No. 17-1657

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

BRIEF OF LAW PROFESSORS AS *AMICI CURIAE* SUPPORTING PETITIONER

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INTEREST OF *AMICI CURIAE*[1]

Amici, whose names and affiliations are set forth in alphabetical order in the attached Appendix, are law professors who study the United States bankruptcy system. They write solely to share their disinterested views regarding the need for this Court's review in this case, and their concern about the effect the opinion below will have on bankruptcy law. To the best of their knowledge, no amicus has any financial interest in the outcome of this case.

SUMMARY OF ARGUMENT

The First Circuit's decision below inexplicably resuscitates a long-rejected decision—*Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985)—that allowed intellectual property licensors to exploit a bankruptcy filing to unilaterally revoke the rights of their licensees. *Lubrizol* was wrong when the Fourth Circuit decided it: The decision relied on a misreading of the statute; it has been overruled on its facts by Congress; and it has been universally rejected by bankruptcy scholars, and, until the decision below, the one other court of appeals to address the issue. *See Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012) (Easterbrook, J.). The First Circuit's reliance below on

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[1] Pursuant to Supreme Court Rule 37, counsel of record for petitioner and respondent received timely notice of the intent to file this brief and consent to its filing. No counsel for a party authored this brief in whole or in part. No person other than amici and their counsel, and no party or counsel for a party, made a monetary contribution intended to fund the preparation or submission of this brief.

that long-rejected decision, thus, creates a split in authority between the First and Fourth Circuits, on the one hand, and the Seventh Circuit, on the other. This *amicus* brief urges this Court to resolve that split in favor of the Seventh Circuit's decision in *Sunbeam*.

The First Circuit's decision allows a debtor/licensor to unilaterally rescind a trademark license by "rejecting" the agreement under Section 365(a) of the Bankruptcy Code. *See* 11 U.S.C. §365. This holding fundamentally misunderstands the effect of "rejection" and, if left uncorrected, will allow debtor/licensors to unwind a variety of settled transfers of property rights. Under the First Circuit's rule, a debtor/licensor can use the power to reject to destroy a licensee's business or hold the licensee hostage, forcing it to pay twice for a license it had already purchased. This unjust result is the unfortunate and natural consequence of treating the power to "reject" a contract as the power to "avoid," or claw back, a transfer of property.

To the contrary, the power to "reject" a contract under Section 365 serves a crucial but more modest purpose: It allows the trustee to decline to perform a contract, where to do so would be burdensome on the estate and harmful to other creditors. Insolvent debtors in bankruptcy are, by definition, unable to satisfy all of their contractual obligations. Where the debtor is a party to a contract under which the debtor's unperformed contractual obligations are intertwined with conditional obligations of the non-debtor, the allocation of those rights and obligations is handled by Section 365. Section 365(a) gives the debtor the choice to breach ("reject") or perform ("assume"). If the debtor elects to reject, then Section 365(g) states, "the rejection of an executory contract … of the debtor constitutes a breach of such contract." That formal act of breach allows the non-debtor to make a pre-petition claim for damages that can be discharged through the ordinary claims allowance process. Section 365 does nothing more than that.

This brief seeks to call the Court's attention to a longstanding scholarly consensus that Section 365(g) means precisely what it says—the trustee's power to reject is simply a power to breach, not a power to avoid settled property rights. *See, e.g.*, Jay Lawrence Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 247-55 (1989) (Westbrook); Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection,"* 59 U. Colo. L. Rev. 845, 855 (1988) (Andrew).[2] This is the view adopted, correctly, by the Seventh Circuit in *Sunbeam*. The precise consequences of the pre-petition "breach" are not determined by bankruptcy law. They are based, instead, on the parties' applicable non-bankruptcy rights under their agreement and principles of contract and intellectual property law. As *Sunbeam* noted, however, *see* 636 F.3d at 376, outside bankruptcy there is no readily apparent legal principle under which a *licensor's* breach of contract would limit a

[2] These articles are over twenty years old, but their influence continues to the present day, and their underlying insights about the meaning of 11 U.S.C. §365 remain valid. *See* note 9, *infra*. There are debates about Section 365 that continue to this day. *See* John A.E. Pottow, *A New Approach to Executory Contracts*, 96 Tex. L. Rev. 1437 (2018); Jay Lawrence Westbrook & Kelsi Stayart White, *The Demystification of Contracts in Bankruptcy*, 91 Am. Bankr. L.J. 481, 532-33 (2017) (Westbrook & White). But the question of whether Section 365(g) means what it says is not one of them. That is not in doubt.

licensee's ability to exercise rights already granted to it under that contract.

The point is not complicated or technical. If a seller of goods delivers the goods but breaches an ongoing service contract, the failure to perform would not "unsell" the goods, or give rise to a right to take them back. Section 365(g) specifies that, because rejection is merely a breach, bankruptcy does not change this result. The same principle applies to trademark licenses. A trademark license grants the licensee the right to use the trademark under certain conditions, and a defense against an infringement lawsuit brought by anyone (including non-parties) for any covered use. A debtor/licensor may have other ongoing obligations (akin to the ongoing service contract above), but if the licensor fails to perform its obligations under the license ("breaches") or rejects the license in bankruptcy, the license will nonetheless continue to operate as a defense for the non-breaching licensee against any claim of infringement.

Notwithstanding the Seventh Circuit's adherence to this principle in *Sunbeam*, the First Circuit created a clear split among the courts of appeals. By resuscitating the incorrect reasoning of *Lubrizol*, the First Circuit joined the Fourth Circuit to effectively create (or recreate) a novel, bankruptcy specific form of "statutory breach" that terminates the trademark license—immediately transforming an innocent licensee into an infringer. *See* Pet. App. 10a. This creates an extremely harsh, bankruptcy-specific rule without a clearly stated bankruptcy policy reason to do so. Under that rule, a franchisee that relies on its trademark license to do business might be forced to stop doing business immediately, subject to a reorganizing debtor's extortionate demand for a fresh payment for a right previously conveyed.

Such a result is not only inconsistent with the plain text of Section 365(g), but it also violates the cardinal principle, stated in *Butner v. United States*, 440 U.S. 48, 55 (1979), that "[p]roperty interests are created and defined by [applicable non-bankruptcy law] [u]nless some federal interest requires a different result." Meanwhile, the uncertainty created around trademark licenses by the First Circuit's decision will have immediate, negative effects on commerce in those licenses, both in and out of bankruptcy. This Court should therefore grant certiorari and reaffirm the view that rejection of a contract does nothing more than discharge pre-petition contractual obligations. In addition, if the Court does grant the principal question presented, it should also grant certiorari on the second question, which raises a related issue regarding the scope of the protection that Congress provided in Section 365(n) to patent licensees whose license agreements are rejected in the licensor's bankruptcy.

ARGUMENT

I. The Decision Below Fundamentally Misunderstands The Role Of Rejection Under Section 365 In The Bankruptcy System.

Section 365 operates within, and is consistent with, an architectural principle of the Bankruptcy Code: Bankruptcy discharges unsecured debt claims, but respects pre-bankruptcy property rights. Upon discharge in bankruptcy, enforcement of most pre-petition personal obligations of the debtor for rights of payment is enjoined. *See* 11 U.S.C. §524.[3] On the other hand, unless the Bankruptcy Code provides a specific avoiding power, non-debtor interests in the debtor's property are left undisturbed. For instance, a creditor's security interest in the debtor's property is respected through the priority of secured claims and the right to adequate protection. *Id.* §§361, 362(d), 506, 507(b).

The Bankruptcy Code does contain a number of specific "avoidance" powers that allow the trustee to recapture property transferred by the debtor pre-petition. These powers include the power to avoid unperfected transfers, 11 U.S.C. §544(a), the power to avoid preferences, *id.* §547, and the power to avoid fraudulent conveyances, *id.* §544(b) and §548. Note that these powers are all located in Subchapter III of Chapter 5 of the Code, the subchapter that defines the estate. By contrast, the power to "assume or reject" under Section 365 is in Subchapter IV of Chapter 3 of the Bankruptcy Code, which deals with the administrative powers of the trustee—here the power to breach or perform a contract. When Congress meant to create a "clawback" power, it knew how to label it, and where to put it.

Section 365 is not one of those avoidance powers. Instead, it addresses the debtor's contractual rights and obligations without disturbing non-bankruptcy property rights. Insolvent debtors in bankruptcy are, by definition, unable to satisfy all of their obligations.

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[3] As will be discussed later, by contrast, the obligations of third parties owed to the debtor are assets that become property of the estate. 11 U.S.C. §541.

The Bankruptcy Code must thus determine the consequences of claims for breach of contract, whether in liquidation or reorganization. Where the obligation is the payment of a debt, that question is answered by the claims allowance process. 11 U.S.C. §§101(5), 501, 502, 503, 506, 507. Where contract obligations of the debtor ("claims" of creditors) are intertwined with conditional obligations of non-debtors ("assets"), the allocation of those rights and obligations is handled by Section 365.

A. The Rejection Of A Contract Under Section 365(a) Is A Breach.

Section 365 gives the debtor the choice between performance and breach. If the debtor elects to breach (*i.e.*, "rejects" the contract), Section 365(g) treats that breach as a pre-petition claim for damages that can be discharged: "[T]he rejection of an executory contract … of the debtor constitutes a breach of such contract." 11 U.S.C. §365(g). Alternatively, a debtor that wishes to receive the benefit of the counter-party's remaining performance obligations under the contract can elect to reaffirm its own obligations under the contract (*i.e.*, "assume" the contract). This allows the debtor to preserve valuable contracts for the benefit of the bankruptcy estate. Thus, rejection is a breach while assumption reaffirms the obligation to perform. Neither act disturbs or unwinds any previous performance under the contract, nor does it reclaim any value conferred or any property already transferred.

This case principally involves an agreement that includes a trademark license—the contractual grant of a right to sell trademarked goods under the terms of that license. The debtor/licensor rejected that agreement. The question is whether the rejection deprived the licensee of the right it already held to sell trademarked goods or, put another way, whether it revoked the licensee's defense against any claim of infringement by any other party. The key point relevant to that question is that the debtor/licensor's rejection of a license agreement constitutes a failure to perform—a breach of the *licensor's* obligations under the agreement, and nothing more. It is not a revocation or rescission of the contract, and it does not operate to retroactively invalidate either the grant of the license or the resulting defense the licensee holds against an infringement action by anyone else.

Simple examples illustrate the importance of this distinction. Consider a solvent merchant who sells a laptop along with warranties and a service contract, delivers the laptop, and then breaches by failing to perform the ongoing warranties and/or service obligations. The breach would not "unsell" the laptop. Similarly, if the seller were to file for bankruptcy, rejection of the contract by the seller/debtor would free the debtor of its warranty obligations and obligations under the service contract, but it would not undo the sale and entitle the debtor to get the laptop back.

A trademark license similarly grants the licensee the right to use the trademark under certain conditions and a defense against an infringement lawsuit brought by anyone (including non-parties) for any covered use.[4] The licensor may have other ongoing obligations, too—akin to the service and warranty obligations above—but if the licensor fails to perform on

[4] A defense against a claim of counterfeiting, for example.

those obligations under the license (*i.e.*, "breaches"), the license will nonetheless continue to operate as a defense against any claim of infringement, provided that the licensee continues to live up to its own obligations under the license.

The same result is specified by Section 365(g) if the breach occurs through rejection in the bankruptcy context; the debtor/licensor's rejection is simply given effect as a breach of the debtor's obligations under the license agreement as of the bankruptcy petition date. This assures that the licensee will have an allowed claim that receives its *pro rata* distribution, along with other unsecured creditors, but it most certainly does not retract the grant of the license. As with the laptop, the effects of the licensor's breach on the licensee's rights and obligations are determined under non-bankruptcy law and not altered by the Bankruptcy Code. That simple, intuitive conclusion is the sole import of Section 365(g).

B. *Lubrizol* Was Wrongly Decided.

In a number of decided cases, however, the interaction between the debtor's contract obligations and the settled rights of non-debtors have become entangled. The result has been case law that is confusing at best and misguided at worst. This case implicates perhaps the most infamous example of both confusion and error, *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In that case, the Fourth Circuit ignored the text of Section 365(g) and concluded that rejection of a patent license allowed the debtor/licensor to revoke the right to use a patented process, even if the non-debtor/licensee continued paying under the contract. *Id.* at 1047-48. This rule had the harsh effect of turning a licensee into an infringer, subject to the severe remedies provided for patent infringement or needing to sign a fresh license to continue a line of business it had already paid to pursue.

Congress quickly acted to correct the error by enacting 11 U.S.C. §365(n) to protect patent and copyright licensees. That subsection reaffirmed the rule that rejection does not terminate a contract counterparty's ability to use intellectual property already transferred under the contract, and covered the principal types of intellectual property covered by the *Lubrizol* precedent. In Section 365(n), Congress made it clear that rejection pursuant to Section 365 could not unmake property rights in technology licenses involving patents and copyrights. Instead, upon rejection by the debtor/licensor, the licensee was given the option to treat the license as terminated or to continue to use the licensed intellectual property and pay royalties (less any damages for the licensor's breach).[5]

Congress did not expressly specify this same result for breaches of trademark licenses, as trademark rights are not listed in the definition of "intellectual property" contained in 11 U.S.C. §101(35A). But *Lubrizol* did not involve trademarks, so the need to act was not present. Crucially, Congress reaffirmed the background rule stated in Section 365(g) itself, and

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[5] It is important to note here that this is precisely the result that would obtain if a debtor were to breach a contract under state law. If the non-debtor's performance were conditioned on the debtor's continuing to perform, the non-debtor would have the option to treat the contract as repudiated, and discontinue its own performance.

therefore the basic principles applicable to other contracts—trademark licenses included.

The Seventh Circuit recognized as much in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372, 377 (7th Cir. 2012) (Easterbrook, J.). In so doing, it affirmed the view that *Lubrizol* had been wrong, and that rejection under Section 365(g) is merely a pre-petition breach. *Sunbeam*, like this case, involved rejection of a trademark license. *Id.* at 374-75. There the court held that, even though Section 365(n) does not mention trademark, Section 365(g) makes it clear that while rejection frees the debtor/licensor of its *own* obligations under the trademark license, it does not revoke the rights of the licensee to continue to use the trademark pursuant to, and so long as it complies with, the terms of the license. *Id.* at 376-77.

The *Sunbeam* court's rejection of *Lubrizol* is consistent with the view of virtually every scholar who has opined on the topic: The power to reject does not give the debtor the unilateral right to take back a property right that has already been transferred. Indeed, there is a substantial academic literature on this point, and an unusual scholarly consensus that predates the Seventh Circuit's *Sunbeam* decision and remains in place to this day.

Shortly after *Lubrizol* was decided, professors Westbrook and Andrew wrote a series of influential articles that explained why, as a matter of statutory interpretation, history, and policy, the effect of rejection is simply to create a breach and to establish the timing of that breach as the moment before the petition. *See* Westbrook, *supra*; Andrew, *supra*. Section 365(g) says so, in so many words. While Westbrook and Andrew each took different routes to this result, they agreed that once a debtor files for bankruptcy, the trustee or debtor-in-possession has the obligation to decide whether it is better for the estate for the debtor to perform or breach a contract. *See* Westbrook, *supra*; Andrew, *supra*. This is true as a simple matter of logic.[6] As Andrew puts it, "[r]ejection of the contract by the estate—the estate's decision not to assume—is not a rescission or cancellation of the contract. It is merely the estate's decision not to become obligated on it." Andrew, *supra*, at 921 (footnote omitted). Or, as Westbrook (more functionally) puts it, the bankruptcy terms "assumption and rejection represent the decision to perform or breach."[7] The question then becomes the consequence of that failure to perform. If the debtor "rejects," any claim for damages arising from the breach is treated as a pre-petition claim,[8] allowing it to be discharged through the ordinary claims-

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[6] Indeed, a recent article argues that, as a practical matter, Section 365 might not even be necessary to administer the consequences of rejection. *See* John A.E. Pottow, *A New Approach to Executory Contracts*, 96 Tex. L. Rev. 1437 (2018). This Court need not go that far, but the argument illustrates the extent to which the *Lubrizol* approach deviates from the underlying principles of the Bankruptcy Code.

[7] Westbrook, *supra*, at 231.

[8] Rejection is the estate's determination "not to assume the contract or lease, and its occurrence triggers the ancillary rule that a 'breach' of the debtor's obligations will be deemed to have occurred as of the commencement of bankruptcy, thus permitting a claim by the non-debtor." Andrew, *supra*, at 881; *see also* Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. Colo. L. Rev. 1, 8 (1991) ("Rejection has the consequence of creating a deemed breach of the contract as of the date of bankruptcy so that there will be no question but that

administration process. Further, both agree that the consequence of breach should be determined by applicable *non*-bankruptcy law (principally, state contract law) and that *Lubrizol* was thus wrongly decided insofar as it made the consequence of rejection a bankruptcy-specific question. Andrew, *supra*, at 916-18; Westbrook, *supra*, at 305-11.

A critical consequence of this view is that, but for *Lubrizol*, Section 365(n) would have been unnecessary. Since rejection is breach, not revocation, rejection would not rescind the license. As Andrew and Westbrook noted, there is no federal bankruptcy law answer to the question of what happens to a license when the debtor breaches. Instead, one would look to applicable non-bankruptcy law—to the law of trademark and contract and to the terms of the license—to determine the consequences of the licensor's failure to perform its ongoing obligations. In simple terms, the consequences of breaching a trademark license are ordinary questions of contract interpretation, not federal bankruptcy law. Congress enacted Section 365(n) to correct *Lubrizol*'s misunderstanding of that basic principle for copyright and patent—the property covered by the *Lubrizol* precedent. Trademark licensees are not included in that provision, but neither were they covered by *Lubrizol*; legislative correction was, therefore, unnecessary. The basic principle that rejection is merely a breach—reaffirmed in Section 365(n)—means that rejection does not terminate or rescind a

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the non-debtor party has a claim" for breach of contract, and "whether the contract is 'executory' or not, the result" of rejection creates a claim against the estate.).

trademark license any more than any other type of intellectual property license.

The remarkable thing is that in the twenty years since Westbrook and Andrew wrote, there has been virtually no scholarly disagreement on this point.[9]

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[9] The articles reviewed are collected here: Andrew, *supra*, at 881, 921, 923; Westbrook, *supra*, at 231, 324; J. Dianne Brinson, *Software Distribution Agreements and Bankruptcy: The Licensor's Perspective*, 64 Wash. L. Rev. 499, 513-14 (1989); John J. Fry, *The Rejection of Executory Contracts Under the Intellectual Property Bankruptcy Protection Act of 1988*, 37 Clev. St. L. Rev. 621, 625-26 (1989); Michael T. Andrew, *Executory Contracts Revisited: A Reply to Professor Westbrook*, 62 U. Colo. L. Rev. 1, 8 (1991); Robert T. Canavan, *Unsolved Mysteries of Section 365(n) – When a Bankrupt Technology Licensor Rejects an Agreement Granting Rights to Future Improvements*, 21 Seton Hall L. Rev. 800, 806 (1991); Scott A. Steinberg & Michael A. Gerber, *Software Licensing: Protecting Intellectual Property in Bankruptcy*, 6 J. Bankr. L. & Prac. 535, 539 (1997); Alison J. Winick, *Can Superstars Really Sing the Blues? An Argument for the Adoption of an Undue Hardship Standard When Considering Rejection of Executory Personal Services Contracts in Bankruptcy*, 63 Brook. L. Rev. 409, 420 (1997); Shubha Ghosh, *The Morphing of Property Rules and Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy*, 8 Fordham Intell. Prop. Media & Ent. L.J. 99, 146, 149 (1997); Richard M. Cieri, Neil P. Olack & Joseph M. Witalec, *Protecting Technology and Intellectual Property Rights When a Debtor Infringes on Those Rights*, 8 Am. Bankr. Inst. L. Rev. 349, 355-56 (2000); Xuan-Thao N. Nguyen, *Bankrupting Trademarks*, 37 U.C. Davis L. Rev. 1267, 1286-87 (2004); Grant Hanessian, Michael A. Stoker & Joseph Samet, *When Worlds Collide: Intellectual Property and Arbitration Rights in Bankruptcy Cases*, 59-Oct. Disp. Resol. J. 27, 28-29 (2004); Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 Berkeley Tech. L.J. 733, 767-68 (2007); Jonathan C. Balfus, *Exide Inside Out: New Third Circuit Decision Preserves Trademark Licensee's Rights Following Licensor's Rejection Under Bankruptcy Code § 365*,

The literature is collected in the margin below, but the point is that, with the exception of one article cited by the First Circuit, nobody disagrees. *See* James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Law. 739, 771-76 (2013).[10] For historical reasons articulated by Andrew

31 Cal. Bankr. J. 523, 525 (2010); Ron E. Meisler, Elaine D. Ziff, Tracy C. Gardner & Carl T. Tullson, *Rejection of Intellectual Property License Agreements Under Section 365(n) of the Bankruptcy Code: Still Hazy After All These Years*, 19 J. Bankr. L. & Prac. 2 Art. 4, at 1 (2010); Bradley Scott Friedman, *Taking the Intellectual Out of Intellectual Property Licenses Under Section 365 of the Bankruptcy Code*, 20 J. Bankr. L. & Prac. 6 Art. 3, at 4 (2011); Jonathan C. Bolton & Martin S. Loui, *Intellectual Property Considerations in Times of Financial Distress*, 17-Feb. Haw. B.J. 4, 6 (2013); Zachary S. McKay, *A Dramatic Misconception: Why the Trademark Licensee Must Be Granted the Power to Overcome the Trustee in Bankruptcy's 11 U.S.C. § 365 Rejection*, 54 S. Tex. L. Rev. 747, 774-75 (2013); Peter M. Gilhuly, Kimberly A. Posin & Ted A. Dillman, *Intellectually Bankrupt?: The Comprehensive Guide to Navigating IP Issues in Chapter 11*, 21 Am. Bankr. Inst. L. Rev. 1, 36-37 (2013); Alan N. Resnick, Sunbeam *Offers a Ray of Sunshine for the Licensee When a Licensor Rejects a Trademark License Agreement in Bankruptcy*, 66 SMU L. Rev. 817, 821, 839 (2013); Tyler S. Dischinger, *Problems in the Code, Section 365(n): A Call for Clarity*, 32-8 Am. Bankr. Inst. J. 50, 51 (2013); Jason Enright, *The Bankruptcy Code's Rejection of Trademark Under § 365(n) and the Motley Consequences When a Debtor Rejects a High-Tech Trademark License*, 1 Bus. & Bankr. L.J. 75, 84-85 (2014); Peter C. Blain, *Trademarks and Distribution Rights in Bankruptcy: The Dissonance Continues*, 29 No. 3 Intell. Prop. & Tech. L.J. 10, 12-13 (2017); Westbrook & White, *supra*, at 554.

[10] There, the authors principally argue that the Andrew article ought to be disregarded because it is old. They then argue that trademarks are different from other forms of IP, which nobody disputes. They make no argument, however, as to why their trademark-specific concerns are best addressed by a *bankruptcy*-

and statutory and policy reasons articulated by Westbrook, rejection simply constitutes a breach—nothing more, and certainly not a revocation of the entire contract.

As the foregoing suggests, the Bankruptcy Appellate Panel (BAP) correctly decided this case before the First Circuit's decision created the split this Court needs to resolve. The leading scholars have recognized as much. Recently, Professor Westbrook specifically addressed this case, and wrote approvingly of the BAP's opinion:

> [The BAP's opinion in] *In re Tempnology LLC*, supports the reasoning behind our approach. … The [BAP] concluded that while trademarks and logos could not be retained as intellectual property under section 365(n) of the Code, the bankruptcy court erred in concluding that Mission had no rights in the trademarks and logos after rejection. Rejection did not vaporize these rights that were not addressed by section 365(n). Instead, "[w]hatever postrejection rights Mission retained in the Debtor's trademark and logo are governed by the terms of the Agreement and non-bankruptcy law." As we might put it, breach of contract (rejection's effect under section 365(g)) would not somehow entitle the debtor to void its original grant of rights under non-bankruptcy law, although it did permit the avoidance of various ongoing obligations.

specific rule, let alone why they are well served by the *Lubrizol* approach.

Westbrook & White, *supra*, at 532-33 (footnotes omitted).

The *Sunbeam* decision recognized the same principle that rejection does not claw back a non-debtor's already transferred property rights. In contrast, *Lubrizol* and the First Circuit's decision in this case create an avoidance power where there was no congressional intent to do so.

II. There Is Now A Clear Circuit Split.

Notwithstanding the foregoing, Congress's omission of a specific rule governing trademarks from Section 365(n) has led to confusion in the lower courts—and now a clear circuit split—about the continued vitality of *Lubrizol* for trademarks.

A. Bankruptcy And District Courts Were Divided Over The Effect Of A Rejection Of A Trademark License.

Some lower courts have concluded that, because trademarks were omitted from Section 101(35A) and hence lie beyond the scope of Section 365(n), the rule of *Lubrizol* continued to control cases involving the rejection of trademark licenses. *See In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003); *see also 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, 668-74 (Bankr. N.D. Cal. 2002); *In re Blackstone Potato Chip Co.*, 109 B.R. 557, 560 (Bankr. D.R.I. 1990). This approach is surprising because, even for the property rights specifically at issue in *Lubrizol*, that precedent never controlled outside the Fourth Circuit. Meanwhile, other lower courts had correctly focused on the effect of a breach under trademark law, leaving the non-debtor licensees' trademark rights in place. *In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 772 (Bankr. D.N.J. 2014).

B. Until Now, However, No Circuit Court Had Followed *Lubrizol.*

The first court of appeals to squarely address this question after enactment of Section 365(n) was the Seventh Circuit in *Sunbeam.* That court declined to extend *Lubrizol*'s reasoning to cover trademarks. *Sunbeam*, 686 F.3d at 375-77. But the decision below has now resuscitated *Lubrizol*'s reasoning and created a clear split. Before the First Circuit's ruling here, given Congress's enactment of Section 365(n) and the vast weight of scholarly authority against *Lubrizol*'s reasoning, it was possible to believe that *Lubrizol*'s continued vitality was in doubt, and this Court's intervention would not be necessary on this issue. The decision below, however, makes clear that the disagreement among the federal courts will not resolve itself absent this Court's review.

C. The Split In Circuits Creates Commercial Uncertainty.

This circuit split creates substantial and harmful commercial uncertainty. Trademark rights are often granted on a long-term basis under which the licensee undertakes substantial investment in promoting and building a business around the trademarked good. Indeed, as a recent American Bankruptcy Institute report has noted, the use of a trademark may be crucial to the very viability of a non-debtor/licensee's business, such as a franchise or dealership.[11] It is thus

[11] Comm'n to Study the Reform of Chapter 11, Am. Bankr. Inst., *2012-2014 Final Report and Recommendations* 127 (2014).

likely to be quite material to prospective licensees whether their rights to use a trademark will survive a bankruptcy by the licensor. In circuits where the rule is unsettled, these prospective licensees will struggle to correctly price their purchases because of the risk that their contract rights can be unilaterally revoked. This problem is compounded because a bankruptcy case can be filed in any jurisdiction where the debtor can meet the liberal requirements for venue. In fact, even if the debtor has a place of business in the Seventh Circuit, the creditor/licensee is located there, and the transaction occurred there, that provides no assurance that the bankruptcy will be filed in the Seventh Circuit and thus no clarity as to which rule will govern.

Indeed, even standing alone, the First Circuit's rule creates commercial uncertainty that is nonexistent under the correct rule, stated in *Sunbeam*. That is because it creates a crucial and disruptive discrepancy between treatment of trademarks in bankruptcy and out. Trademark licenses may contain important terms to protect the goodwill of the debtor/licensor's business, or the debtor may wish to sell the business as a whole along with its goodwill. Trademark law thus needs rules that account for possible breaches or changes in business arrangements by the licensor, and as with any common law field, those rules develop over time in ways specific to substantive trademark law. It may also be possible to write trademark license contracts that themselves account for the contingencies that parties can foresee. Crucially, these kinds of questions pose issues of ordinary contract interpretation and substantive trademark law, *not bankruptcy law*. Adding a second layer of bankruptcy rules will increase uncertainty about the effect of rejection on these non-bankruptcy rights, while simultaneously stymying the appropriate growth of the non-bankruptcy law that should govern these situations. The Court should grant certiorari to resolve the split among the courts of appeals and dispel the damaging confusion that division has created.

D. Congress Did Not Wish To Displace Trademark Law.

The legislative history supports this view. To be sure, when Congress overruled *Lubrizol* in 1988 by adopting Sections 365(n) and 101(35A), it omitted trademarks from the definition of "intellectual property." The Seventh Circuit correctly recognized, however, that this was because *Lubrizol* did not apply to trademarks. Reversing it in that context was thus unnecessary. Instead, Congress called on courts to determine the consequence of breach in a common law fashion (in the absence of future legislation). The Senate Report says specifically:

> [T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors. While such rejection is of concern because of the interpretation of section 365 by the Lubrizol court and others, … such contracts raise issues beyond the scope of this legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more exten-

> sive study, it was determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts.

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

It is important to understand the logic behind this move. As the Senate Report notes, trademarks, trade names, and service marks raise similar issues to other forms of intellectual property, but also present important differences that arise from the association of the trademark with the debtor/licensor's goodwill. So Congress left it to courts to interpret Section 365(g) and determine the effect of the "breach" that a rejection creates—in the context of individual contractual agreements, applying the *non*-bankruptcy law of trademark and contract. Put another way, Congress wanted this area of the law to continue to develop as a matter of *non*-bankruptcy law, and so declined to supplant the governing substantive law with a uniform bankruptcy answer. Reading Section 365(n)'s omission of trademarks as *supplying* a uniform rule of revocability for trademark licenses not only overreads an omission, it gets the point of that omission exactly backwards.

As the BAP found below, and the Seventh Circuit found in *Sunbeam*, a contractual breach does not vaporize a trademark license, either as a matter of trademark or contract law. Accordingly, neither does rejection under Section 365.

In sum, the disagreement between the circuits admits of a fairly straightforward answer—indeed one that has been the subject of decades of academic agreement—that is well laid out in the Seventh Circuit's decision in *Sunbeam*. The issue is thus ripe for resolution, with a clearly correct approach this Court can easily adopt. By clarifying that the effect of rejection is breach, using the language of Section 365(g) itself, this Court could increase commercial certainty, bring bankruptcy law more into line with and integrate it with other non-bankruptcy policies, and protect the legitimate expectations of debtors and non-debtors alike.

III. This Court Should Grant Certiorari To Determine The Status Of An Exclusivity Provision In A Patent License Under Section 365(n).

Finally, if this Court does grant the petition on the first question presented, it should also consider the second. That question involves the scope of protection granted to a territorial exclusivity provision in a patent license. As noted above, Section 365(n) provides that the holder of a rejected patent or copyright license may 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 enforcement of such contract) … to such intellectual property." Section 101(35A) defines "intellectual property" to include any "invention, process, [or] design … protected by" the Patent Act, 35 U.S.C. §1 *et seq.*, which grants, among other things, the right to exclude others from selling a patented invention. The First Circuit held, however, that the exclusive right to sell a patented product in a particular geographic area and field of use is not a "right to intellectual property" protected by Section 365(n). Given that exclusive territorial distribution licenses often involve both trademark and patent rights, as well as the close connection between bankruptcy law and intellectual property law as to these issues, Question 2 should also be addressed by the Court in this case.

CONCLUSION

For these reasons, we urge the Court to grant certiorari in this case.

Respectfully submitted,

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APPENDIX

APPENDIX

Amici, whose names and affiliations are set forth below, are law professors who study the United States' bankruptcy system and subscribe to the views stated in this amicus brief. They write solely based on their concern about the effect that the opinion below will have on this system. To the best of their knowledge, none of them have any financial interest in the outcome of this case:

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