No. 17-1657

In The
Supreme Court of the United States

MISSION PRODUCTS HOLDINGS, INC.,

Petitioner,

v.

TEMPNOLOGY, LLC,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The First Circuit

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether trademarks fall within the ambit of protection for "intellectual property" rights under section 365(n) of the Bankruptcy Code when Congress made a deliberate choice to exclude trademarks from the definition of "intellectual property" when it enacted section 101(35A) of the Bankruptcy Code.

2. Whether exclusive distribution rights granted under the operative Agreement survive the Debtor's rejection of the Agreement by virtue of a non-debtor's election under section 365(n) of the Bankruptcy Code.

CORPORATE DISCLOSURE STATEMENT

Respondent is Tempnology, LLC n/k/a Old Cold LLC. There are no parent corporations or publicly held companies owning 10% or more of Respondent's stock.

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BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

Respondent, Tempnology, LLC n/k/a Old Cold LLC, respectfully submits this response to the petition for writ of certiorari filed by Petitioner Mission Products Holdings, Inc. in this case.

INTRODUCTION

This case focuses primarily on limited trademark license rights that the Petitioner, Mission Products Holdings, Inc. ("Mission Products" or "Petitioner"), itself chose to terminate for business reasons on June 30, 2014, fifteen months before the Respondent, Tempnology, LLC (now known as Old Cold LLC) ("Old Cold") filed for bankruptcy on September 1, 2015. The unique contract between the parties provided for a "wind-down period" following the contract termination by Mission Products that ended nine months into the bankruptcy on July 1, 2016, during which Mission Products made no use of the trademark (as it also had not done for eighteen months beforehand). In the bankruptcy, Old Cold rejected the contract as permitted under 11 U.S.C. § 365(a), thereby absolving it of further obligations to police the trademark. In what has become an academic exercise that cannot concretely affect these parties (because Mission Products voluntarily terminated its own rights long ago), Petitioner's dogged pursuit of litigation resulted in a first-ever circuit split between just the First and Seventh

Circuits regarding the effects of rejection of a trademark license under Bankruptcy Code section 365.[1]

Here the First Circuit properly recognized that trademarks are different from other intellectual property rights, and that the Bankruptcy Code's strong policy of permitting a debtor to free itself of ongoing obligations under a contract as embodied in section 365(a) and the right to reject such obligations applies to the burden of policing trademarks – something to which the Seventh Circuit had given shorter shrift. While there is therefore a recent and sole circuit split on the issue, it is premature for the U.S. Supreme Court to address this nascent split, and in any event this is not the right case in which to do so, for several reasons.

First, the Petition overstates the depth and duration of the circuit split by attempting to recast the issue as implicating all types of intellectual property rights including patents. That way, according to the Petition, a 1985 Fourth Circuit decision on patent rights, *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), gets swept into the calculus. But not only is *Lubrizol* a patent case, the issues it raised were squarely addressed by Congress and put to bed in 1988 by the enactment of 11 U.S.C. § 365(n)(1).

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[1] All references to a section are to sections under title 11 of the United States Code (the "Bankruptcy Code") unless otherwise noted.

That brings us to the second, perhaps more fundamental, reason that the Court should deny the Petition: Congressional intent. In passing section 365(n)(1) to address issues raised by the decision in *Lubrizol*, Congress expressly considered the impact of rejection under the then-new statute on other intellectual property rights such as patents, but deliberately chose not to include trademarks at that time, given the disparate and complex issues involving trademarks. Instead, the legislative history reflects that Congress intended to leave issues involving trademarks for further development and evolution in the courts. At the Court of Appeals level, that exploration has only just begun. In the three decades since the enactment of section 365(n)(1), this issue has only arisen a handful of times and only twice at the Court of Appeals. Until the issues are further fleshed out by other Courts of Appeals, it would be premature for the United States Supreme Court to step in and terminate the judicial developments that Congress envisioned.

Third, even assuming a single split of circuit authority warrants the attention of this Court, the present case is not the proper vehicle for the Court to resolve these complex issues. This case is a particularly poor choice for the Supreme Court to forestall either bankruptcy court evolution of the law or appropriate legislative action to try to create new standards, because key points such as the burdens on the debtor of the continued policing of the trademark, the debtor's balancing of those costs versus any benefits derived from that effort, and the impact of a "stranding" of the trademark were the mark to become "abandoned," were not litigated on a developed evidentiary record below. If the Court were to take up this abstract question on such a thin evidentiary record, that would likely lead either to new standards based largely on speculation, or a further remand for fleshing out the evidence. Far better to await further development of the issues involving trademark licenses in courts as Congress expressly intended or to allow Congress to address the issue as it also contemplated.

Finally, Mission Products also seeks to revive its separate claim regarding an exclusive distributorship by re-packaging that claim as though it were a necessary incident of a patent right, an attempt that the First Circuit rightly rejected as unsupportable. That argument does not, itself, present any circuit conflict or other ground for this Court's special review on certiorari.

For all these reasons, Old Cold urges the Court to deny the Petition and allow these issues to be resolved by the bankruptcy courts on a case-by-case basis or Congress on a legislative level.

REASONS FOR DENYING PETITION

1. The Split of Authority Is Neither Deep Nor Long-Standing.

For the first time in thirty years – after Congress passed section 365(n) in response to a Fourth Circuit patent case in *Lubrizol*, a new circuit conflict has arisen regarding the impact on trademarks of rejection of a contract in bankruptcy. That nascent conflict has yet to be fleshed out in other circuits. The Petition and amicus briefs inflate the scope of the present case by suggesting that it has an impact on all intellectual property in bankruptcy. On the contrary, that wider landscape was resolved by Congress when it enacted section 365(n), from which it carefully carved out trademarks for further evolution in the courts. That evolution has largely just begun after thirty years, with the First Circuit decision here.

As the Seventh Circuit acknowledged in *Sunbeam Products, Inc. v. Chicago Manufacturing, LLC,* 686 F.3d 372 (7th Cir. 2012), the split of authority does not date back thirty-plus years to *Lubrizol*, nor is it wide-ranging:

> We need to determine whether *Lubrizol* correctly understood § 365(g), which specifies the consequences of a rejection under § 365(a). *No other court of appeals has agreed with Lubrizol – or for that matter disagreed with it. Id.*, at 377 (emphasis supplied).

Now the First Circuit has also weighed in, but no other circuit court has addressed the issue head on. The bankruptcy courts that have done so have acted as intended by Congress in making equitable rulings based on the cases before them. *See, e.g., In re Chipwich, Inc.*, 54 B.R. 427, 431 (Bankr. S.D.N.Y. 1985) (stating that rejection of licenses by licensor deprives licensee of right to use trademark but licensee has allowable claim for damages for breach of contract). *In re Dynamic Tooling Sys., Inc.,* 349 B.R. 847, 856 (Bankr. D. Kan. 2006). *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660, 670 (Bankr. N.D. Cal. 2002); *but see In re Crumbs Bake Shop, Inc.*, 522 B.R. 766 (Bankr. D.N.J. 2014). What the Petitioner and *amici* characterize as "confusion" engendered by this process is nothing more than these various courts making rulings on the facts before them. The parties further urge this Court to provide "equitable treatment" of trademarks as comporting with Congressional intent and the fundamental principles of bankruptcy law. But that is exactly what has occurred in the episodic cases addressing this issue.

Trademarks are deeply different from other forms of intellectual property subject to the application of section 365(n), because the value inheres in conveying a message of continued monitoring and quality control by the originator (and not just the licensees). How that plays out in bankruptcy, when the debtor is unwilling or unable to perform that role, is a conundrum that Congress recognized when it carved out trademarks for further study and development. This intent is something the Seventh Circuit gave short shrift to, and the First Circuit is the first court of appeals to fully recognize. At a minimum the issue should be further developed in the bankruptcy and appellate courts before this Court considers the issue.

2. Congress Acted Purposefully in Enacting Section 365(n) in the Wake of the Fourth Circuit's *Lubrizol* Decision.

In the aftermath of *Lubrizol*, Congress enacted a careful balancing of rights and obligations of debtors and their "intellectual property" licensees as "intellectual property" is defined in the Bankruptcy Code. Congress granted licensees an election to continue to use licensed patents and copyrights while affording debtor licensors the right to continue to collect royalties notwithstanding a licensees' damages from breach of contract.

While the Petitioner and *amici* attempt to expand the impact of the First Circuit's holding to subsume not merely trademarks but all forms of intellectual property rights, those attempts misstate the relevant law and the First Circuit's holding. Contrary to these positions, the present case does not implicate broader issues that create "uncertainty over significant commercial transactions that are central to our nation's system for encouraging and rewarding innovation."

The plain language of section 365(n) excludes trademarks because of the definition of intellectual property at 11 U.S.C. § 101(35A). The statute is clear and does not include trademarks. *See, e.g., In re Old Carco LLC*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) ("Trademarks are not 'intellectual property' under the Bankruptcy Code."); *In re Dynamic Tooling Sys., Inc.*, 349 B.R. 847, 856 (Bankr. D. Kan. 2006)

("[T]rademarks and service marks [are] not protected by § 365(n) at all because trademarks are not 'intellectual property' as that term is defined in the Code. . . ."); *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003) (excluding trade names, trademarks, and other proprietary marks from the definition of "intellectual property").

Courts should consider legislative history to resolve statutory ambiguity if the language of a statute is not clear, but when a statute is clear there is no need to do so. *Toibb v. Radloff*, 501 U.S. 157, 162 (1991). A court may only hold contrary to an unambiguous statute when there is clearly expressed legislative intent that contradicts the plain language of the statute. *Consumer Prod. Safety Comm'n v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980). While the statute is clear and unambiguous and therefore this Court need not resort to a review of legislative history, the legislative history of section 365(n) is instructive on this narrow issue. That history shows a clear intention that Congress would allow bankruptcy courts to develop law for the "equitable treatment" of trademark licenses in bankruptcy cases to inform, as necessary, further Congressional action should Congress opt to revisit the issue at a later date.

One of the *amici*, the International Trademark Association ("INTA"), itself has proposed that the treatment of trademarks under section 365(n) is best addressed by Congressional amendment. In 2012, INTA drafted Board Resolutions sponsored by its U.S. Legislation Subcommittee that proposed explicitly that Congress amend section 365(n) to include trademark licenses within its post-rejection protection for licensees. The INTA resolution proposed a continuing obligation on a debtor-licensor to comply with any monitoring and quality control obligations under such license. Congress can achieve through legislative action what this Court cannot – amend section 365(n) to uniformly protect the rights of both debtors and licensees to trademark licenses.

Petitioner and *amici* each parrot the language in *Sunbeam* that "an omission is just an omission" 686 F.3d at 376 when urging the Court to reach a uniform judicial resolution of the post-rejection rights under section 365(n). But that position is in direct conflict with the legislative history cited in the briefs submitted to the Court that make it clear that the "omission" of trademarks was thoughtful and reflected Congressional intent that bankruptcy courts develop the law.

In this case, after reviewing the subject distribution agreement and the plain meaning of section 365, the bankruptcy court, the bankruptcy appellate panel and the First Circuit, correctly determined, that Petitioner retained all of the intellectual property rights under the agreement that were expressly protected by section 365(n) – i.e., rights to exploit patents and copyrights – but that any rights in trademarks that Petitioner might once have exploited under the agreement, were not protected under section 365(n).

The issue then becomes, what, if any, rights does a licensee in Petitioner's position retain post-rejection of its trademark license by a debtor-licensor. Petitioner urges the Court to adopt the reasoning in *Sunbeam* that a licensee retains whatever rights it has under the controlling agreement but the debtor is relieved of the duty of specific performance post-rejection. The First Circuit recognized that, given the fundamental public-facing nature and quality control that define the maintenance and exploitation of trademarks, imposing this on-going burden on a debtor in bankruptcy is at odds with the essence of bankruptcy's reorganization principles. At the heart of the First Circuit's ruling is a fundamental understanding that the purpose of rejection under section 365 is to "release the debtor's estate from burdensome obligations that can impede a successful reorganization." *See NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 528, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984). Determination of the scope and cost of these on-going performance obligations on a debtor impose delays and costs on a bankruptcy case that will be difficult to measure and may likely undermine effective reorganization or sales under the Bankruptcy Code.

Trademarks play no discernible role in encouraging or rewarding innovation in the same way that, for example, patents do. Trademarks are fundamentally different than patents, copyrights and trade secrets. Trademarks protect vastly different works than copyrights and patents. The distinction between trademarks and other types of intellectual property originates from theoretical, foundational reasons for protecting each type of intellectual property. Patents and copyrights protect authors and inventors in order to facilitate innovation. *Groeneveld Transp. Efficiency, Inc. v. Lubecore Int'l, Inc.*, 730 F.3d 494, 512 (6th Cir. 2013). Alternatively, trademarks focus on marketplace integrity and protect consumers who rely upon trademarks when purchasing goods and services. *See* 15 U.S.C. § 1127 (2012).

The United States Supreme Court specified that trademarks "identify the origin or ownership of the article to which it is affixed." *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916). Trademarks protect the integrity of the marketplace with no regard for the creators of intellectual property. *Groeneveld*, 730 F.3d at 512. Trademarks protect the goodwill of a particular trader from imitators passing another product or service off as the product protected by the trademark. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918). Congress did not intend for trademarks to promote creativity because a trademark's protection lasts perpetually, whereas copyrights and patents create a monopoly limited to a specific number of years. *Id*.

A trademark brands a product to give that product the imprimatur of legitimacy and consistency of quality in the market place. Trademarks are not, however, goods sold into the market as urged by the Petitioner and *amici*. Trademarks are not property rights like patents or copyrights, that is, property rights created by federal law held in the hands of and exploited by the licensee. Instead, trademarks are intended to provide consumer protection – with unitary ownership held by the licensor to ensure quality control in the market of the branded product.

Further, in enacting section 365(n), Congress acted consistently with the manner in which it has addressed numerous other executory contract rights – creating special sets of rights unique to bankruptcy that carefully balance the debtor's right to reorganize against the rights of non-debtor contract counterparties. For example, non-debtor tenants under real estate leases are afforded statutory rights to use the leasehold, while losing rights to compel debtors to maintain or improve the property. *See* § 365(h)(1)(A). Non-debtor tenants in shopping center leases are likewise entitled to retain the leasehold, but are also entitled to enforce radius and tenant mix restrictions. *See* § 365(h)(1)(C). Non-debtor buyers of timeshares are permitted by statute to retain their right to use the timeshare. *See* § 365(h)(2)(A). Non-debtor buyers of real property are afforded rights of specific performance on contract rejection and, in addition, are afforded a lien on the property to secure any prepaid deposits if the buyer elects to treat the lease as terminated. *See* § 365(i)(1) and § 365(j). Non-debtor parties to collective bargaining agreements are afforded special rights and a higher legal standard for rejection. *See* § 1113. In enacting these provisions, Congress understood how to balance the respective rights and obligations of parties to executory contracts upon rejection. Section 365(n) is further evidence of Congress' capacity to strike that balance.

It is well settled that, after rejecting a contract, a debtor is not subject to an order of specific performance. *See NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 531, 104 S.Ct. 1188, 79 L.Ed.2d 482 (1984). Should the Court grant the Petition and thereafter find in favor of the Petitioner, the Court will disturb settled rights granted by Congress respecting a debtor's right to reject executory contracts. The result of such a finding, permitting non-debtor parties to retain rights of specific performance post-rejection, renders section 365(n) superfluous. Moreover, congressionally crafted benefits for debtors, including a debtor's ability to continue to collect royalties from licensees under section 365(n), would be illusory. Indeed, had Congress intended that result, it could have excluded all intellectual property licenses from the definition of executory contracts eliminating a debtor's option of rejecting such contracts. This is not the case. If the Petitioner is correct, section 365 could be reduced to a single provision: no matter the substance or subject of an executory contract for exploitation of intellectual property, upon rejection, the non-debtor party has a claim for prepetition breach, thereafter retains whatever rights it has under the contract and, if necessary, can compel specific performance by the debtor. The logic leads to an absurd result directly at odds with the fundamental rehabilitative nature of reorganization under the Bankruptcy Code and the fundamental purpose of section 365.

The unique characteristics of trademarks support a holding that licensees cannot continue to use trademarks after a debtor rejects a trademark license under section 365 because continued use necessarily imposes costs and burdens on the debtor licensor.

3. The Present Case is Not an Appropriate Vehicle for the Court to Establish New Standards.

Even assuming a split of authority that warrants the attention of this Court, the present case is not the proper vehicle for the Court to use to resolve such a split. This case is a particularly poor choice for the Supreme Court to (prematurely) forestall either the bankruptcy court evolution of the law or appropriate legislative action to try to create new standards here, because key points regarding the burdens on the debtor of the continued policing of the trademark, the debtor's balancing of those costs versus any benefits derived from that effort, the impact of a "stranding" of the trademark were the mark to become "abandoned," was not litigated on a developed evidentiary record below. If the Court were to take up this abstract question on such a thin evidentiary record, that would likely lead either to new standards based largely on speculation, or a further remand for fleshing out the evidence. Far better to await further developments in courts as Congress expressly stated it intended or to allow Congress to revisit the issue as it also contemplated.

While the legal rulings of the Seventh and First Circuits appear irreconcilable, it is important to note that the facts of *Sunbeam* and the present matter are significantly different. *Sunbeam* involved a short term transitional license for sale of a finished product. The quality control issues in that case were minimal because the term of the license was so short. The present matter, on the other hand, involved a two-year license that the courts below found was part of a complex joint venture/joint marketing and distribution arrangement. The complexity of agreement between the parties would have required post-rejection interaction between Old Cold and the Petitioner to ensure maintenance of quality control and was a major factor in the First Circuit's decision to diverge from *Sunbeam*.

Further complicating the Court's resolution of the nascent circuit split, this case involves a license that has already expired by its own terms. On or about June 30, 2014 Mission Products purported to exercise its right to terminate the agreement without cause, which triggered a two-year wind down period. On July 22, 2014, citing certain breaches of the agreement by Mission Products, Old Cold issued its own notice of termination to Mission Products. The parties, pursuant to the agreement, then commenced a two-part arbitration process to resolve their cross claims of breach of contract against one another.

At the end of the first phase of the arbitration process, the arbitrator issued a ruling that, among other things, held that the agreement would terminate at the end of the wind-down period, or by June 30, 2016. Therefore, the agreement terminated by its own terms more than two years ago independent of Old Cold's rejection of the agreement in its bankruptcy case.

If the Court grants certiorari and thereafter rules for Petitioner, the resulting rule in another case, for example, involving franchised trademarks or a situation where a court is confronted with multiple non-exclusive licensees, will likely lead to unintended consequences. These consequences may include widespread consumer confusion regarding the licensed brands and potential *de facto* abandonment of trademarks due to the loss of unitary ownership.

Further, Mission Products did not exploit the subject trademarks in the two-year period leading up to the termination of the agreement, nor had it indicated that it had any intention or desire to do so. Mission Products neither ordered nor sold any of the subject goods under the agreement for more than two years leading up to the termination of the agreement in June 2016. In a letter dated April 16, 2015 that is part of the record below, Mission Products advised Old Cold that it would not order any products from Old Cold during 2015 and 2016. The statement was made manifest by Mission Products' conduct thereafter. In 2014, Old Cold received approximately $5 million in revenues from Appellant. In the calendar years 2015 and 2016, those revenues were $0.00 through the date of termination. Accordingly, Mission Products' claims arising from alleged breaches of the agreement, present unique and complex issues because it is not certain how Mission Products could prove any damages. That critical fact is distinct from *Sunbeam* in which the non-debtor licensee was actively exploiting the subject trademark in the marketplace.

Moreover, the record is devoid of any evidence of the costs and burdens that post-rejection maintenance of the trademark would have imposed on Old Cold during the two-year wind down period. Additionally, the underlying agreement is at best opaque in spelling out the intellectual property rights of the parties and, to some extent, the dispute that is now before the Court is predicated on the uncertainty of rights set forth in the agreement. In short, this is not a case that should be the platform for announcing new standards for the rights of a trademark licensee post-rejection.

4. Section 365(n) Does Not Provide a Mechanism to Protect Non-Intellectual Property Distribution Rights.

Petitioner also urges the Court to expand the scope of section 365(n) to include its exclusive distribution rights under contract. As the First Circuit correctly held, Petitioner's position requires a tortured reading of section 365(n)(1) that comports with neither the clear language of the section nor the legislative intent in protecting a narrowly defined subset of rights for non-debtor licensees post-rejection.

There is no need for the Court to consider Petitioner's expanded, and unsupported reading of section 365(n) with respect to its mere distribution rights. The First Circuit correctly found that Petitioner's exclusive right to distribute certain products in a limited geographic territory did not rise to the level of a grant of a license in intellectual property that would enjoy post-rejection protection under section 365(n).

While Petitioner urged the First Circuit to read the parenthetical in section 365(n) "any exclusivity provision of such contract" to mean any "exclusivity provision" in the entire agreement and not simply a provision that grants exclusive use of a pertinent intellectual property right, the First Circuit did not embrace such an expansive reading. Despite making this argument in four different forums, the Petitioner is unable to provide any support for such an expansive reading. Nor do the *amici* in their briefs. Somewhat ironically, this issue was the only one on which the BAP ruled against the Petitioner. It remains unclear why Petitioner continued to pursue further appellate relief after receiving a favorable ruling from the BAP on the central section 365(n) issue.

Here, the First Circuit focused on the intention of section 365(a) and the rights retained by a licensee of intellectual property and found that the parenthetical is intended to make clear that those rights "to such intellectual property" include any exclusivity attributes of those rights, nothing more.

CONCLUSION

For all of the foregoing reasons, the Court should deny the petition for a writ of certiorari.

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