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

AMICUS CURIAE BRIEF OF THE INTERNATIONAL TRADEMARK ASSOCIATION IN SUPPORT OF PETITIONER

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AMICUS CURIAE BRIEF OF THE INTERNATIONAL TRADEMARK ASSOCIATION IN SUPPORT OF PETITIONER

The undersigned *amicus curiae* respectfully submits this brief in support of Petitioner Mission Product Holdings, Inc. and urges reversal of the decision below in *In re Tempnology, LLC*, 879 F.3d 389 (1st Cir. 2018).[1]

INTEREST OF THE *AMICUS CURIAE*

Founded in 1878, *amicus curiae* The International Trademark Association (INTA) is a not-for-profit organization dedicated to the support and advancement of trademarks and related intellectual-property concepts as essential elements of trade and commerce. INTA has more than 7,200 members in 191 countries. Its members include trademark owners as well as law firms and other professionals who regularly assist brand owners in the creation, registration, protection, and enforcement of their trademarks. All INTA members share the goal of promoting an understanding of the essential role that trademarks play in fostering

[1] Both Petitioner and Respondent have provided written consent to INTA's filing of this brief. This brief was authored solely by INTA and its counsel. No party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae*, its members, and its counsel made such a monetary contribution to its preparation or submission. *See* S. Ct. R. 37.6.

effective commerce, fair competition, and informed decision-making by consumers.

INTA (formerly known as the United States Trademark Association) was founded in part to encourage the enactment of federal trademark legislation after the invalidation on constitutional grounds of the United States' first trademark act. Since then, INTA has been instrumental in making recommendations and providing assistance to legislators in connection with major trademark legislation. INTA has participated as *amicus curiae* in numerous cases involving significant trademark issues.[2] INTA members are frequent participants in

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[2] Cases in which INTA has filed *amicus* briefs include: *Fourth Estate Pub. Benefit Corp. v. Wall-Street.com, LLC*, 138 S. Ct. 2707 (petition for certiorari granted Jun. 28, 2018); *Matal v. Tam*, 137 S. Ct. 1744 (2017); *Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907 (2015); *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293 (2015); *Pom Wonderful LLC v. Coca-Cola Co.*, 134 S. Ct. 2228 (2014); *Already, LLC v. Nike, Inc.*, 568 U.S. 85 (2013); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004); *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003); *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000); *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627 (1999); *Dickinson v. Zurko*, 527 U.S. 150 (1999); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015); *Ferring B.V. v. Watson Labs., Inc.-Fla.*, 764 F.3d 1382 (3d Cir. 2014); *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding, Inc.*, 696 F.3d 206 (2d Cir.

licensing arrangements, and are often parties in trademark-related litigation as both plaintiffs and defendants. INTA members also are often parties in bankruptcy proceedings, as both debtors and creditors.

INTA and its members have a particular interest in this case, which presents the question of whether a debtor-licensor's rejection of an executory trademark license agreement in bankruptcy inevitably results in the agreement's ***complete termination***.[3] If so, rejection not only would have the effect of freeing the debtor from any continuing contractual obligations, but also would ***terminate***

2012); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144 (4th Cir. 2012); *Fleischer Studios, Inc. v. A.V.E.L.A.*, Inc., 654 F.3d 958 (9th Cir. 2011); *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158 (9th Cir. 2011); *Chloe v. Queen Bee of Beverly Hills, LLC*, 616 F.3d 158 (2d Cir. 2010); *Starbucks Corp. v. Wolfe's Borough Coffee*, *Inc.*, 588 F.3d 97 (2d Cir. 2009); *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007); *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007); *Test Masters Educ. Servs., Inc. v. Singh*, 428 F.3d 559 (5th Cir. 2005).

[3] Section 365 of the Bankruptcy Code only applies to license agreements that qualify as executory contracts. *See*, *e.g.*, *Lewis Bros. Bakeries Inc. v. Interstate Brands Corp.*, 751 F.3d 955, 962 (8th Cir. 2014) (an executory contract is "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing the performance of the other" (citation omitted)). Not all trademark license agreements are executory. Accordingly, for the purpose of this *amicus* brief, INTA is only addressing executory trademark license agreements.

the licensee's right to continue to use the trademark and would effectively claw back the trademark rights the licensor had licensed. That is the position of the First Circuit, which revives the flawed proposition that rejection constitutes complete termination, a proposition previously associated with the largely discredited decision in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). The alternative position, advanced by Petitioner and supported by INTA, is that rejection of a trademark license agreement may well result in ***termination of the licensor's obligations and a corresponding breach of the agreement by the licensor***, but it ***does <u>not</u> terminate the licensee's right to continue to use the licensed trademark***. This is the rule properly adopted by the Seventh Circuit in *Sunbeam Prods, Inc. v. Chi. Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012).

The question presented, which is the most significant unresolved legal issue in trademark licensing, has led to uncertainty in the market for trademark licenses, an uncertainty that the First Circuit's decision exacerbates. Because parties to a trademark license agreement do not know whether the agreement might be at risk of termination in a licensor's bankruptcy, they often must negotiate complex provisions to manage or allocate that risk.

This uncertainty has an adverse effect on the broader business community. Trademarks are the most widely used form of registered intellectual property. World Intellectual Property Organization, WORLD INTELLECTUAL PROPERTY REPORT: BRANDS – REPUTATION AND IMAGE IN THE GLOBAL MARKETPLACE 9 (2013). Trademark rights thus are often among a debtor's key assets. Not surprisingly, therefore, the treatment of the debtor's licenses of those rights is an issue that arises frequently in the bankruptcy context.

Reversal of the First Circuit's decision and uniform application of the *Sunbeam* rule would facilitate restructuring for debtors in bankruptcy, provide certainty for all parties, enhance the value of trademark licenses in the pre-bankruptcy context, and help trademarks better perform their core function of guiding consumers to the products and services they want, with reliable assurances of source and quality. By contrast, affirming the First Circuit's decision would negatively affect the value of trademark license agreements, to the detriment of licensors, licensees, and consumers.

SUMMARY OF ARGUMENT

This Court should reverse the First Circuit's decision and adopt the rule articulated by the Seventh Circuit in *Sunbeam*, which held that a debtor-licensor's rejection of an executory trademark license agreement is not a termination of the license agreement but, rather, is a breach of the licensor's obligations under that agreement. Under that rule, the trademark licensee is entitled to continue to use the trademark under the terms of the rejected agreement; these terms may provide for continuing payments to the licensor and may restrict the extent to which the licensee may use the licensed mark, including the goods or services with which the mark can be used, the jurisdictions in which the mark can be used, and the duration of the licensee's use of the mark. The *Sunbeam* rule promotes the strength and stability of the trademark system for the benefit of all participants and, ultimately, for consumers.

In the decision below, the First Circuit held that a debtor-licensor's right to "reject" executory contracts—to eliminate contractual obligations that may interfere with its restructuring—has the consequence of terminating the licensee's right to use the licensed trademark.

Other courts have taken a different approach: They have held that the licensor's rejection of a trademark license agreement does not terminate the ***licensee's*** right to continue to use the trademark in accordance with the agreement. Rather, the debtor-licensor's rejection simply excuses the ***licensor's*** contractual obligations under the agreement, but does not terminate the agreement. For example, the licensor would no longer be obligated to undertake or fund enforcement efforts against infringers of the licensed mark or defend third-party infringement claims brought against the licensee; those rejected tasks constitute a breach of contract, for which the licensee may have an unsecured claim in the bankruptcy (and, in some cases, the ability to mitigate its damages by pursuing those actions on its own). These courts have concluded that the rule that governs a debtor's rejection of other executory agreements (which excuses the debtor's obligations and gives its counter-party an unsecured claim for breach of contract) should apply equally to the rejection of a trademark license agreement.

The Court should hold that the *Sunbeam* rule is the most equitable approach to reconciling the interest of licensors and licensees in bankruptcy and establishing a stable market for trademark licenses. Such a rule enhances the value of trademark licenses and promotes the stability of both trademark law and bankruptcy principles:

- Licensors benefit because licensees will pay more up front or in royalties for licensed rights that are likely to survive a potential bankruptcy filing by the licensor.

- Licensees, who have substantial reliance interests in the licensed trademarks (*e.g.*, having hired employees and/or established manufacturing capacity to take advantage of the rights), will not suddenly find their rights invalidated by the licensor's termination of a trademark license agreement.

- Above all, the American public will be better off. The ultimate beneficiary of a strong trademark system is the consumer, who can rely on healthy trademarks as sound indicators of source and quality. William M. Landes and Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J. LAW AND ECON. PERSP. 265, 270 (1987).

The *Sunbeam* approach also is consistent with bankruptcy law and policy. Section 365 of the Bankruptcy Code provides a debtor with a right to reject an executory contract and allows it to extinguish its onerous contractual obligations, such as equipment lease payments or contracts to provide services. It also provides that rejection constitutes a pre-petition breach of the contract, which has the same effect on the counter-party as a breach outside of bankruptcy. Section 365 has never been intended to be a vehicle for a debtor to recover, through the artifice of rejection, legal rights it had granted pre-petition, which is what the First Circuit's approach would allow. Adopting the *Sunbeam* rule, therefore, would be consistent with general bankruptcy policies that govern the rejection of other executory contracts under which the rejected contract is not terminated and the counter-party retains its rights in accordance with applicable non-bankruptcy law.

INTA urges the Court to reverse the First Circuit's decision and adopt the rule in *Sunbeam*.

ARGUMENT

I. A Rule That Best Promotes the Strength and Stability of the Trademark System Will Benefit the U.S. Economy and the Bankruptcy System.

A. The Law of Trademarks and Trademark Licensing.

A trademark is a designation used to identify and distinguish the source of goods and services of a person or company. *Matal v. Tam*, 137 S. Ct. 1744, 1751 (2017) (citing *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1299 (2015)). Under the Lanham Act (the "Act"), a trademark owner can validly license a trademark or service mark to another to use. *See* 15 U.S.C. § 1055 (providing that "related companies" can use mark); 15 U.S.C. § 1127 ("'related companies' means any person whose use of a mark is controlled by the owner of the mark with respect to the nature or quality of the goods or services on or in connection with which the mark is used"). Because a licensed use must meet the quality levels set by the trademark license agreement, consumers can trust that products or services marketed under particular marks will meet an expected level of quality.

In order to protect consumers, the Act requires that the licensor exercise control over the nature and quality of the goods and/or services sold by the licensee under the licensed mark. A license granted without any such quality control is deemed a "naked license" because it is lacking in a necessary condition for the validity of a license agreement. *See Societe Comptoir de L'Industrie Cotonniere Etablissements Boussac v. Alexander's Dep't Stores, Inc.*, 299 F.2d 33, 35 (2d Cir. 1962) (naked licensing is a form of fraud on the public). Naked licensing by a trademark owner can lead to invalidation of the trademark. *Barcamerica Int'l USA Tr. v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002).

Consumers benefit from trademarks because, as noted above, they can trust that the goods or services sold under the mark will meet a certain level of quality. One way that the Act extends the benefits of trademarks and protects incentives to develop them is by allowing trademark owners to license the use of their marks to distributors, franchisees, and other parties. Such licensing allows information about source and quality to be efficiently conveyed to consumers through the mark without the licensor having to risk losing title to its mark. Indeed, trademarks would be of much less value to society if only vertically integrated firms using their own trademarks could safely take advantage of trademark law's protections. *See TMT N. Am., Inc. v. Magic Touch GmbH*, 124 F.3d 876, 882 (7th Cir. 1997) (citing 2 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:63 (4th ed.1997)).

The Act reflects a decision by Congress to afford trademark owners the right to license marks in exchange for their statutory obligation to retain quality control over the mark's use, for the purpose of ensuring the protection of the public.[4] If the trademark owner fails to fulfill its affirmative duty to police the mark as used by its licensee, it may lose some or all of its rights in the mark. *See Barcamerica Int'l*, 289 F.3d at 596 ("[W]here the licensor fails to exercise adequate quality control over the licensee, 'a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from

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[4] Prior to the Act, it was not clear that trademark owners could license their rights to third parties without risk of loss by abandonment. *See* 3 J. Thomas McCarthy, TRADEMARKS AND UNFAIR COMPETITION, § 18:39 (5th ed. 2017) (under early theories of trademark protection, "trademark licensing was viewed as impossible, since licensing meant that the mark was being used by persons not associated" with the source).

asserting rights to the trademark.'" (quoting *Moore Bus. Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992))). This statutory obligation of a trademark owner to exercise quality control is distinct from any contractual rights—whether of the licensor or the licensee—that arise under a license agreement. *See In re SIMA Int'l, Inc.*, No. 17-21761 (JJT), 2018 WL 2293705, at *7 n.24 (Bankr. D. Conn. May 17, 2018) (rejecting the First Circuit's analysis in *Tempnology* and explaining that "the legal rigors of trademark policing, not contractual obligations imposed upon the licensor to monitor its trademarks[,] are the source of the debtor's burdens").

Given the importance of the licensor maintaining quality control, trademark license agreements customarily specify the minimum level of quality that the licensee must meet in its manufacture, distribution and sale of the goods or services at issue. *See* Raymond T. Nimmer & Jeff C. Dodd, Viewing licenses through different prisms - The Trademark license example, MODERN LICENSING LAW § 1:20 (2018–2019 ed.) (because the failure to retain such control can result in the unenforceability of the mark, "trademark licenses typically contain quality control provisions"). Quality control provisions impose obligations on the licensee in favor of the licensor. The licensee has the obligation to comply with those requirements; the licensor has the right to ensure that the licensee does so. If the licensee fails to meet its quality obligations, that can result in use of the trademark defrauding the public, which is why the licensor then has the right to enforce the quality requirements including, if permitted by the agreement, either terminating the licensee's right to use the mark or seeking specific performance to require the licensee to meet the specified quality levels. *See Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 246 (2d Cir. 2009) ("The mark holder is entitled to protection against acts that subvert its ability to protect the reputation of its marks by exercising quality controls.").

B. The Significance of Trademark Licenses to the U.S. Economy.

This Court has repeatedly recognized the significance of trademarks and trademark licenses to the United States economy. *See*, *e.g.*, *Am. Needle, Inc. v. Nat'l Football League*, 560 U.S. 183 (2010) (addressing antitrust issues concerning trademark licensing by the National Football League); *K Mart Corp. v. Cartier*, *Inc.*, 486 U.S. 281 (1988) (addressing validity of Customs Service regulation concerning importation of foreign-made goods where United States trademark owner authorized use of the mark); *U.S. v. Sealy, Inc.*, 388 U.S. 350 (1967) (addressing antitrust issues concerning trademark licensing for mattresses). Given that recognition, this case has particular importance because the Court can establish a sound rule that both confirms the stability of the trademark regime in the context of a bankruptcy and harmonizes trademark interests with the goals of the Bankruptcy Code.

Trademark licenses are implicated in a variety of litigation contexts that illustrate the myriad ways in which trademarks are critical to both licensors and licensees. To cite just a few examples, both recent and historic:

- *Me Renee LLC v. Elite World, S.A.*, 674 F. App'x 620 (9th Cir. 2016) (company in the business of licensing trademarks for use in high-fashion modeling granted to licensee right to act as a "Master Licensee" of the trademarks for the purpose of sublicensing to third parties the right to create, open and operate fashion academies);

- *State of Idaho Potato Comm'n v. G & T Terminal Packaging, Inc.*, 425 F.3d 708 (9th Cir. 2005) (statutorily created agency of the State of Idaho formed for the purpose of promoting Idaho potatoes licensed several certification marks for Idaho potatoes including "Idaho" and "Grown in Idaho" to potato growers and distributors);

- *Pannell Kerr Forster Int'l Ass'n v. Quek*, 5 F. App'x 574 (9th Cir. 2001) (accounting firm licensed trademarks to consulting groups related to accounting firm's name and style); and

- *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir. 1958) (non-profit cooperative organized under New York law to help promote business of baker-members located throughout the United States licensed, as part of a cohesive branding and quality control program, a tradename and associated mark to manufacturer-members of the cooperative).

Further examples are legion.[5] Trademark licenses undoubtedly are omnipresent; the rights they convey

[5] *See*, *e.g.*, *Visual Dynamics, LLC v. Chaos Software Ltd.*, 309 F. Supp. 3d 609 (W.D. Ark. 2018) (owner of mark for software products gave software reseller license to use mark in marketing and advertising materials for sale of owner's products on reseller's website); *Kroma Makeup EU, LLC v. Boldface Licensing + Branding, Inc.*, 264 F. Supp. 3d 1294, 1297 (M.D. Fla. 2017) (addressing two different licensing agreements, one of which was an agreement permitting the licensee to create and market cosmetics endorsed by the Kardashians under one mark ("Khroma"), and the other of which was a licensing agreement permitting the use of a different—but similar—mark for the purpose of advertising, sale, and promotion of Kroma makeup products); *UHS of Del., Inc. v. United Health Servs., Inc.*, 227 F. Supp. 3d 381 (M.D. Pa. 2016) (healthcare management company licensed to affiliate and subsidiary facilities trademarks for use in connection with hospital services and hospital management services); *Hard Rock Cafe Int'l, (USA), Inc. v. Hard Rock Hotel Holdings, LLC*, 808 F. Supp. 2d 552 (S.D.N.Y. 2011) (addressing an exclusive license "to use and exploit the Hard Rock Hotel and Hard Rock

to licensees are of enormous economic significance; and substantial investments are made in reliance on these rights.

In 2014, trademarks accounted for $6.1 trillion in value added to the U.S. gross domestic product. Economics and Statistics Administration & United States Patent and Trademark Office, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: 2016 UPDATE 22 (2016). In the United States alone, trademark licensors generated $7.3 billion in royalty revenue from the licensing of goods and services in 2014. Licensing Industry Merchandisers' Association,

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Casino trademarks in areas west of the Mississippi River, solely in connection with development, operation, ownership, management, operation of and promotion of Hard Rock Hotel/Casinos and Hard Rock Casinos"); *Trace Minerals Research, L.C. v. Mineral Res. Int'l, Inc.*, 505 F. Supp. 2d 1233 (D. Utah 2007) (marketing arm of companies granted a license to manufacturing arm to use trademarks as part of a supply agreement); *McGraw-Hill Cos., Inc. v. Vanguard Index Tr.*, 139 F. Supp. 2d 544 (S.D.N.Y.), *aff'd sub nom. McGraw Hill Cos., Inc. v. Vanguard Index Tr.*, 27 F. App'x 23 (2d Cir. 2001) (licensing the rights to use the data that comprised the Standard & Poor's index and to use the Standard & Poor's trademarks to financial services companies, analysts and investors); *Superior Bedding Co. v. Serta Assocs., Inc.*, 353 F. Supp. 1143 (N.D. Ill. 1972) (addressing a license that granted independent bedding manufacturers the exclusive right to manufacture and sell Serta patented, trademarked and trade-named products in prescribed territories); *Helpful Hound, L.L.C. v. New Orleans Bldg. Corp.*, No. CV 18-3500, 2018 WL 3743817 (E.D. La. Aug. 7, 2018) (city and building corporation licensed the name of a food hall and market to the lessee renting the space).

LIMA GLOBAL LICENSING INDUSTRY SURVEY 2015 REPORT 15 (2015). This translates into an estimated $133.3 billion in retail sales of licensed goods and services. *Id.* at 14.

Licensing provides a significant stream of revenue for trademark licensors, and extensive commercial opportunities. *See* Irene Calboli, *The Sunset of "Quality Control" in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 343 (2007). Licenses are granted in myriad circumstances, from the sale of a business (where the purchase price includes an up-front payment for the license) to distribution and manufacturing arrangements (where the licensed mark is central to the success of the licensees' business). By, for example, allowing trademark licensors to outsource the manufacturing or distribution of a product to specialized licensees who can do so more cheaply or effectively, licensors can distribute workloads efficiently and enjoy the benefits of economies of scale. *See* David J. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors and the Third Restatement of Torts*, 49 CASE W. RES. L. REV. 671, 681 (1999). Licenses also enable licensors to increase brand recognition and to reach new markets.

Just as trademarks are the most widely used form of registered intellectual property (*see* p. 5 *supra*), trademark licenses play an important role in bankruptcies where intellectual property is included in the assets of the debtor. "[S]ince 1988, out of 1100 bankruptcy filings concerning intellectual property, over 600 involve trademarks." Kayvan Ghaffari, *The End to an Era of Neglect: The Need for Effective Protection of Trademark Licenses*, 87 S. CAL. L. REV. 1053, 1054 (2014).

II. The *Sunbeam* Rule Best Promotes the Strength and Stability of the Trademark System.

This Court should reverse the First Circuit's decision and adopt the *Sunbeam* rule, which treats a licensor's rejection of a trademark license agreement as a breach but not a termination. Adoption of this uniform, nationwide rule would promote the overall health of the trademark system and is fully consistent with the Bankruptcy Code.

A. The *Sunbeam* Rule Furthers the Interests of Trademark Licensors, Licensees, and Consumers.

The market for trademark licenses will function best under the *Sunbeam* rule. By contrast, the *Tempnology/Lubrizol* approach would mean that neither a trademark owner nor its licensee—at the time that they are negotiating a trademark license—could be certain whether the licensed rights would survive the licensor's possible future bankruptcy.

This uncertainty is to the detriment of licensors, licensees, and consumers. That would be even more true of an approach that would allow bankruptcy judges to decide, on a case-by-case basis, which rule to apply; that would create additional uncertainty as to the effect of a possible rejection of a trademark license in a future bankruptcy. Any uncertainty diminishes the economic incentives for the parties to license and use trademarks, and considerably increases the financial risks to both parties. *See* Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L.J. 733, 769 (2007) (explaining that the "particularly harsh results" of license rejection make it less likely a party invests in trademarks, and the inability to contract around that risk further erodes these incentives). If the parties' incentives to enter into stable trademark licensing arrangements are to be strengthened, it is crucial to preserve for the licensee "[t]he essential element in any trademark license is the continuing obligation of the licensor to permit the licensee's use of the trademark in connection with the sale of the licensee's goods." David M. Jenkins, *Licenses, Trademarks, and Bankruptcy, Oh My: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 156-57 (1991) (hereinafter "Jenkins").

In negotiating trademark license agreements, licensors have a strong interest in obtaining maximum value for their licensed assets. The *Tempnology*/*Lubrizol* approach undercuts the licensor's ability to do so. A potential licensee will pay less to a licensor for rights that carry the risk of impairment in the event of a licensor's bankruptcy. In assessing the potential rights that the *Tempnology/Lubrizol* rule confers on a licensor that might become bankrupt, a rational licensee will insist on paying a discounted price for a trademark license, knowing it will be at the mercy of the licensor as to whether it can continue to use the mark if the licensor files for or is put into bankruptcy. *See* Nicholas W. Quesenberry, *Risky Business: How the Economic Impact of the Risk of Debtor Default Mandates Application of the Presumptive-Contract Interest Rate in the Case of a Cramdown Plan against a Secured Creditor with a Lien on Personal Property in Chapter 13*, 22 J. BANKR. L. & PRAC. 2 Art. 5. (2013) ("It is manifest that any disinterested buyer [i.e., the licensee] would be willing to pay less for a riskier, less stable income stream [i.e., from its rights to exploit the rights it has licensed] and more for a more stable and reliable one.").

In *Tempnology*, rather than considering the parties' respective incentives at the time of licensing or their existing rights under the trademark license agreement, the First Circuit apparently was more concerned with the price a purchaser would pay for the debtor's trademarks if the licensee were permitted to continue to use the licensed marks post-rejection. *See Tempnology*, 879 F.3d at 403. The First

Circuit's approach improperly prioritized the resale value of the trademark over the rights of the current licensee, without recognizing the amount that it had paid up front or in royalties to utilize the license.

Licensees, too, are harmed under the *Tempnology/Lubrizol* rule. Loss of a trademark license can severely injure or even destroy a business, with the licensee itself possibly forced into bankruptcy if denied use of the mark. *See* Jenkins, 25 J. MARSHALL L. REV. at 175 (when a licensor rejects a trademark license, "[a] trademark licensee risks the total abrogation of its right to use a trademark, a valuable property right . . . [and] licensees must continue to bear the economic burden of trademark owners' mismanagement and thus needlessly risk the loss of their investments"). Accordingly, a licensee whose license is subject to termination in bankruptcy will be less willing to invest capital in the sort of resources—personnel, machinery or other production capacity, advertising and promotion—that would enable it to maximize sales and fully profit from its license. In turn, if it does not maximize its sales of products and services bearing the licensed trademark, that will reduce royalties to the trademark licensor, thus rendering the licensing transaction less economically beneficial for both parties. Stated differently, a debtor itself is harmed by the *Tempnology/Lubrizol* rule because its pre-rejection revenue stream under the licensing agreement would be less than what it would otherwise receive from the licensee.

To avoid the potential application of the *Lubrizol* rule in any particular case, INTA's members, whether acting as licensors or licensees, have had to negotiate provisions that attempt to minimize the bankruptcy risks. Parties may ultimately agree that the licensor must establish a bankruptcy-remote vehicle, perhaps offshore, to hold and license the trademarks. The hope is that the "remote" licensor can try to avoid being swept into a bankruptcy of the operating company, so that the license agreement will then not be subject to rejection. Alternatively, the licensee might negotiate stringent financial covenants that the licensor must meet in order to have some advanced warning of potential financial distress of the licensor, with a potential assignment of the trademark from the licensor to the licensee if the covenants are not met. These negotiations can add to the expense and time of negotiating the trademark license, draining resources from more productive activity and, potentially, resulting in lower prices to be paid to the licensor.

The licensee of trademark rights should not be forced to live in fear that the licensor, having licensed these rights for consideration, may be entitled, years later, to claw them back in a bankruptcy. The grant of a license conveys to the licensee certain rights in the trademark (as distinct from title in the trademark). *See*, *e.g.*, 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:40 (5th ed.) ("Every license carries with it a waiver of the right of the trademark owner to sue for infringement arising out of acts that fall within the scope of the license."). The First Circuit disregarded the licensee's property interest when it inappropriately advanced its own "equities analysis that weighs reorganization objectives more heavily in the balance than protections for commerce in intellectual property." *In re SIMA*, 2018 WL 2293705, at *7 n.25. As with other rejected executory agreements, while the debtor-licensor is able to avoid its contractual obligations, it should not be entitled to terminate the rejected agreements in order to avoid its statutory obligations and the licensee's state law rights.

In sum, *Sunbeam*'s approach is more equitable because it takes into account the interests of both parties to a trademark license and, through them, the consumers that both parties serve.

B. The *Sunbeam* Rule is Consistent with the Lanham Act's Quality Control Obligations.

If the debtor-licensor rejects a trademark license agreement under the *Sunbeam* rule, it is relieved of any contractual obligations (other than the grant of the license) it might have under that agreement. The licensee's right to continue to use the licensed mark would remain intact, as would its own contractual obligation to continue to comply with the license, including any provisions requiring it to maintain quality control over the licensed product. The licensor may continue to enforce quality control in accordance with its statutory obligations and its own self-interest, if it so chooses, inasmuch as failure to enforce quality control could result in invalidation of the trademark itself, thereby potentially impoverishing the estate.

Concerns that the *Sunbeam* rule is inconsistent with the debtor-licensor's obligations to maintain quality control are unfounded. Those obligations are statutory, deriving entirely from the Act. *See* 15 U.S.C. § 1055. They serve a public purpose that Congress itself recognized at the time of its enactment. *See Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) ("The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality."); *Star-Kist Foods, Inc. v. P.J. Rhodes & Co.*, 769 F.2d 1393, 1396 (9th Cir. 1985) ("The purpose of the rule is to protect the public from deception." (citation omitted)); *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) ("Without the requirement of control, the right of a trademark owner to license his mark separately from the business in connection with which it has been used would create the danger that products bearing the same trademark might be of diverse qualities.").

The trademark owner's statutory obligations are wholly independent of any contractual undertakings by a licensor or licensee, whether in a rejected agreement or otherwise. That the licensor is in bankruptcy, or that quality control obligations may be set out in a trademark license agreement, is beside the point. The licensor's failure to maintain quality control will result in the loss of trademark rights under any circumstance, whether or not a licensor is a debtor and without regard to whether it decides to reject the trademark license agreement. *See*, *e.g.*, *Ritchie v. Williams*, 395 F.3d 283, 290 (6th Cir. 2005) (noting a trademark licensor's duty under § 1055 to control the quality of both its license and licensee in finding that the licensor abandoned its mark (citation omitted)). A debtor-licensor cannot reject a statutory requirement; it may only reject its contractual obligations.

In other words, the obligations that the Act imposes on a trademark owner-licensor are not overridden by the debtor-licensor's rights under the Bankruptcy Code. That principle is entirely consistent with the rule that "[p]roperty interests are created and defined by [applicable non-bankruptcy] law [u]nless some federal interest requires a different result." *Butner v. U.S.*, 440 US

48, 55 (1979). In other words, a trademark licensee's rights should be the same whether the licensor breaches the license agreement outside of bankruptcy or breaches (by means of a rejection) the agreement in the course of a bankruptcy. *See Sunbeam*, 686 F.3d at 377 ("What § 365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place."); *In re Columbia Gas Sys. Inc.*, 50 F.3d 233, 239 n.8 (3d Cir. 1995) ("Rejection … is equivalent to a nonbankruptcy breach."); *In re Ortiz*, 400 B.R. 755, 769 (C.D. Cal. 2009) ("Section 365 simply does not speak to which obligations may and may not be enforced post-bankruptcy against the debtor"; rather, state law would determine whether any provisions of a contract remained enforceable against the debtor post-rejection).[6] A licensor's breach outside of bankruptcy would not automatically result in termination of the license agreement; termination should not, therefore, be the inevitable consequence of breach (in the form of a rejection of the contract) in the bankruptcy context.

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[6] *See also Thompkins v. Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007) ("[r]ejection has absolutely no effect upon the contract's continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated") (quoting *Cohen v. Drexel Burnham Lambert Grp. (In re Drexel Burnham Lambert Grp., Inc.)*, 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992)); *infra* at p. 34.

Affirming the First Circuit's decision would "make[] bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve." *In re Exide*, 607 F.3d 957, 967-68 (3d Cir. 2010) (Ambro, J., concurring); *see also In re Crumbs Bake Shop, Inc.*, 522 B.R. 766, 772 (Bankr. D.N.J. 2014) (noting the inequity in stripping a licensee of rights the debtor had already bargained away).

The ability of the parties to a trademark license agreement to allocate quality control obligations between themselves means that the *Sunbeam* rule will not lead to an unduly harsh result for the debtor-licensor. Similarly, any concerns that the *Sunbeam* rule would be inconsistent with the Bankruptcy Code's interests in relieving the debtor of burdens that would impair reorganization are unfounded.

First, the Act's statutory obligation that the licensor maintain the quality of its trademarks is substantially mitigated by the inherent legal presumption that any level of quality control will be sufficient. *See*, *e.g.*, *TMT N. Am.,* 124 F.3d at 885–86 (burden to establish lack of reasonable quality control is "heavy"; no loss of trademark rights absent evidence of "significant deviation" from licensor's quality standards). Notably, in this regard, "the standards for sufficient quality control have become more and more lenient in recent years." Laura

Jelinek, *Equity for Brand Equity: The Case for Protecting Trademark Licensees in Licensor Bankruptcies*, 40 AIPLA Q.J. 365, 389-90 (2012). Furthermore, deference to the parties' arrangement is strong. *See* RESTATEMENT (Third) of Unfair Competition § 33, comment c (Am. Law Inst. 1995) ("RESTATEMENT") ("[a]s a general matter, courts are reluctant to interfere with the marketing arrangements adopted by trademark owners, and minimal control over the quality of a licensee's goods or services is often sufficient"); *see also Amscan Inc. v. Shutter Shades, Inc.*, No. 13-cv-1112, 2015 U.S. Dist. LEXIS 180647, at *13 (S.D.N.Y. Apr. 30, 2015) (citing *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 334 (2d Cir. 1983) ("Because an assertion of insufficient control can lead to a forfeiture of rights, the party arguing for it must meet a 'high burden of proof.'" (citation omitted))); *Monster, Inc. v. Dolby Labs. Licensing Corp.*, 920 F. Supp. 2d 1066, 1076 (N.D.Cal. 2013) (standard of proof required of the challenger to void the trademark on the basis of naked licensing is "stringent").

Second, any burden on the debtor-licensor to ensure that its licensee maintains quality—including post-rejection—is lessened by the licensee's contractual obligations to itself maintain quality. Those obligations would continue in the bankruptcy context. *See In re Crumbs*, 522 B.R. at 773. In many cases, quality control is delegated almost entirely to the licensee. As the Ninth Circuit observed in

Barcamerica Int'l, 289 F.3d at 596, "courts have upheld licensing agreements where the licensor is familiar with and relies upon the licensee's own efforts to control quality." (citations omitted). The Restatement similarly notes that "the trademark owner is justified in relying on the reputation and expertise of the licensee and not exercising a contractual right to control if there is an absence of evidence indicating deviations from the agreed standards of procedures." RESTATEMENT § 33.

Third, it is not inappropriate for the licensor to exercise its quality control obligations under the Act by relying on its licensee to maintain quality of its use of the mark in accordance with the trademark license agreement. Licensees will want to protect the mark in which they have made an investment. Absent their maintaining quality with respect to licensed marks, others could begin to use the mark or, in some cases, they could themselves be liable for trademark infringement or unfair competition. *See In re Crumbs*, 522 B.R. at 773 (citing Jenkins, 25 J. MARSHALL L. REV. at 162–64); *see also Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996) (wholesaler's distribution of nonconforming product constitutes trademark infringement under the Lanham Act if it tarnishes the trademark owner's image); *Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 212 F. Supp. 715 (E.D. Pa. 1962) (licensee's sale of goods at a quality standard below that of licensor constituted unfair competition and trademark infringement). *Cf. Franchised Stores of N.Y., Inc. v. Winter*, 394 F.2d 664 (2d Cir. 1968) (sale of non-authorized goods by sublicensee held to be trademark infringement). Relying on the licensee to maintain quality is not a material burden on the licensor. That is because the licensee already has the contractual obligation to maintain quality, and any breach may give the licensor additional rights (including, depending on the terms of the agreement, the right to terminate the license on its own terms).

Further, general market forces and anti-fraud laws will keep the licensee fully accountable to the public with respect to the quality of the marks. *See In re Crumbs*, 522 B.R. at 773 (producing a good under a trademark is a warrant "to the public that its goods are of the same level of quality that the trademark signifies").

Accordingly, any concerns that the *Sunbeam* rule does not recognize the importance of quality control under the Act and would allow licensees to use trademarks without ensuring quality control are without foundation.

C. The ***Sunbeam*** Rule is Consistent with the Text and Purpose of the Bankruptcy Code.

The *Sunbeam* rule squares not just with trademark law and policy, but also with the

Bankruptcy Code. In 1987, Congress expressly abrogated *Lubrizol's* result with respect to licenses of "intellectual property," which it defined to include patents, copyrights, and trade secrets. *See* 11 U.S.C. § 365(n). At the time, it explicitly left open the question of the impact of rejection on trademark licenses. The legislative history of section 365(n) makes clear that Congress did so not to enable a debtor to use rejection to cancel a pre-bankruptcy grant of intellectual property license rights: "[Section] 365 was [n]ever intended to be a mechanism for stripping innocent licensee[s] of rights." S. Rep. No. 100-505, at 4 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3203. "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." *Id.* at 3, *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3201.

Although Congress did not include trademarks in section 365(n), that choice did not reflect any view that the *Lubrizol* rule was correct. Nor is there anything in the text of section 365(n) itself, or in the accompanying legislative history, that supports the argument that rejection of trademark license agreements should ever result in termination of the licensee's rights. Rather, Congress stated that its intent in omitting trademarks from section 365(n) was to have courts consider and "equitably" determine the effect of the statutory rights of a debtor to reject a trademark license agreement that confers rights on a licensee:

> 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 extensive 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), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3204 (emphasis added).[7] Thirty years of license negotiation and litigation experience

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[7] Moreover, "an omission is just an omission," and the "limited definition [of 'intellectual property'] in §101(35A) means that §365(n) does not affect trademarks one way or the other." *Sunbeam*, 686 F.3d at 375. Congress noted that, although "such rejection [of trademark agreements] is of concern," section 365(n) does not "address or intend any inference to be drawn concerning the treatment of executory contracts which are unrelated to intellectual property [as defined in the statute]." S. Rep. No. 100-505, at 5 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3204. Furthermore, because *Lubrizol* did not involve trademarks, Congress was not required to act promptly to confirm the impact of rejection on trademark license agreements and it was, therefore, able to defer to the bankruptcy courts.

has shown that the most equitable way to treat rejection of trademark license agreements in bankruptcy is uniform adoption of the *Sunbeam* rule, as it most fairly harmonizes the interests of trademark licensors and licensees.

Congress' reference to bankruptcy courts developing "equitable treatment" of the handling of pre-petition trademark license agreements granted by a debtor-licensor is entirely consistent with the basic equitable principles underpinning the Bankruptcy Code. *See Young v. U.S.*, 535 U.S. 43, 50 (2002) (bankruptcy courts "are courts of equity and 'appl[y] the principles and rules of equity jurisprudence'" (quoting *Pepper v. Litton*, 308 U.S. 295, 304 (1939))). These equitable principles have been cited by courts that have embraced the *Sunbeam* approach. *See*, *e.g.*, *In re Exide*, 607 F.3d at 967 ("Rather than reasoning from negative inference to apply another Circuit's holding to this dispute, the Courts here should have used . . . their equitable powers to give [the debtor] a fresh start without stripping [the licensee] of its fairly procured trademark rights") (Ambro, J., concurring).

The *Sunbeam* rule also is consistent with the general principle of bankruptcy law that rejection of an executory contract does not terminate the contract, but, instead, is a breach by the debtor. The purpose of section 365 is not "to be 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*, 476 F.3d at 1306 ("[r]ejection has absolutely no effect upon the contract's continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated" (quoting *In re Drexel Burnham Lambert Grp., Inc.*, 138 B.R. at 703)); *Med. Malpractice Ins. Ass'n. v. Hirsch*, 114 F.3d 379, 386-87 (2d Cir. 1997) ("while rejection is treated as a breach, it does not completely terminate the contract"); *O'Neil v. Cont'l Airlines, Inc.*, 981 F.2d 1450, 1459 (5th Cir. 1993) ("[t]o assert that a contract effectively does not exist as of the date of rejection is inconsistent with deeming the same contract breached"); *Kopolow v. P.M. Holding Corp.*, 900 F.2d 1184, 1191 (8th Cir. 1990); *Leasing Serv. Corp. v. First Tenn. Bank Nat'l Ass'n*, 826 F.2d 434, 436–37 (6th Cir. 1987); *Eastover Bank for Sav. v. Sowashee Venture*, 19 F.3d 1077, 1082 (5th Cir. 1994). As noted by Judge Torruella in the decision below, the appropriate focus should be to view the impact of rejection of trademark license agreements in the context of section 365 in general, which is a breach, but not termination, of the agreement. *See Tempnology*, 879 F.3d at 406 (concurring in part, dissenting in part).

Significantly, Congress specifically placed a debtor's ability to reject an executory contract in chapter 3 of the Bankruptcy Code, which governs administrative powers—i.e., the trustee's power to breach or perform a contract—and not in chapter 5, which governs a debtor's ability to avoid or recover certain assets. *See also Sunbeam*, 686 F.3d at 377 (noting the distinction between a debtor who seeks to reject a license agreement under section 365 and a debtor who seeks to avoid a pre-petition transaction under chapter 5 of the Bankruptcy Code); 2 Norton Bankruptcy Law and Practice § 46:57 (3d ed. 2008) ("The Bankruptcy Code instructs us that rejection is a breach of the executory contract. It is not avoidance, rescission, or termination."). Congress' placement of the rejection power in chapter 3 is presumed to be intentional, and signals its intent that rejection is not intended to avoid or rescind a pre-petition transfer of trademark rights, which would allow the debtor to recover the trademark. *See Russello v. U.S.*, 464 U.S. 16, 23 (1983) ("Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion." (quoting *U.S. v. Wong Kim Bo*, 472 F.2d 720, 722 (5th Cir. 1972))).[8]

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[8] Unlike preferential or fraudulent transfers under chapter 5, which a debtor could avoid and recover in furtherance of certain bankruptcy policies, there is no policy argument in favor of allowing a debtor in chapter 7 or chapter 11 to reject a contract and rescind rights that were validly transferred away to a good faith licensee.

Section 365 also expressly states that the debtor is able to free itself from burdensome contractual obligations that would impede its ability to obtain a fresh start by treating such rejection as a pre-petition "breach." 11 U.S.C. § 365(g) (providing that "rejection … constitutes a breach of such contract … immediately before the date of the filing of the petition"). For example, a debtor-lessee can reject a non-residential property lease that requires it to pay above-market rents or a lease for equipment. In both cases the creditor-lessor would lose the benefit of the payment stream (and would become a creditor with a claim for damages against the debtor), but would retain ownership of its property. *See generally NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984) ("authority to reject an executory contract is vital to the basic purpose of a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization"); *Orion Pictures Corp. v. Showtime Networks, Inc.*, 4 F.3d 1095, 1098 (2d Cir. 1993) ("§ 365 permits the trustee or debtor-in-possession, subject to the approval of the bankruptcy court, to go through the inventory of executory contracts of the debtor and decide which ones it would be beneficial to adhere to and which ones it would be beneficial to reject"). The rejection rule adopted by the First Circuit would have a very different result; it would allow the debtor to claw back property rights that it had already contracted away.

Properly applied, Section 365 permits a debtor-licensor to reject a trademark license agreement to allow it to avoid some of the agreement's burdensome contractual obligations. These might include, for example, the pursuit or maintenance of trademark registrations in multiple jurisdictions or undertaking or funding enforcement actions against third parties who are infringing the licensed mark. The other primary objective of enabling the rejection of executory contracts is that any claims of the licensee for damages resulting from breach-by-rejection would constitute unsecured pre-petition claims. 11 U.S.C. § 365(g). This is a timing issue for the breach, but it has no impact on the existence of the contract or the counterparty's rights post-rejection under applicable non-bankruptcy law, such as the law of contracts or trademark law, as set out in the Act. If, therefore, the licensor post-rejection breaches its obligations under the trademark license agreement, the licensee might be compelled to expend its own funds on maintenance or enforcement because it can not compel the licensor to comply with the agreement; in such case, the licensee would only have a pre-petition claim for damages. The Bankruptcy Code does not, however, support the view that rejection and breach of an executory contract, including a trademark license agreement, should permit a debtor to revoke and reclaim rights that it had previously granted to third parties. *See* S. Rep. No. 100-505, at 4 (1988), *as* *reprinted in* 1988 U.S.C.C.A.N. 3200, 3203 ("[section] 365 was [n]ever intended to be a mechanism for stripping innocent licensee[s] of rights").

D. The Force of the *Sunbeam* Rule is Shown by the Other Courts That Have Followed It.

Numerous lower courts have recognized that the *Sunbeam* rule is correct because it equitably balances the interests of trademark licensors and licensees in bankruptcy. In *In re Exide Tech.*, 607 F.3d 957, Judge Ambro's concurring opinion advocated the *Sunbeam* approach. There, the licensee, whose trademark license had been terminated by the debtor-licensor, had argued (1) that the license was not executory, and (2) that the court below had erred in determining that the rejection terminated the licensee's rights. The majority in *Exide* did not reach the second issue because it concluded that that license was not executory. *Id.* at 964. In his concurrence, Judge Ambro did address that issue, stating that "a trademark licensor's rejection of a trademark agreement under 11 U.S.C. § 365 does not necessarily deprive the trademark licensee of its rights in the licensed mark." *Id.* at 965 (Ambro, J., concurring). He emphasized that the bankruptcy laws should not allow a licensor to take back rights that it had bargained away. *Id.* at 967.

Bankruptcy courts also have followed the approach in *Sunbeam*. *See*, *e.g.*, *In re SIMA,* 2018 WL 2293705, at *8 (criticizing the *Tempnology* majority: it "strains to resurrect *Lubrizol*, [and] is plainly contrary to Congress' explicit efforts to rebalance affected rights on intellectual property and leave Section 365(g) to answer otherwise unresolved trademark issues"); *Banning Lewis Ranch Co. v. City of Colo. Springs,* 532 B.R. 335, 345 (Bankr. D. Co. 2015) ("rejection of a contract does not work a rescission of the contract and is not, itself, an avoiding power"; holding that licensees under rejected contract could continue to use trademark rights granted under licenses (citing *Sunbeam*, 686 F.3d at 377)); *In re Crumbs*, 522 B.R. at 770 ("This Court is not persuaded by the decision in *Lubrizol* and is not alone in finding that its reasoning has been discredited."). In fact, despite the split in the courts, the recent trend has been to follow *Sunbeam* and not *Lubrizol*. *See* Order at 8, *Aerogroup Int'l, LLC v. Wiesner Prods., Inc.*, No. 17-51889 (KJC) (Bankr. D. Del. Jan. 2, 2018), ECF No. 25 ("Few courts, including me, followed *Lubrizol*, cutting off licensing rights, but the current legal landscape has changed and it points in the favor of continuing the licensee's rights, post-rejection…").

In adopting section 365(n), Congress made clear that it intended to "allow the development of equitable treatment of this situation [involving the treatment of trademark licenses in bankruptcy] [to the] courts." S. Rep. No. 100-505, at 5 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3204. Courts have adhered to that command, and have not interpreted Congress' decision to omit trademarks from the protections of that section as an endorsement of the *Lubrizol* rule. Rather, in weighing the equitable considerations set out above, they have wisely adopted the *Sunbeam* rule.

CONCLUSION

The Court should reverse the decision below and adopt the rule articulated by the Seventh Circuit in *Sunbeam* with respect to the effect of a debtor-licensor's rejection of a trademark license agreement in bankruptcy.

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