection on a licensee's rights. App. 2a. The majority expressly disagreed with *Sunbeam*'s conclusion that rejection does not terminate a licensee's rights that would survive the licensor's breach outside bankruptcy. Rather, it sided with the Fourth Circuit's interpretation of "rejection" in *Lubrizol*, holding that "rejection converts the [licensee's] right into a pre-petition claim for damages." App. 22a.

The law of the First and Fourth Circuits is thus squarely at odds with the law of the Seventh Circuit on an important and recurring question of bankruptcy law regarding the effect of "rejection" of a license agreement like this one. The split will not heal itself. It requires this Court's intervention.

B. The First Circuit's Decision Is Wrong

The First Circuit's holding that rejection of a license agreement terminates a licensee's rights is contrary to the text and purpose of the Bankruptcy Code. As the Seventh Circuit recognized in *Sunbeam*, rejection of an executory license agreement does not terminate the licensee's rights. By treating rejection as a breach, §365 makes clear that if the licensee's rights under the agreement would survive the debtor's breach outside bankruptcy, they survive rejection inside bankruptcy. And as *Sunbeam* also recognized, trademarks are no exception to that rule.

1. Rejection does not terminate a counterparty's rights

The text of the Bankruptcy Code specifies the effect of rejection of an executory contract: Rejection "constitutes a breach of such contract … immediately before the date of the filing of the [bankruptcy] petition." §365(g)(1). Rejection is nothing more than that. It does not grant the debtor any special powers. Rather, the debtor has the same option in bankruptcy that it would have outside bankruptcy to stop performing its remaining unfulfilled obligations under the contract and instead pay damages to the counterparty. The principal benefit to the debtor of rejecting an executory contract is that the obligation to pay damages for the breach is treated as a prepetition claim, §502(g), and therefore typically paid at cents on the dollar.

As most recent court decisions and scholars have recognized, rejection does not "impl[y] that any rights of the other contracting party have been vaporized." *Sunbeam*, 686 F.3d at 377. "[C]ontract rejection [is not] the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed." *Thompkins* v. *Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007). Rather, "'[r]ejection merely frees the estate from the obligation to perform'" the debtor's unfulfilled obligations. *Id.*; *see also In re Exide Techs.*, 607 F.3d 957, 965 (3d Cir. 2010) (Ambro, J., concurring) ("'[R]ejection is a breach of the executory contract. It is not avoidance, rescission, or termination.'"); Andrew at 848 ("[R]ejection is not the revocation … or cancellation of a contract'" and "does not change the substantive rights of the parties to the contract.").

Lubrizol's contrary rule—embraced by the First Circuit below—has been roundly criticized by courts and scholars for misconstruing rejection as an "avoiding" power that enables the debtor to undo an already completed deal the debtor made before bankruptcy. *Sunbeam*, 686 F.3d at 377 ("*Lubrizol* … confuses rejection with the use of an avoiding power."); Baird at 123 & n.10 ("[R]ecent Circuit opinions repudiate *Lubrizol*"; "[c]ourts … tend towards the view that rejection is not an avoidance power" that enables "debtors [to] recapture intellectual property such as trademarks" and that, instead, "the third party can continue to use the trademark."); Andrew at 916 (*Lubrizol* is "[t]he case that illustrates perhaps better than any other what is wrong with avoiding-power rejection.").

The trustee or debtor-in-possession in bankruptcy does have an "avoiding" power that enables it to undo certain pre-bankruptcy transactions, but it is a limited power found elsewhere in the Bankruptcy Code. For instance, if the debtor had licensed its intellectual property for "less than reasonably equivalent value" while insolvent, that transaction could potentially be unwound as a "fraudulent transfer" and the intellectual-property rights returned to the estate. *See, e.g.*, §548(a)(1)(B)(i) (permitting trustee to avoid certain transfers of property made within two years before bankruptcy if the debtor "received less than a reasonably equivalent value in exchange for such transfer" while insolvent); *Sunbeam*, 686 F.3d at 377 ("Bankruptcy law does provide means for eliminating rights under some contracts" pursuant to the "trustee['s] avoiding powers.").

By contrast, §365 does not permit the debtor to reclaim for the estate interests in property that the debtor already conveyed to the counterparty. "Section 365 is not an avoiding power designed to expand the assets of the estate and give creditors inside of bankruptcy something they would not have had outside." Baird at 115. Indeed, it is a basic principle of bankruptcy law that the estate has no greater rights in the debtor's property than the debtor itself held outside bankruptcy. *See* §541(a)(1) (bankruptcy estate includes "legal or equitable interests of the debtor in property as of the commencement of the case"); *see also Butner* v. *United States*, 440 U.S. 48, 54-55 (1979); *Board of Trade* v. *Johnson*, 264 U.S. 1 (1924); Baird at 95. If the debtor's assets would be limited in the debtor's hands by interests granted to third parties—such as a license of rights to its intellectual property—those assets are equally limited in the hands of the trustee or debtor-in-possession inside bankruptcy.

Section 365 does not change that. "Nothing about the nature of 'rejection' requires that the trustee be able to undo (or 'avoid') what is tantamount to a consummated property transfer." Baird at 119. Indeed, "terminating rights in or to property arising under contracts that happen to be 'executory' is fundamentally contrary to general bankruptcy principles, to the history and purpose of executory contracts doctrine itself, and to common sense." Andrew at 849. If the debtor's breach of the contract would not terminate the licensee's rights outside bankruptcy, rejection does not do so inside bankruptcy.

Outside bankruptcy, for example, if a landlord breaches its obligations under a lease of real property—such as the obligation to heat or maintain the property—the lease is not terminated, and the landlord cannot evict the tenant. As the Seventh Circuit explained, the same is true in bankruptcy: "[A] lessor that enters bankruptcy could not, by rejecting the lease, end the tenant's right to possession and thus re-acquire premises that might be rented out for a higher price. The bankrupt lessor might substitute damages for an obligation to make repairs, but not rescind the lease altogether." *Sunbeam*, 686 F.3d at 377.[6]

Intellectual property licenses work the same way. They convey to the licensee an interest in the licensor's intellectual property—not ownership of the entire bundle of rights to the property, but particular sticks in the bundle. *See Impression Prods., Inc.* v. *Lexmark Int'l, Inc.* 137 S. Ct. 1523, 1534 (2017) (a licensor is "exchanging rights" with a licensee and is "free to relinquish only a portion of its bundle of patent protections"). Outside bankruptcy, a licensor's breach of its obligations under a license agreement would not entitle it to retract the license already granted, and rejection should not entitle the licensor to do so in bankruptcy. *See, e.g.*, *Sunbeam*, 686 F.3d at 376-377; *Exide*, 607 F.3d at 967 (Ambro, J., concurring) ("Courts may use §365 to free a bankrupt trademark licensor from burdensome duties that hinder its reorganization. They should not … use it to let a licensor take back trademark rights it bargained away."); Westbrook at 308 ("[C]ontract doctrine would not permit the breacher *to benefit from its own breach* by revoking the license.… No bankruptcy rule or policy requires … reversal of [that] state law.").

[6] Section 365(h) of the Bankruptcy Code codifies this result, while limiting the lessee's remedy for any post-petition failure to perform by the debtor to a set-off against rent owed. But even without §365(h), as *Sunbeam* makes clear, rejection would not permit the debtor to evict the lessee and take back a property interest already conveyed. *See also* S. Rep. No. 100-505, at 3203 (§365(h) "clarified" that rejection by a lessor could not terminate a lease).

Congress expressly endorsed this understanding of §365—and spurned *Lubrizol*'s interpretation—when it enacted §365(n), explaining that "Congress never anticipated" that the bankruptcy of a licensor "would subject the licensee to the risk" of losing its "right … to continue to use the intellectual property." S. Rep. No. 100-505, at 3201-3202; *see id.* at 3201 (*Lubrizol* improperly "relieved the debtor not simply of its ongoing affirmative performance obligations … but also of its passive obligation to permit the licensee to use the intellectual property"); Baird at 123 ("Congress embraced the idea that rejection … should not allow the trustee to recapture rights that the debtor has already conveyed away.").

The license agreement in this case granted Mission, among other things, the nonexclusive right to use Tempnology's patents and sell its patented products worldwide, the nonexclusive right to use its trademarks, and the exclusive right to sell certain patented and trademarked products in the United States. It also imposed affirmative obligations on both parties that were still unperformed at the time of the bankruptcy filing. For instance, Tempnology was obligated to use commercially reasonable efforts to launch three new products a year. Agreement §13, App. 118a. In bankruptcy, as outside of bankruptcy, Tempnology could decide to breach that obligation and pay damages. But Tempnology could not, through its own breach of the contract, take away the rights it had already granted to Mission. All of those rights—including Mission's right to use Tempnology's trademarks and its exclusive right to sell certain patented and trademarked products—should have survived rejection.

Indeed, lower courts have already recognized that the First Circuit's decision "resurrects the *Lubrizol* rationale," fails to heed "the plain language" of §365, and "is plainly contrary to Congress' explicit efforts to rebalance affected rights on intellectual property." *SIMA*, 2018 WL 2293705, at *7-8.

2. Neither §365(n) nor trademark law supports a different result for trademarks

Nothing about the Bankruptcy Code's definition of "intellectual property" or about trademarks themselves suggests that trademarks should be an exception to the basic principles governing rejection.

The omission of trademarks from the Code's definition of "intellectual property" does not create any inference that trademark rights do not survive rejection. As *Sunbeam* explained, an "omission is just an omission" and "does not affect trademarks one way or the other." 686 F.3d at 375; *Exide*, 607 F.3d at 966-967 (Ambro, J., concurring) (same). Indeed, rather than endorsing *Lubrizol*'s result for trademarks, the Senate Report emphasized that, while "it was determined to postpone congressional action" on trademarks, "rejection [of trademark licenses] [was] of concern because of the interpretation of [§]365 by the *Lubrizol* court." S. Rep. No. 100-505, at 3204. "Setting out the rule explicitly" in §365(n) as to the intellectual property rights specifically addressed in *Lubrizol* thus "does not require the inference that Congress was repudiating the general principle elsewhere"; to the contrary, "[d]rawing a negative inference" that trademark licenses can be rescinded by rejection "assumes a notion of the rejection power that has no basis in history and makes little sense." Baird at 118, 123; Andrew at 928-929 (same).

Equally flawed is the First Circuit's reasoning that rejection terminated Mission's trademark license because, if the license were preserved, Tempnology would have had to monitor and control the quality of the trademarked products. App. 23a-27a. The license agreement did not create any such duty. At most, the Agreement gave Tempnology a right, but not an obligation, to monitor and control Mission's use of its trademarks. Agreement §15(d), App. 123a-125a.

To be sure, trademark law may require trademark owners to monitor licensees if they wish to protect their rights in their mark. App. 23a-24a (discussing "naked license" doctrine). But that obligation is not created by the parties' agreement and cannot be "rejected" in bankruptcy. *See SIMA*, 2018 WL 2293705, at *7 n.24 ("[T]he legal rigors of trademark policing, *not* contractual obligations, imposed upon the licensor to monitor its trademarks[,] are the source of the debtor's burdens."). Rejection merely frees the debtor from fulfilling its affirmative performance obligations under the rejected contract; it does not exempt the debtor from obligations imposed by other applicable law.

If the debtor believes its trademarks are worth the cost of monitoring, it will presumably incur that cost to preserve the value of the asset; if it does not, it presumably will not incur those costs. That decision is no different than the cost-benefit analysis debtors undertake every day when deciding whether to make an investment in an estate asset to maximize its value. It has no bearing on the question whether rejection terminates a licensee's trademark rights.

C. The Question Is Important And Ripe For Resolution

1. Whether licensors may strip licensees of their rights under trademark licenses, exclusive distribution agreements, and similar contracts by filing for bankruptcy and rejecting the contracts is a question of exceptional commercial importance. Resolving this question will provide much needed certainty for the expectations of contracting partners, facilitating economically advantageous relationships between licensors and licensees and other contracting parties. A licensee who is confident that the licensor's bankruptcy will not upend its continued right to use licensed trademarks or sell the debtor's products under an exclusive-distribution agreement will be more inclined to enter into an agreement that creates net efficiencies for distribution and production arrangements.

This concern is especially salient in the context of economically distressed licensors. Under the First Circuit's rule, a licensee who contracts with a financially unstable licensor risks losing the benefit of its bargain should that licensor file for bankruptcy and reject the license. That risk will either force the licensee to demand additional compensation for the uncertainty, or scuttle what would have been an otherwise economically productive deal. *Cf.* S. Rep. No. 100-505, at 3202-3203 (explaining that risk of loss of intellectual-property rights when licenses are rejected in bankruptcy discourages parties from entering into licensing arrangements and thereby threatens to impede technological development and innovation). Regardless of the result the Court reaches, establishing a definitive answer will allow commercial actors to conform their behavior to a settled rule of law.

2. Although the circuit split here dates back to the Seventh Circuit's decision in *Sunbeam*, before the First Circuit's decision below it might have been possible to argue that the Fourth Circuit's reasoning in *Lubrizol* had been discredited and would not be adopted by future courts. Indeed, respondents argued just that in opposing certiorari in *Sunbeam*. *See* Opp. 1, No. 12-431 (U.S. Nov. 9, 2012). That argument is no longer valid. By endorsing *Lubrizol*, the First Circuit has perpetuated and entrenched the open conflict among the circuits.

Indeed, lower courts facing this issue have highlighted the "unsettled area of rejection of trademark licenses," recognizing that regardless of the circuit court with which they align, "further litigation" of their decision is "certain to follow," and could delay resolution of the bankruptcy case "for years." *E.g.*, *In re Rent-A-Wreck of Am., Inc.*, 580 B.R. 364, 387 & n.156 (Bankr. D. Del. 2018). Establishing a clear rule and enabling parties to avoid such prolonged litigation, with its potential to derail reorganization proceedings, is critical.

II. THE COURT SHOULD GRANT REVIEW OF THE QUESTION WHETHER AN EXCLUSIVE RIGHT TO SELL PATENTED PRODUCTS IS A "RIGHT TO INTELLECTUAL PROPERTY" UNDER §365(n)

The First Circuit compounded its error regarding the effect of rejection on rights not expressly protected by §365(n) by adopting an exceedingly narrow construction of the "right[s] to intellectual property" covered by that provision. On the First Circuit's reading, §365(n) no longer protects one of the most important intellectual property rights a licensee can be granted—the exclusive right to sell a patented invention in a particular field of use or territory. The Court should grant review of this question as well, so that it can effectively address both of the First Circuit's related misinterpretations of §365 and the broad threat that, taken together, they pose to intellectual property licensees' rights.

A. The First Circuit's Decision Conflicts With The Statute's Plain Text And Basic Principles Of Patent Law

The First Circuit recognized that §365(n) "protects … an exclusive license to use a patent." App. 13a. But it concluded—without any analysis of the relevant text—that "the right to sell a [patented] product is clearly not included within the statute's definition of intellectual property." App. 15a. It also opined—again, without any support—that Mission's exclusive right to distribute products practicing the patent within the United States could not be a right to intellectual property because Mission's license was limited to a particular field of use. *Id.* That reasoning contravenes the statute's language and reveals a fundamental misunderstanding of patent licensing.

1. The plain text of the Bankruptcy Code and the Patent Act makes clear that a right to sell a patented invention is a "right to intellectual property" under §365(n)(1).

Section 365(n) permits a licensee to whom the debtor has licensed "a right to intellectual property" to "retain its rights (including a right to enforce any exclusivity provision of such contract …) under such contract … to such intellectual property." §365(n)(1)(B). The Bankruptcy Code, in turn, defines "intellectual property" to include any "invention, process [or] design

… protected under title 35" (the Patent Act). §101(35A)(B). And one of the key attributes of a patent under the Patent Act is the right to sell the patented invention and exclude others from doing so. 35 U.S.C. §154(a)(1) ("Every patent shall … grant to the patentee … the right to exclude others from making, using, offering for sale, or *selling* the invention throughout the United States." (emphasis added)); *id.* §271(a) ("[W]hoever without authority makes, uses, offers to sell, or *sells* any patented invention … infringes the patent." (emphasis added)).

Because the patentee has the right to exclude others from selling its invention, any grant of rights to another party to sell that invention is necessarily a grant of rights to the invention—i.e., "a right to intellectual property" within the meaning of §365(n). The First Circuit's apparent conclusion that the right to *use* a patented invention is "a right to intellectual property" within the meaning of §365(n), but that the right to *sell* the invention is not, thus contravenes the clear language of the statute.

Courts—including this Court—have long recognized that the right to sell a patented invention is a patent license. *See, e.g.*, *De Forest Radio Tel. Co.* v. *United States*, 273 U.S. 236, 241 (1927) ("Any language used by the owner of the patent … from which [another] may properly infer that the owner consents to his use of the patent in making or using it, *or selling it*, upon which the other acts, constitutes a license." (emphasis added)); *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436, 456 (1940) (a patentee "may grant licenses to make, use *or vend*" a patented invention (emphasis added)).

Courts that have addressed the question in the §365(n) context have agreed. *See In re Davidson Hydrant Techs. Inc.*, 2012 WL 987620, at *5 (Bankr. N.D. Ga. Jan. 10, 2012) ("the right to offer for sale a patented product is … a 'stick' in the bundle of [patent] rights" protected under §365(n)); *In re Spansion, Inc.*, 2011 WL 3268084, at *9 (D. Del. July 28, 2011) (the "ability to sell products that contained" patented technology is a "patent license" that can be retained pursuant to §365(n)), *aff'd*, 507 Fed. App'x 125 (3d Cir. 2012); *SIMA*, 2018 WL 2293705, at *2, *10 (a promise not to "enter into any agreement with any other person for … selling a 'competing product'" "embodies precisely the kind of exclusive intellectual property rights that are protected by" §365(n)).

Intellectual property scholars agree, explaining that the "right[] to … sell" a patented product is "severally licensable," just "as the rights to make [or] use" a patented product are independently licensable. *See* Milgrim & Bensen, *Milgrim on Licensing* §2.33. Congress, too, recognized this basic point when enacting §365(n), explaining that, because technological development and innovation proceed by "an expensive and risky series of steps including research, development, manufacturing, *and marketing*," licenses may be necessary to facilitate each step. S. Rep. No. 100-505, at 3202 (emphasis added). The First Circuit's contrary conclusion has no support and makes no sense.

2. The First Circuit also believed that Mission's exclusive right to sell certain products practicing Tempnology's patents in the United States was not an exclusive "right to intellectual property" because Mission had that right only as to specific products, not all such products. App. 15a. "An exclusive right to sell a product," the court reasoned, "is not equivalent to

an exclusive right to exploit the product's underlying intellectual property." *Id.*

While that is true, it misses the point entirely. A licensee need not have an exclusive right to practice a patent in *all* of its applications in order to have an exclusive right to practice a patent in *some* of its applications. That is precisely what Mission had: an exclusive right to sell products practicing the patents Tempnology had licensed to it within a specific field of use and geographic area. That is a "right to intellectual property" covered by §365(n)(1)(B), which expressly protects "a right to enforce any exclusivity provision" of a license agreement.

Indeed, the very purpose of licensing intellectual property—rather than simply assigning or selling it—is to convey some, but not all, of the rights to the intellectual property to the licensee and retain some of the rights for the licensor or other potential licensees. Accordingly, licenses that grant the exclusive right to practice a patent within a particular field of use are a well-recognized and very common type of intellectual property right. *See* Dratler & McJohn, *Licensing of Intellectual Property* §7.04 ("[F]ield-of-use restraints are among the most common restrictive practices in licensing" and "may be one of the most important practical methods of maximizing revenue from broadly applicable technology."); Nimmer & Dodd, *Modern Licensing Law* §14:36 ("[F]ield-of-use restriction[s]"—which "give[] the licensee rights to use the technology … in reference to a particular application"—are "routine[]" and "frequently coupled with other restrictions, such as geographic or other limitations."); Milgrim & Bensen, *Milgrim on Licensing* §15.12 (explaining that field-of-use restrictions allow licensors to "maximiz[e] [their] ultimate revenues" because licensees often have unique "strengths" in "different fields" and further noting that, in light of their "economic value," field-of-use licensees regularly "seek" exclusivity provisions).

Congress thus properly recognized the ubiquity and importance of licenses for a particular field of use, and made clear that such licenses would be protected, when enacting §365(n). *See* S. Rep. No. 100-505, at 3202 (noting that licensing "provides a mechanism" for an inventor to seek "[separate] partners for each field of use" of his invention); *id.* ("The licensee … frequently is interested in the intellectual property for a specific application or geographic market"). Section 365(n) was "intended to protect and to facilitate" field-of-use licenses along with other types of licenses important to "technological development and innovation." *Id.*

B. The First Circuit's Interpretation Eviscerates §365(n)'s Protections For Licensees

The First Circuit's reading of §365(n) dramatically narrows its scope and thwarts Congress's aim in adopting the provision. By enacting §365(n), Congress meant to protect all of an intellectual property licensee's rights, including the exclusive right to sell specific products practicing a patent. Accordingly, it "broadly define[d] 'intellectual property' to include virtually all types of such rights (other than trademarks and similar rights)," and explained that "[t]he definition is broad and is to be interpreted liberally to carry out the intent of Congress to remove the cloud cast by that recent interpretation of the Bankruptcy Code [in *Lubrizol*] upon the intellectual property licensing system." S. Rep. No. 100-505, at 3204-3205.

And, as noted, Congress explicitly protected intellectual property licensees' exclusivity rights, recognizing that exclusivity is frequently a key provision of a license agreement. *See* §365(n)(1)(B) (upon rejection, the licensee may "retain its rights (including a right to enforce any exclusivity provision …)"); S. Rep. No. 100-505, at 3206 (If a licensing "contract granted exclusive use to the licensee, such exclusivity would be preserved."); *id.* at 3207 (§365(n) protects the "exclusive rights" of licensees by barring the debtor from "sell[ing] those rights through rejection.").

Congress recognized that terminating a licensee's rights upon rejection "leaves licensees in a precarious position and thus threaten[s] the very flexible and beneficial system of intellectual property licensing which has developed in the United States," by forcing "parties who would have formerly accepted licenses … to demand assignment—outright transfer of ownership of the intellectual property." S. Rep. No. 100-505, at 3201-3202. Congress viewed this development as "a fundamental threat to the creative process that has nurtured innovation in the United States." *Id.* Indeed, it was "resulting in undercompensation of U.S. inventors," as licensees paid less for rights that were uncertain. *Id.* at 3203.

The ability to grant a licensee the right to sell products practicing a patent within a particular field of use—and to exclude others from doing so—is a critical aspect of the licensing system Congress was attempting to protect. In fact, as commentators have observed in discussing this case, "in many instances a license to intellectual property would be rendered worthless without the accompanying distribution rights." Vasser & Harmeyer, *The Fate of Distribution Rights After Bankruptcy*, Law360 (Jan. 12, 2017).

The First Circuit's decision puts those rights once again at risk, contravening the text and purpose of §365(n) and essentially restoring the rule of *Lubrizol* for an important class of intellectual property rights. It thus creates new uncertainty for a large group of licensees and licensors, precisely where Congress intended to provide certainty. This Court should grant review and dispel that unnecessary and harmful confusion.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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