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

BRIEF FOR PETITIONER

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QUESTION PRESENTED

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

PARTIES TO THE PROCEEDING

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

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

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BRIEF FOR PETITIONER

INTRODUCTION

This case arises from a licensing agreement between petitioner Mission Product Holdings, Inc. and respondent Tempnology, LLC.[1] The agreement gave Mission the right to sell Tempnology's patented products and use its trademarks worldwide, along with the exclusive right to sell a subset of those patented and trademarked products in the United States. Tempnology later decided that it wanted out of the agreement. After its pretextual attempts to terminate the agreement outside bankruptcy failed, Tempnology filed a

[1] Tempnology, LLC is now known as Old Cold LLC. For simplicity, we refer to it as "Tempnology."

Chapter 11 bankruptcy petition, openly avowing that its goal was to revoke the license it had granted Mission and make a better deal with other licensees. It filed and obtained approval of a motion to "reject" the license agreement under §365 of the Bankruptcy Code, which permits a trustee or debtor-in-possession, on behalf of the bankruptcy estate, to "assume or reject any executory contract of the debtor," §365(a).[2]

The question presented here is what effect rejection of the parties' license agreement had on Mission's rights under the agreement. The text of the Bankruptcy Code provides the answer: "[R]ejection … constitutes a breach" of the rejected contract "immediately before the date of the filing of the petition." §365(g)(1). That is rejection's *only* effect on the rights of the counterparty to the rejected agreement: It gives rise to a breach-of-contract claim by the counterparty against the debtor, determined according to applicable non-bankruptcy law and paid in the bankruptcy case. *Id.*; §§502(b)(1), 502(g)(1).

As the great majority of courts and scholars have recognized, rejection is not a special bankruptcy power to terminate or rescind a contract. It does not give the debtor any more rights than the breaching party to a contract would have outside bankruptcy. Nor does it allow the trustee to revoke interests in property that the debtor granted to a counterparty under the contract before bankruptcy. Yet that is precisely what the First Circuit held in this case, concluding that rejection of the parties' license agreement entitled Tempnology to do what it could not do outside bankruptcy: take

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

back the license it granted Mission before bankruptcy and relicense its intellectual property to others.

That reading of §365 disregards its text, its context, and the fundamental bankruptcy principles they reflect. Section 365 recognizes that every executory contract is both an asset and a liability: The right to receive the counterparty's performance under the contract is an asset, while the debtor's obligation to perform is a liability. Under §365, the trustee can weigh the benefit to the estate of receiving performance against the cost to the estate of performing. If a contract provides a net benefit to the estate, the trustee will assume it, and the estate will step into the debtor's shoes and perform the debtor's future obligations. Otherwise, the trustee will reject the contract.

Neither assumption nor rejection changes the contract in any way: If a contract is assumed, the estate has all the same obligations the debtor had outside bankruptcy, and the counterparty can enforce those obligations against the estate. If a contract is rejected, those obligations simply remain the debtor's and will thus remain unperformed. Like an anticipatory repudiation outside bankruptcy, rejection announces that the counterparty will not receive the performance it is owed under the contract. It therefore constitutes a breach. The breach is deemed to occur before bankruptcy so that the counterparty can assert a claim against the debtor in the bankruptcy case. Otherwise, breach by rejection is no different than breach outside bankruptcy and has precisely the same consequences, consistent with the "'basic federal rule' in bankruptcy … that state law governs the substance of claims." *Travelers Cas. & Sur. Co.* v. *Pacific Gas & Elec. Co.*, 549 U.S. 443, 450 (2007).

Outside bankruptcy, of course, the breaching party to a contract could not declare the contract terminated or rescind the other party's rights by virtue of its own breach. Nor could it take back an interest in property that the contract had already conveyed to the other party. There is no basis, textual or otherwise, for a different result in bankruptcy. To the contrary, it is settled law that—absent a successful suit by the trustee under the Bankruptcy Code's avoidance provisions, which did not occur here—the bankruptcy estate cannot have any greater rights in property than the debtor itself did outside bankruptcy. *Board of Trade of City of Chicago* v. *Johnson*, 264 U.S. 1, 14-15 (1924).

Consider a lease of real property. Outside bankruptcy, a landlord that breaches a lease, say by neglecting to maintain the property, does not thereby acquire the right to evict the tenant. The same is true in bankruptcy. The trustee may choose to reject the lease; if so, the estate is not required to perform the debtor's future obligations, such as maintenance, under the lease. The tenant thus has a claim against the debtor in the bankruptcy for any damages resulting from the failure to maintain the property. But the trustee cannot evict the tenant. Nor can rejection bring the tenant's leasehold interest, conveyed by the debtor to the tenant before bankruptcy, into the estate.

License agreements are no different. No one contends that, outside bankruptcy, Tempnology's breach of the license agreement would have permitted it to revoke the license. Rejection of the license agreement in bankruptcy does not entitle Tempnology to anything more. It certainly does not enable Tempnology to avoid its pre-bankruptcy transfer of rights in its intellectual property to Mission. Simply put, rejection does not "let a licensor take back … rights it bargained away. Th[at] makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve." *In re Exide Tech.*, 607 F.3d 957, 967-968 (3d Cir. 2010) (Ambro, J., concurring).

OPINIONS BELOW

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

JURISDICTION

The First Circuit entered judgment on January 12, 2018. Pet. App. 1a. This Court granted an extension of time to file a petition for certiorari until June 11, 2018. Petitioner filed a timely petition on that date, which this Court granted on October 26, 2018. This Court has jurisdiction under 28 U.S.C. §1254(1).

STATUTORY PROVISION INVOLVED

Section 365 of the Bankruptcy Code is reproduced in full in the statutory addendum to this brief.

STATEMENT

A. Mission's Licensing Agreement With Tempnology

1. Debtor Tempnology developed chemical-free cooling fabrics on which it held issued and pending patents. Pet. App. 2a-3a, 36a. It produced clothing and accessories like towels, socks, and headbands that were designed to remain cool when used during exercise. *Id.*

2a. Tempnology marketed these products using the COOLCORE and DR. COOL trademarks. *Id.*

On November 21, 2012, Tempnology executed a licensing agreement (the "Agreement") with Mission. Pet. App. 3a, 36a. The Agreement granted Mission a non-exclusive, worldwide, perpetual license to use for any purpose (including manufacture and sale) all of Tempnology's products, inventions, technology, and designs and all of Tempnology's intellectual property rights (excluding trademarks) with respect to the foregoing. JA234-235 (Agreement §15(b)). It also granted Mission a non-exclusive, worldwide (except for certain countries in East Asia) license to use Tempnology's trademarks on the Tempnology products Mission sold (the "Cooling Accessories") for the term of the Agreement. JA237-238 (Agreement §15(d)).

The Agreement also carved out a territory for Mission—primarily consisting of the United States—in which Mission had the exclusive right to sell certain products practicing Tempnology's patents and bearing its trademarks, including towels, wraps, and hoodies (the "Exclusive Cooling Accessories"), for the term of the Agreement. JA203-205, 211-218, 256-257 (Agreement §§1(A)-(B), 5-6). Tempnology agreed that, within Mission's exclusive territory, it would not sell the Exclusive Cooling Accessories itself or license others to sell them. JA211-218 (Agreement §§5-6).

Thus, as relevant here, the Agreement gave Mission two distinct licenses: a non-exclusive worldwide license to use Tempnology's trademarks (the "non-exclusive trademark rights") and an exclusive license to sell certain products practicing Tempnology's patents and bearing its trademarks within the United States (the "exclusivity rights").[3]

2. The Agreement provided that Tempnology would supply finished Cooling Accessories to Mission, which was required to order a minimum number of products from Tempnology. JA219-227, 240, 248-249 (Agreement §§8-10, 16, 23). If Mission did not meet those minimum requirements, it would lose its exclusivity rights, JA219-221 (Agreement §8(a)-(c)), and if Mission did not meet the minimum requirements during the initial term of the Agreement, Tempnology would be entitled to terminate the Agreement for cause, JA207-209, 220-221 (Agreement §§3, 8(c)).

The Agreement also provided, however, that if Tempnology did not fill any of Mission's purchase orders in a timely manner, Mission would be entitled to source and manufacture the Cooling Accessories itself, rather than purchasing them from Tempnology. JA220-225, 230-232 (Agreement §§8(c), 9, 14). In that event, Mission would not be obligated to meet the minimum purchase requirements. JA220-221 (Agreement §8(c)).

Either party could terminate the Agreement without cause, triggering a two-year wind-down period during which the Agreement would remain in effect. JA207-211 (Agreement §§3-4). Moreover, if either party failed to cure a material breach, the other party could terminate the Agreement for cause, ending the Agreement immediately with no wind-down period. JA207-209 (Agreement §3).

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[3] The parties agreed that the non-exclusive, worldwide patent license survived rejection (Pet. App. 6a), and it is not at issue here.

3. In June 2014, Mission exercised its right to terminate the Agreement without cause, triggering the two-year wind-down period. Pet. App. 4a. The next month, Tempnology purported to terminate the Agreement for cause. *Id.* Tempnology did not claim that Mission had failed to satisfy the Agreement's minimum purchase requirements (since Mission had met those requirements). Dkt. 455 at 17, *In re Old Cold, LLC*, No. 15-11400 (Bankr. D.N.H.) ("Bankr. Dkt."). Rather, Tempnology asserted that Mission's hiring of Tempnology's former president seven months earlier violated the Agreement. JA297-299.

In August 2014, Mission placed an order for towels from Tempnology. JA309. Tempnology refused to fill the order, asserting that the Agreement was no longer in effect. *Id.* In October 2014, Tempnology demanded that Mission stop using its trademarks, asserting that Mission's use was unauthorized. JA307-310. Mission filed a demand for arbitration on the basis that Tempnology had breached the Agreement by improperly purporting to terminate it and refusing to fill Mission's purchase orders. JA294-295.

In June 2015, the arbitrator ruled that Tempnology's purported termination for cause was improper and that the Agreement remained in effect through the wind-down period—until July 1, 2016. Pet. App. 4a-5a; JA298-307, 311. Moreover, the arbitrator held that Tempnology's actions constituted a repudiation of the Agreement, relieving Mission from its obligation under the Agreement to purchase products from Tempnology. JA307-311. The arbitrator set a second phase of the arbitration to address unresolved issues, including any damages claim by Mission. JA311.

4. During the arbitration proceedings, Tempnology sought to relicense the intellectual property it had licensed to Mission under the Agreement to third parties within Mission's exclusive territory. In November 2014, Tempnology licensed Paramount Apparel International, Inc. to sell Tempnology's cooling towels—an Exclusive Cooling Accessory—in the United States. JA569. In February 2015, Tempnology similarly licensed Disney to sell Tempnology's cooling towels in the United States. *Id.*; *see also* JA556.

B. Tempnology's Bankruptcy And Rejection Of The Agreement

1. On September 1, 2015, after Tempnology's attempt to terminate the Agreement outside bankruptcy had failed, Tempnology filed a Chapter 11 petition, which halted the arbitration proceedings. Pet. App. 5a; *see* §362(a)(1).

The next day, Tempnology moved to reject the Agreement under §365(a). Pet. App. 5a. Tempnology explained that it filed for bankruptcy in large part because "absent a rejection of the … Agreement, [Tempnology] is prohibited from selling all of the contract exclusive products in the U.S. … until June 2016." JA321-323; *see* Pet. App. 6a. Tempnology sought to reject the Agreement to free itself from Mission's rights under the Agreement, which it claimed had "hinder[ed] [its] ability to derive revenue by other marketing and distribution opportunities." Bankr. Dkt. 35 at 4; *see* Bankr. Dkt. 122 at 7 (urging rejection so that Tempnology could "market and sell its products to third parties" in Mission's exclusive territory).

Mission objected to the rejection motion. Pet. App. 6a. It also elected to retain its rights to intellectual property protected by §365(n), which provides that "[i]f the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect … to retain its rights … under such contract … to such intellectual property." §365(n)(1); *see* Pet. App. 6a. The bankruptcy court granted Tempnology's rejection motion, but noted that its order was "subject to Mission['s] election to preserve its rights under … §365(n)." Pet. App. 83a-84a.

In response, Tempnology filed a motion asking the bankruptcy court to determine the scope of the rights Mission would retain after rejection of the Agreement. Pet. App. 6a. The bankruptcy court held that, under §365(n), Mission retained its non-exclusive, worldwide license to use Tempnology's patents post-rejection. The court concluded, however, that rejection of the Agreement terminated Mission's non-exclusive trademark license and exclusivity rights. Pet. App. 78a-81a.

2. Tempnology's controlling shareholder, Schleicher & Stebbins Hotels L.L.C. ("S&S"), then agreed to purchase substantially all of Tempnology's assets, including its intellectual property. JA404-405, 411-412, 460-461. S&S agreed to pay all unsecured claims against Tempnology in full, except for certain disputed claims, including Mission's rejection damages claim. JA344-347, 411-412, 427-429, 461-462, 540-541. The sale closed on December 18, 2015. JA542.

3. Although the Agreement was rejected as of the bankruptcy petition date (September 1, 2015), Pet. App. 83a-84a, it remained in effect for nearly another year, until expiration of the wind-down period on July 1, 2016. Tempnology and S&S continued to violate Mission's trademark and exclusivity rights during this post-

rejection, pre-termination period, including by selling—and licensing multiple additional third parties to sell—the Exclusive Cooling Accessories in Mission's exclusive territory. JA568-570 (Mission letter brief to First Circuit) (citing contracts with Paramount, Disney, Imperial Hats, Academy, Target, and Home Depot).

Mission filed an initial claim for over $4 million for the estimated damages resulting from Tempnology's violations of Mission's rights under the Agreement. JA556-557. Mission reserved the right to amend its damages claim following formal discovery and to assert an administrative claim for damages incurred after the bankruptcy filing if the courts ultimately held that its rights survived rejection. JA557, 570-573; Bankr. Dkt. 351 at 1-4. The parties agreed to stay proceedings on Mission's claim pending this Court's resolution of this matter. Bankr. Dkts. 375, 519.

C. Appeal

1. Mission appealed the bankruptcy court's order to the Bankruptcy Appellate Panel for the First Circuit ("BAP"), which affirmed in part and reversed in part. The BAP agreed that Mission did not retain its exclusivity rights post-rejection. Pet. App. 49a-51a. However, it held that rejection did not eliminate Mission's non-exclusive trademark rights, following the reasoning of the Seventh Circuit in *Sunbeam Products, Inc.* v. *Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012). Pet. App. 59a.

2. A divided First Circuit disagreed with the BAP in part and affirmed the bankruptcy court. Pet. App. 2a.

Before deciding the merits, the First Circuit requested that the parties address whether the appeal was moot. JA560-561. Tempnology argued that the appeal was moot because Mission's trademark and exclusivity rights had terminated upon expiration of the wind-down period on July 1, 2016. JA589-595. Mission argued that the appeal was not moot because the treatment of its damages claim for the violation of its rights during the post-rejection, pre-expiration period would turn on the outcome of the appeal. JA562-574. The court rejected Tempnology's mootness argument and reached the merits. Pet. App. 12a-27a.

The panel first held that Mission's exclusivity rights were not protected by §365(n). Pet. App. 12a-19a.[4] It then split 2-1 on the question presented here: whether, absent protection by §365(n), rejection of a license agreement eliminates the rights granted to the licensee, including rights to use the licensed intellectual property. The panel majority reasoned that rejection "converts" all the licensee's rights, including its interests in the intellectual property, "into a pre-petition claim for damages." Pet. App. 22a. Accordingly, the majority held that rejection eliminated Mission's rights under the Agreement that were not expressly protected by §365(n), including its non-exclusive trademark rights. *Id.*[5]

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[4] The second question presented in Mission's petition (at i) sought review of that holding, but this Court denied certiorari on that question.

[5] The panel's holding that rejection eliminates all rights not protected by §365(n) logically encompasses both Mission's non-exclusive trademark rights and its exclusivity rights. As noted in the petition (at 15 n.4), the panel did not separately address the exclusivity rights because it believed (wrongly, in Mission's view) that Mission had waived the argument that rejection did not eliminate its exclusivity rights even if they were not protected by §365(n). Pet. App. 20a. As discussed further below, *see infra* n.11, Tempnology did not raise any waiver argument in its brief in op-

In doing so, the majority followed the Fourth Circuit's widely criticized decision in *Lubrizol Enterprises* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1047-1048 (4th Cir. 1985), which held that rejection of a patent licensing agreement enabled the debtor-licensor to take back the rights it had transferred to the licensee under the agreement before bankruptcy. Pet. App. 22a. The majority rejected the Seventh Circuit's contrary decision in *Sunbeam*, opining that *Sunbeam* contravened "Congress's principal aim" in providing for rejection under §365—"'releas[ing] the debtor's estate from burdensome obligations that c[ould] impede a successful reorganization.'" *Id.*

The majority reasoned that it was not "possible to free a debtor from any continuing performance obligations under a trademark license even while preserving the licensee's right to use the trademark," stating that a debtor would be required to "monitor and exercise control over the quality of the goods" produced by the licensee to protect the "continued validity" of its trademarks. Pet. App. 22a-23a. Moreover, recognizing the licensee's continued right to use trademarks, the majority opined, risked "diminishing [the marks'] value to Debtor, whether realized directly or through an asset sale." *Id.* 24a. Accordingly, the majority concluded, rejection terminated Mission's right to use the trademarks. *Id.* 27a.

In dissent, Judge Torruella criticized the majority for "treat[ing] a debtor's rejection as a contract cancellation, rather than a contractual breach." Pet. App. 32a. The BAP, he concluded, "was correct to follow the Seventh Circuit's lead in finding that … [Tempnology's]

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position, and any issue of waiver with respect to Mission's exclusivity rights should be addressed on remand.

rejection of the executory contract d[id] not rescind the Agreement" and did not "eviscerate any of Mission's remaining trademark rights." *Id.* 33a-34a.

SUMMARY OF ARGUMENT

I. A debtor-licensor's rejection of a contract under §365 of the Bankruptcy Code does not rescind the agreement or revoke the counterparty's rights. Section 365(g) specifies that rejection "constitutes a breach" of the rejected contract immediately before the bankruptcy filing. Rejection merely indicates that the estate will not perform the debtor's future duties under the contract and gives the counterparty a breach-of-contract claim in the bankruptcy case. It does not give the estate any greater rights than the breaching party to a contract would have outside bankruptcy.

Nor does rejection of a contract allow the estate to take back interests in the debtor's assets—such as a leasehold interest in real estate or a license to intellectual property—that the debtor transferred to the counterparty under the contract before bankruptcy. Because the estate enjoys no greater rights in the debtor's assets than the debtor would have outside bankruptcy, the debtor's assets come into the estate subject to any interest already granted to the counterparty. The trustee can undo a debtor's pre-bankruptcy grant of an interest in its property only through the Bankruptcy Code's avoidance provisions, which impose strict substantive and procedural limitations. Rejection is not an implied avoiding power, unbounded by those limitations.

II. Rejection of the Agreement here did not revoke either Mission's non-exclusive trademark rights or its exclusivity rights. Rejection was simply a breach of Tempnology's future affirmative performance obligations under the Agreement. Because Tempnology's breach could not have terminated Mission's trademark and exclusivity rights outside bankruptcy, rejection could not do so inside bankruptcy. Moreover, the Agreement transferred those interests in Tempnology's intellectual property to Mission before bankruptcy. Outside bankruptcy, Tempnology could not use or sell its intellectual property free of Mission's rights. The property thus came into the estate subject to those same limitations. Rejection of the license agreement was not avoidance and could not expand the estate's rights in the intellectual property.

III. Section 365(n) creates no negative inference that rejection terminates trademark licensees' rights. Nor does the purported burden of monitoring a licensee's use of a trademark justify revoking the licensee's rights. Trademark law provides that the owner of a mark must monitor licensees to ensure continued ownership of the mark. But rejection frees the estate only from the burden of performing *under contracts*; it does not exempt the estate from duties imposed by generally applicable law. Whether the estate should incur the cost of monitoring to preserve the value of a trademark is an economic decision that is no different than any of the trustee's many other decisions whether to incur costs to preserve estate assets. Finally, the general Chapter 11 policy promoting reorganization does not support reading into §365 a power to terminate third-party rights in estate assets. To be sure, such a power would help maximize the value of the estate. But that proves too much: It would support reading the Bankruptcy Code to terminate *all* rights of non-debtors in the debtor's assets, contrary to basic bankruptcy principles.

ARGUMENT

I. REJECTION OF AN EXECUTORY CONTRACT DOES NOT RESCIND THE CONTRACT OR REVOKE INTERESTS IN PROPERTY THE DEBTOR GRANTED THE COUNTERPARTY PRE-BANKRUPTCY

A. Rejection Under Section 365 "Constitutes A Breach" And Has The Same Consequences As Breach Outside Bankruptcy

1. The Bankruptcy Code provides a federal process for marshalling a debtor's property, maximizing its value, and distributing that value among the debtor's creditors. In Chapter 7, that process is overseen by a trustee. §§702, 704. In Chapter 11, the debtor typically remains in possession of its property and, as the "debtor in possession," takes on the administrative and fiduciary duties of a trustee. §§1101(1), 1107; *see Czyzewski* v. *Jevic Holding Corp.*, 137 S. Ct. 973, 978 (2017).[6]

In either Chapter 7 or Chapter 11, the first step in the bankruptcy process is the creation of the estate—a separate legal entity from the debtor that comes into existence when the debtor files for bankruptcy. The estate includes "all legal or equitable interests of the debtor in property as of the commencement of the case." §541(a)(1). It is the *res* out of which creditors' claims are paid.

One significant part of the trustee's role in maximizing the value of the estate is determining whether the estate should assume ongoing contracts that the debtor entered before bankruptcy. Section 365 provides that, subject to bankruptcy court approval, the trustee "may

[6] For simplicity and clarity, we use "trustee" to mean "trustee or debtor-in-possession."

assume or reject any executory contract or unexpired lease of the debtor." §365(a). An executory contract is a contract "'on which performance is due to some extent on both sides.'" *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984). Executory contracts thus represent both an asset—the debtor's right to obtain the counterparty's future performance—and a liability—the debtor's obligation to perform in the future, or to pay damages if it breaches that obligation. Baird, *Elements of Bankruptcy* 112 (6th ed. 2014) ("Baird").

Section 365 enables the trustee to weigh the cost and benefit associated with an executory contract and determine whether the value of the contractual asset exceeds the associated liability. If so, the trustee may assume the contract, meaning that the estate will fulfill the debtor's future performance obligations under the contract; otherwise, the contract may be rejected, meaning that the estate will not fulfill the debtor's future performance obligations and the counterparty will have a claim against the debtor for breach. *See In re Columbia Gas Sys. Inc.*, 50 F.3d 233, 238-239 & n.8 (3d Cir. 1995); Baird 112-115; Westbrook, *A Functional Analysis of Executory Contracts*, 74 Minn. L. Rev. 227, 247-255 (1989) ("Westbrook"); Andrew, *Executory Contracts in Bankruptcy: Understanding 'Rejection,'* 59 U. Colo. L. Rev. 845, 855 (1988) ("Andrew").

To take a stylized example, say that before bankruptcy the debtor, *D*, a widget merchant, entered into an agreement with a counterparty, *C*, in which *D* agreed to ship *C* 1,000 widgets a month for 10 months, and *C* agreed to pay *D* $1 per widget on delivery. Before shipping any widgets, *D* files for bankruptcy. Widgets are a volatile commodity, and between the time the parties enter the contract and the bankruptcy filing, the market price of a widget falls to 50 cents.

The value of *C*'s performance—$10,000—now exceeds the cost of *D*'s performance, since *D* can buy the widgets for $5,000 and make a $5,000 profit. Under these circumstances, a rational trustee would assume the contract.

Once assumed, the contract remains in full force, and the estate steps into the shoes of the debtor. The estate can now obtain *C*'s $10,000 payment, but it is also obligated to ship the widgets. If it fails to do so, and *C* incurs any damages as a result of the breach, *C*'s damages claim runs against the estate. The claim is treated as a cost of administering the estate and is entitled to administrative-expense status, meaning that it has priority over other unsecured claims and must be paid in full for a Chapter 11 plan to be confirmed. §§365(b), 503(b), 507(a)(2), 726(a), 1129(a)(9); *Bildisco*, 465 U.S. at 531-532; Andrew 881-882, 890.

On the other hand, say that the market price of a widget rises between the time the parties enter the contract and the bankruptcy filing. If the price rises from $1 to $2, the value of *C*'s performance—still $10,000—is now less than the cost of *D*'s performance, which is $20,000. Under these circumstances, a rational trustee would reject the contract, since assuming it would create a net loss to the estate of $10,000.

Rejecting the contract does not make it go away. Like assumption, it does not change the contract at all. It simply means that the estate is not assuming the debtor's future performance obligations to the counterparty, which remain the debtor's and thus will not be performed. Rejection is in many ways analogous to anticipatory repudiation of a contract—which is a breach of that contract—outside bankruptcy. *See, e.g.*, *Central States, Se. & Sw. Areas Pension Fund* v. *Basic Am.*

Indus., Inc., 252 F.3d 911, 916 (7th Cir. 2001); 23 Lord, *Williston on Contracts* §63:50 (4th ed. 1990) ("*Williston*"); *see also Restatement (Second) of Contracts* §253 cmt. a (1981) (anticipatory repudiation is a breach of contract).

The Code therefore provides that rejection of a contract "constitutes a breach of such contract … immediately before the date of the filing of the petition." §365(g)(1); *see* §502(g)(1). *C* has a breach-of-contract claim against *D* arising out of *D*'s failure to ship the widgets, just as *C* would outside bankruptcy. However, because *C*'s claim is treated as a pre-petition claim, *C* will be paid only the *pro rata* share of its claim that other general unsecured creditors receive—typically, cents on the dollar. What rejection under §365 does, at bottom, is ensure that a debtor's pre-bankruptcy promise to perform on a contract that the trustee does not assume is treated the same way as a debtor's pre-bankruptcy promise to pay a debt—that is, it gives rise to a claim in the bankruptcy case. Andrew 882-884.

2. But that is all rejection does: It "constitutes a breach" of the rejected contract. §365(g)(1). "Breach" here means exactly what it does under the common law: a violation of a contractual obligation that "gives rise to a claim for damages, and may give rise to other remedies." *Restatement (Second) of Contracts* §236 cmt. a; *see Field* v. *Mans*, 516 U.S. 59, 69 (1995) (where the Bankruptcy Code "uses terms that have accumulated settled meaning under the common law, a court must infer, unless the statute otherwise dictates, that Congress meant to incorporate the established meaning of those terms" (internal quotation marks and ellipsis omitted)).

The statutory text accordingly makes clear that, except where §365 specifically provides otherwise, rejection of a contract has whatever consequences breach of that contract would have under non-bankruptcy law. It does not give the estate anything more, or the counterparty anything less, than the parties would have outside bankruptcy. That is consistent with the "'basic federal rule' in bankruptcy … that state law governs the substance of claims." *Raleigh* v. *Illinois Dep't of Revenue*, 530 U.S. 15, 20 (2000) (quoting *Butner* v. *United States*, 440 U.S. 48, 57 (1979)); *accord Travelers Cas. & Sur. Co. of Am.* v. *Pacific Gas & Elec. Co.*, 549 U.S. 443, 450-451 (2007); *Vanston Bondholders Protective Comm.* v. *Green*, 329 U.S. 156, 161 (1946); *see also, e.g.*, *BFP* v. *Resolution Trust Corp.*, 511 U.S. 531, 544-545 (1994) (absent a "'clear and manifest'" purpose to the contrary, "the Bankruptcy Code will be construed to adopt, rather than to displace, pre-existing state law").

The consequential aspect of rejection from a bankruptcy perspective is simply that the debtor's breach is deemed to occur not on the date of rejection, but "immediately before the date of the filing of the petition." §365(g)(1). Because rejection means that the estate will not assume the debtor's obligations, any claim for damages by the counterparty is treated as a prepetition claim against the debtor—paid *pro rata* along with other general unsecured claims against the debtor—rather than an administrative claim against the estate, which has higher priority. *Id.*; §502(g)(1); Andrew 889 ("Rejection establishes that the *estate* will not become obligated on the contract; it does not affect the continued existence of the *debtor's* obligations, which form the basis of the [counterparty's] claim."). Other than the timing of the breach, nothing about rejection under the Bankruptcy Code differs from breach outside bankruptcy.

That is the conclusion the Seventh Circuit reached in *Sunbeam*, which held—in contradiction to the First Circuit here—that a debtor-licensor's rejection of a trademark license could not deprive the licensee of its right to use the trademark. *Sunbeam Prods., Inc.* v. *Chicago Am. Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012). As the Seventh Circuit explained: "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." *Id.* While rejection means that "[t]he debtor's unfulfilled obligations are converted to damages," "nothing about this process implies that any rights of the contracting party have been vaporized." *Id.* Accordingly, since "[o]utside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property," rejection of a license agreement in bankruptcy cannot do so either. *Id.* at 376.

Other courts and scholars agree that rejection of an executory contract in bankruptcy has essentially "the same consequences as breach of the same contract outside of bankruptcy." Baird 114; *see Columbia Gas*, 50 F.3d at 239 n.8 ("Rejection … is equivalent to a non-bankruptcy breach."); *In re Lavigne*, 114 F.3d 379, 387 (2d Cir. 1997); *In re Austin Dev. Co.*, 19 F.3d 1077, 1082 (5th Cir. 1994) ("[C]ontract or lease liabilities remain intact after rejection and give the non-debtor party a claim in the distribution of the estate."). Rejection thus does not terminate rights that would survive the debtor's breach under applicable non-bankruptcy law. Baird 115.

Put differently, rejection is not a special bankruptcy "power" that can change the non-bankruptcy rights of the parties to a contract. "Rejection is not the power to release, revoke, repudiate, void, avoid, cancel or terminate, or even to breach, contract obligations." *Lavigne*, 114 F.3d at 387. It "merely frees the estate from the obligation to perform" and "'has absolutely no effect upon the contract's continued existence; the contract is not cancelled, repudiated, rescinded, or in any other fashion terminated.'" *Thompkins* v. *Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007). Rejection is not "the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract was formed." *Id.*; *see also Sunbeam*, 686 F.3d at 377; *In re Exide Techs.*, 607 F.3d 957, 967 (3d Cir. 2010) (Ambro, J., concurring) (explaining, in context of rejection of trademark license, that "'rejection is a breach of the executory contract'" and "'not avoidance, rescission, or termination'"); Andrew 848 ("[R]ejection is not the revocation … or cancellation of a contract" and "does not change the substantive rights of the parties to the contract[.]"). Rejection thus cannot terminate the counterparty's rights under a contract or strip it "of any benefits of the contract" if the counterparty "would have been entitled to these benefits had the breach occurred outside of bankruptcy." Baird 115.

B. Rejection Is Not An Avoidance Power And Cannot Give The Bankruptcy Estate Any Greater Rights To An Asset Than The Debtor Had Outside Bankruptcy

For the same reasons, rejection cannot give the estate any greater right to an asset than the debtor possessed outside bankruptcy. Certain contracts, such as leases and licenses—even if they are unexpired or "executory" on the petition date due to some continuing obligations of the parties—convey an interest in an underlying asset, such as real property or intellectual property, to the counterparty before bankruptcy. Because the estate cannot enjoy greater property rights than the debtor had outside bankruptcy, such assets enter the bankruptcy estate subject to the counterparty's interest. Although such a pre-bankruptcy transfer of an interest in property can be undone in specific circumstances under the Bankruptcy Code's avoidance provisions, rejection of the contract that transferred that interest is not avoidance and cannot expand the estate's rights in the underlying asset.

1. The bankruptcy estate created upon the filing of a petition comprises all "legal and equitable interests *of the debtor* in property," §541(a)(1) (emphasis added). The estate does not include any interests in property held by another party. If the debtor's rights in an asset would be limited in the debtor's hands outside bankruptcy by interests granted to third parties, the estate's rights in the asset are equally limited in bankruptcy.

One very common example is a lien. If a nondebtor has a lien on the debtor's property outside bankruptcy, the property comes into the estate subject to the lien. That property thus cannot be distributed to unsecured creditors until the lien is fully satisfied. §§506(a), 725, 1129(b)(2)(A); *Associates Commercial Corp.* v. *Rash*, 520 U.S. 953, 961 (1997). And the lienholder is entitled to "adequate protection" of its lien to ensure that its interest in the debtor's property is not diminished through the bankruptcy process. §§361, 362(d), 363(e), 364(d).

As this Court established long ago, however, the principle is not limited to liens. Rather, the estate's rights in the debtor's property are limited by any interests other parties have in the property that are valid outside bankruptcy, regardless of the form those interests may take. *Board of Trade of City of Chicago* v. *Johnson*, 264 U.S. 1, 7-15 (1924) (holding that the debtor's seat on the Chicago Board of Trade came into the debtor's estate subject to other Board members' right to have their debts paid in full before the seat was sold). And because the estate does not acquire a non-debtor's interest in the debtor's property, that interest is not part of the value that can be distributed to other creditors in bankruptcy.

Chicago Board of Trade set out the relationship between bankruptcy and non-bankruptcy law in determining what constitutes property of the estate. This Court held that the question whether a particular interest is an interest in property that comes into the estate is one of federal bankruptcy law. *Chicago Board of Trade*, 264 U.S. at 10. Although the Illinois Supreme Court had held that the debtor's seat on the Board was *not* "property" under Illinois law, *id.* at 8-9, that decision could not control what constitutes "property" under bankruptcy law. Since the debtor could transfer the seat under certain circumstances, it was "property" for purposes of the Bankruptcy Act. *Id.* at 10-11, 13; *see also, e.g., In re The Ground Round, Inc.*, 482 F.3d 15, 17 (1st Cir. 2007) (liquor license was property for bankruptcy purposes even if not treated as property by state statute).

This Court also held, however, that the seat came into the estate subject to the restrictions on transfer that existed under the Board's rules. Because, outside bankruptcy, the debtor could not have sold the seat without first paying his debts to other Board members in full, the trustee in bankruptcy could not do so either. *Chicago Board of Trade*, 264 U.S. at 15. The interest of the other Board members in the seat was analogous to a lien, and their claims thus had to "be satisfied before the trustee [could] realize anything on the transfer of the seat for the general estate." *Id.*; *see also, e.g.*, *Ground Round*, 482 F.3d at 18 ("'A bankruptcy estate cannot succeed to a greater interest in property than the debtor held prior to bankruptcy.'").

"*Chicago Board of Trade* remains good law," not only for its holding regarding seats on exchanges, but also "for the broad principle it embraces." Baird 96. Simply put, any "limitation on the debtor's property … that applies outside of bankruptcy … applies inside of bankruptcy as well. A debtor's property does not shrink by happenstance of bankruptcy, but it does not expand, either." *Id.* at 97.

2. The trustee can expand the estate's interest in property beyond what the debtor had on the petition date in only one way: by bringing and prevailing in an action under the avoidance provisions of the Code. Those provisions apply only in specific, narrow circumstances.

For instance, if the debtor conveyed rights in its assets to a third party for less than reasonably equivalent value while insolvent—thus depleting the assets available to repay creditors—the transaction could potentially be unwound as a "fraudulent transfer." §§548(a)(1)(B)(i), 544(b)(1). Similarly, if the debtor conveyed rights in its assets to a particular creditor on the eve of bankruptcy—giving that creditor preferential treatment over other creditors who must share *pro rata* in bankruptcy—the transaction could potentially be unwound as a "preference." §547(b). The trustee may also avoid unperfected security interests in the debtor's property. §544(a)(1). When the trustee succeeds in avoiding such transfers, the trustee may recover the property transferred, or its value, for the estate and distribute it to creditors. §550(a); *see* §541(a)(3).

These "avoiding" powers are limited exceptions to the basic principle that the bankruptcy estate enjoys no greater rights in the debtor's assets than the debtor would have outside bankruptcy. They permit a trustee to reclaim interests in property the debtor granted to another party before bankruptcy in specific circumstances where the transaction undermined the bankruptcy process, such as by conveying rights in an insolvent debtor's assets too cheaply (contravening the policy of maximizing value) or by preferring one creditor over others (contravening the policy of equal distribution). Except in these limited circumstances, the Bankruptcy Code enforces the bargains the debtor made outside bankruptcy.

3. Rejection is not an avoidance power and cannot enhance the estate's rights in property. As a textual matter, §365 contains no hint that rejection of a contract entitles the debtor to "avoid" or terminate any rights conveyed to the counterparty before bankruptcy. As discussed, *see supra* Part I.A, rejection is merely a breach of the debtor's future performance obligations under the contract. §365(g). By its terms, "'[§]365 addresses only future performance obligations of the parties'"; it does not "reverse[] any transfer of asset ownership" or other interests in property "previously carried out by the rejected contract." *Thompkins*, 476 F.3d at 1306-1307; *see also Austin*, 19 F.3d at 1083 (rejection is not an "implied avoidance power").

Indeed, it would violate basic principles of statutory construction to read into §365 an implied "avoiding" power, unbounded by the limitations Congress expressly set out in the Code's avoidance provisions, that is strikingly discordant with the Bankruptcy Code's usual respect for other parties' rights in the debtor's assets. *See, e.g.*, *Czyzewski*, 137 S. Ct. at 984 (this Court would "expect more than simple statutory silence if, and when, Congress were to intend a major departure" from an important bankruptcy principle). Accordingly, there is widespread agreement that "[§]365 is not an avoiding power designed to expand the assets of the estate and give creditors inside of bankruptcy something they would not have had outside." Baird 115.

The point is illustrated by the treatment in bankruptcy of real property leases—contracts that, like intellectual property licenses, grant the counterparty an interest in the debtor's property. In the context of real property leases, "the law has long been clear that rejection properly has no avoiding-power effect." Andrew 902.

As Andrew explains, "in a lessor's bankruptcy there are *two* distinct assets at issue. One is the lessor's rights in the lease." Andrew 904. But "the lessor's estate also includes the lessor's interest in the *underlying* asset, the property which is the subject of the lease." *Id.* And, under the principle of *Chicago Board of Trade*, that underlying asset comes into the estate subject to the tenant's leasehold interest. *Id.* at 904-905. "[T]here is nothing about rejection of the *lease* asset in the lessor's bankruptcy that terminates the lessee's right to possession of the *underlying* asset." *Id.* at 905. If the lessor sold the underlying property to a third party outside of bankruptcy, the buyer would "not [be] obligated to perform the lessor's personal covenants," but it could not "oust the lessee." *Id.* Following rejection of the lease, the estate is in precisely the same position. *Id.*

As the Seventh Circuit put it in *Sunbeam*:

> [A] lessor that enters bankruptcy could not, by rejecting the lease, end the tenant's right to possession and thus re-acquire premises that might be rented out for a higher price. The bankrupt lessor might substitute damages for an obligation to make repairs, but not rescind the lease altogether.

686 F.3d at 377; *see* Baird 117 (in a lessor's bankruptcy, "[t]he trustee can reject the lease and cease heating and cooling the building," but rejection "does nothing to dispossess [the lessee] from the property"; the lessee's leasehold interest gives it "a right to the asset that primes that of any of [the debtor's] creditors").[7]

The same principle applies whenever the debtor has conveyed an interest in an asset under an executory contract before bankruptcy. Rejection is a breach of the debtor's future performance obligations; it does not permit the trustee to avoid and recover for the estate property interests the debtor previously granted under the contract. *See, e.g.*, *Ground Round*, 482 F.3d at 17-21 (trustee's rejection of real property lease did not terminate landlord's reversionary interest in liquor license, which debtor granted under the lease before

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[7] The Bankruptcy Code codifies this result for leases. §365(h)(1). We explain below, *see infra* Part III.A, why §365(h) and similar provisions like §365(n) are best read as expressions of the general principle that rejection does not expand the estate's rights in property, rather than exceptions to a rule that rejection *does* expand such rights.

bankruptcy); *Leasing Serv. Corp.* v. *First Tenn. Bank Nat'l Ass'n*, 826 F.2d 434, 436-437 (6th Cir. 1987) (trustee's rejection of equipment lease did not strip counterparty of security interest in debtor's assets, which debtor granted under the lease before bankruptcy).

As discussed further below, *see infra* Part II, intellectual property licenses work the same way; they are contracts that convey an interest in the debtor's property to the counterparty before bankruptcy. Andrew 916. A license gives the licensee an interest in the licensor's intellectual property. Typically, that interest is not ownership of the entire bundle of rights to the property, but particular sticks in the bundle: the right to use the property and/or to exclude others from using it. When the licensor files for bankruptcy, its intellectual property comes into the estate. But it does so subject to the license. §541(a); *Chicago Board of Trade*, 264 U.S. at 8-12, 15. The debtor cannot use the rejection power to recapture the sticks that it removed from its bundle of rights before bankruptcy and that, accordingly, never came into the estate. In short, §365 does not "let a licensor take back trademark [or other intellectual property] rights it bargained away" from the licensee so that it can profit by selling or licensing those rights to someone else. *Exide*, 607 F.3d at 967 (Ambro, J., concurring).

C. The First Circuit's Decision, And The Fourth Circuit Decision It Followed, Contravene These Basic Principles

The First Circuit's decision below, along with the Fourth Circuit decision on which it relied, *Lubrizol Enterprises* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), cannot be reconciled with the fundamental principles set out above. Those decisions ignore or misread the text of the Bankruptcy Code, misapprehend the function of rejection in bankruptcy, and improperly treat rejection as an avoidance power.

1. *Lubrizol* addressed the effect of rejection of an intellectual property license agreement under which, before bankruptcy, the debtor had granted a licensee the right to use the debtor's patented metal-coating process technology. 756 F.2d at 1045. The debtor sought to reject the license agreement because "stripping [the licensee] of its rights in the process" would enable it to "sell or license the technology on more advantageous terms to other potential licensees." *Id.* at 1047. The Fourth Circuit devoted most of its analysis to the question whether the license agreement was executory, concluding that it was because the licensee had an ongoing duty to deliver quarterly sales reports and keep account books subject to inspection. *Id.* at 1045-1046.

The court then held—in a single cursory paragraph—that rejection of the license agreement not only relieved the debtor from performing its future obligations under the contract, but also enabled it to "deprive [the licensee] of all rights to the [metal-coating] process" and make a new, more profitable deal for those rights. *Lubrizol*, 756 F.2d at 1048. The court opined that "the legislative history of §365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party" and that the licensee thus "could not seek to retain its contract rights in the technology by specific performance." *Id.*[8]

[8] The legislative history on which *Lubrizol* relied in fact says no such thing; it merely addresses the "*time* as of which a rejection … constitutes a breach," noting that claims resulting from rejection will be "treat[ed] … as prepetition claims." H.R. Rep. No. 95-

Even though, outside bankruptcy, the licensee would have been entitled to continue to use the technology after the debtor's breach, the Fourth Circuit concluded that §365 overrode those rights and gave the licensee only a pre-petition damages claim. *Id.*[9]

For its part, the First Circuit conceded that rejection of a license agreement "does not 'vaporize'" the licensee's rights, but reasoned, like the Fourth Circuit in *Lubrizol*, that rejection "converts the [licensee's] right[s] into a pre-petition claim for damages," thus enabling Tempnology to take back and relicense the rights it had granted to Mission under the Agreement. Pet. App. 22a.

2. As many courts and scholars have recognized, *Lubrizol*—and now the First Circuit's decision—is in error because it effectively treats rejection as an avoidance power. On the First and Fourth Circuit's reasoning, rejection enables the estate to obtain greater rights in the debtor's property than the debtor itself had prior to bankruptcy, clawing back rights already granted to licensees and reselling those rights to others. That result misunderstands the function of rejection, which, as discussed above, *see supra* Part I.A, is simply to ensure that the estate is not required to assume affirmative performance obligations of the debtor that will cause a net loss to the estate. It also violates the principle of *Chicago Board of Trade*, failing to recognize that intellectual property licenses—like leases—grant an interest in property to the licensee that cannot

595, at 349 (1977) (emphasis added), *reprinted in* 1978 U.S.C.C.A.N. 5963, 6305.

[9] As discussed below, *see infra* Part III.A, Congress quickly repudiated *Lubrizol* by enacting §365(n), which applies to certain intellectual property licenses (though not trademark licenses).

be brought back into the estate except through an avoidance action.

In other words, *Lubrizol* and the decision below improperly terminate "the rights of third parties in or to property in which the debtor had an interest" "without any of the justifications of the avoiding powers," merely "because the third party's rights arise under a contract that happens to be 'executory' when the bankruptcy commences." Andrew 902; *see id.* at 916 (describing *Lubrizol* as "[t]he case that illustrates perhaps better than any other what is wrong with avoiding-power rejection"); *Sunbeam*, 686 F.3d at 377 ("*Lubrizol* … confuses rejection with the use of an avoiding power."); Baird 122-123 & n.9.

As another scholar explained, *Lubrizol*'s treatment of rejection as avoidance is "so dangerous because it provides no requirement of insolvency, limitation of time, or any other limit" imposed by the Code's actual avoidance provisions, which are carefully drawn to undo pre-bankruptcy transfers of property interests only where the basic purposes of bankruptcy would otherwise be thwarted. Westbrook 307. It is also arbitrary. There is no bankruptcy justification for a rule under which a licensee can lose its rights based solely on the fortuity that some trivial obligation—like that in *Lubrizol*—renders the license agreement executory. Indeed, such a rule "is fundamentally contrary to general bankruptcy principles, to the history and purpose of executory contracts doctrine itself, and to common sense." Andrew 849.

3. *Lubrizol* and the decision below both seemingly relied in significant part on the notion that the remedy of "specific performance" is unavailable in bankruptcy, and that allowing licensees to retain their rights after

rejection would be a form of specific performance. 756 F.2d at 1048; *see* Pet. App. 22a-23a. But no categorical bar on "specific performance" in bankruptcy justifies turning rejection into an avoidance power.

a. First, the "specific performance" argument entirely fails to address the point that rejection of a contract cannot revoke interests in property already granted under that contract before bankruptcy. Rejection is merely the decision that the estate will not assume the contract asset (or the associated performance obligations). It cannot have any effect on the underlying intellectual property and certainly cannot expand the estate's interest in that property. Rejection thus cannot "convert[] [a] right" in intellectual property already conveyed to the licensee before bankruptcy "into a pre-petition claim for damages" (Pet. App. 22a), as the First Circuit believed.

Recharacterizing a licensee's rights as a negative covenant by the licensor, such as a covenant not to sue the licensee for infringement, or a covenant not to license the intellectual property to others, does not change matters. Even though the estate is not assuming the debtor's future performance obligations under the license agreement, the estate nonetheless takes the debtor's intellectual property subject to the license the debtor conveyed to the licensee before bankruptcy—just as, outside bankruptcy, an assignee that does not assume the debtor's contractual obligations would nonetheless take such property subject to the licensee's rights. Andrew 922-926; *see infra* Part II.A.1, II.B.1.

b. In any event, it is not accurate to say that specific performance is never permitted in bankruptcy. The Bankruptcy Code contains no provision categorically denying specific performance or other equitable relief in bankruptcy. "Indeed, bankruptcy law recognizes third parties' equitable interests in property, including interests the essence of which is the right to obtain the specific property." Andrew 908. To the extent that the Code contains implicit limitations on creditors' ability to invoke specific performance, those limitations stem from the basic bankruptcy principle that similarly situated creditors must be treated similarly. *Id.* at 926 ("The principle behind the 'no-specific-performance' argument is that allowing specific performance would prefer one claimant over others similarly situated.").

Pre-petition creditors with breach-of-contract claims against the debtor (including claims created by rejection of a contract) typically cannot require the estate to perform the debtor's *affirmative* obligations under a contract. *See, e.g.*, *Sunbeam*, 686 F.3d at 377 ("After rejecting a contract, a debtor is not subject to an order of specific performance."). That makes sense: A claim for damages due to a pre-petition breach of contract is usually a general unsecured claim that will be paid at cents on the dollar. If a pre-petition creditor could compel the estate to perform the debtor's affirmative obligations, however, that specific performance would be the equivalent of payment in full.

Again taking the example of the contract under which the widget-merchant debtor agrees to sell widgets to counterparty *C*, *see supra* pp. 17-19, if the market price of the widgets rises from $10,000 to $20,000 and the trustee rejects the contract, *C* should not be able to compel the estate to deliver the widgets. In that event, *C* would get $10,000 in value from the estate, rather than the $3,000 it would get on its damages claim if general unsecured creditors are paid at 30%. That would violate the principle of equality among similarly situated creditors. It would also frustrate the purpose of rejection, which is to ensure that the estate is not required to take on the debtor's liabilities and pay them as administrative expenses (with priority over other unsecured claims) unless doing so creates value for the estate. Andrew 925.

But respecting the rights of a licensee under an intellectual property license—even if one calls it "specific performance"—neither offends the principle of equality nor thwarts the purpose of rejection. Requiring the estate to abide by *negative* covenants that a debtor-licensor made in a license agreement—pledging not to interfere with its licensee's rights—does not require the estate to give the licensee anything. It thus does not enable a licensee to receive more than other similarly situated creditors on any breach-of-contract claim it might have. For the same reason, respecting licensees' rights does not obviate rejection's purpose of freeing the estate from liabilities arising out of unprofitable pre-petition contracts. Simply put, requiring the estate to refrain from violating a licensee's rights does not create any liability for the estate. Accordingly, no principle of bankruptcy law or policy prohibits such a requirement.

II. REJECTION OF THE LICENSE AGREEMENT DID NOT REVOKE MISSION'S RIGHTS UNDER THE AGREEMENT

Under the basic principles set out above, the rejection of the parties' license agreement did not revoke, and could not have revoked, either Mission's non-exclusive trademark rights or its exclusivity rights.

A. Rejection Did Not Revoke Mission's Non-Exclusive Trademark Rights

Rejection of the Agreement did not revoke Mission's non-exclusive trademark license. That license was an interest in Tempnology's trademarks granted to Mission before bankruptcy, and the marks therefore came into Tempnology's estate subject to the license. Moreover, outside bankruptcy, Tempnology's breach of the Agreement could not have terminated Mission's right to continue to use the marks. Mission accordingly retained its right to use the licensed trademarks after rejection of the Agreement, contrary to the First Circuit's holding.

1. Like leases, licenses of intellectual property, including trademarks, implicate two distinct assets: the license agreement and the underlying intellectual property. And, as with leases, "[b]ecause the estate succeeds only to the debtor's [rights]" in the intellectual property, rejection of the agreement cannot "terminate the non-debtor party's right to the licensed … use" of that intellectual property. Andrew 916. "Whether the debtor is a licensor, lessor, vendor, or mortgagor, or any other owner of real or personal property in or to which a third party has rights under a contract, the analysis should be the same…. [R]ejection of the *contract* does not enhance the estate's rights to the *underlying asset*." *Id.* at 920-921.

Trademarks are no exception to that rule, which is merely an application of the basic principle announced in *Chicago Board of Trade*. Trademarks are "property" within the meaning of the Bankruptcy Code. *See, e.g.*, *College Sav. Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999) (trademarks constitute "'property'" of their owner); *K Mart*

Corp. v. *Cartier, Inc.*, 485 U.S. 176, 185-186 (1988) (trademarks afford their owners a "bundle … of rights," including the power to exclude others from using them, to sell them, and to license them); 1 *McCarthy on Trademarks and Unfair Competition* §2:10 (5th ed. 2017) ("*McCarthy*") (same).

A license to use a trademark—including a non-exclusive license—is likewise an "interest in property" within the meaning of the Code. Under *Chicago Board of Trade*, it makes no difference whether trademark or other non-bankruptcy law would characterize a non-exclusive license as a property interest. 264 U.S. at 8-12; *see Ground Round*, 482 F.3d at 17 (reversionary interest in liquor license was interest in property notwithstanding contrary state law). "The label … that state law affixes to a particular interest … is not always dispositive. The principal question is whether the substance of the right or interest … brings it within the scope of estate property under the Bankruptcy [Code]." *In re Nejberger*, 934 F.2d 1300, 1302 (3d Cir. 1991) (right to renew liquor license was interest in property). Or, as this Court put it in a case interpreting the federal tax-lien statute, "A common idiom describes property as a 'bundle of sticks.' … State law determines only which sticks are in a person's bundle. Whether those sticks qualify as 'property' for purposes of [a] federal … statute is a question of federal law." *United States* v. *Craft*, 535 U.S. 274, 278-279 (2002).

Like other property rights, ownership of a trademark can be described as a bundle of sticks. *See, e.g.*, *K Mart*, 485 U.S. at 185-186. When the owner of the mark grants a license, it conveys certain "sticks" in the bundle to the licensee. 1 *McCarthy* §2:10 (a trademark is a "bundle of rights in intellectual property" that can be "bought and sold" and "'licensed'"). In this case, the non-exclusive license gave Mission the right to use Tempnology's marks; put differently, Tempnology gave up its right to exclude Mission from using its marks for the term of the Agreement (absent a material breach by Mission). It follows that, under *Chicago Board of Trade*, the trademarks came into the bankruptcy estate subject to that same limitation.

That is particularly clear given that, outside bankruptcy, Tempnology could not have conveyed its trademarks to an assignee free of Mission's right to use them. "An assignee [of a trademark] … acquires not only all the favorable rights and priorities of the assignor, but also any burdens and limitations on use that were incumbent on the assignor." 3 *McCarthy* §18:15. That is, a trademark owner cannot, "merely by a sale," "confer greater rights" in its mark "than it had." *Donnell* v. *Herring-Hall-Marvin Safe Co.*, 208 U.S. 267, 273 (1908); *see also, e.g.*, *A&L Labs, Inc.* v. *Bou-Matic LLC*, 429 F.3d 775, 779 (8th Cir. 2005) (sale of licensor's assets to third party "could not extinguish" trademark license agreement made before sale). The estate's position after rejection of a license agreement is no better than "that of any other ordinary transferee acquiring the underlying asset from the debtor without assuming the debtor's contract obligations." Andrew 921. Rejection of the license agreement thus could not expand the estate's rights in the trademarks by eliminating Mission's rights under its license.

2. In addition to flouting the *Chicago Board of Trade* principle, using rejection to strip Mission of its non-exclusive trademark rights violates the statutory command that rejection constitutes a breach by the debtor. Outside bankruptcy, Tempnology could not have taken away Mission's right to use the trademarks by

breaching the license agreement. It therefore cannot do so by rejecting the license agreement in bankruptcy.

As the Seventh Circuit explained in *Sunbeam*: "Outside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property." 686 F.3d at 376. As part of the agreement in *Sunbeam*, the debtor-licensor had agreed to supply the licensee with motors for the trademarked box fans the licensee was distributing. The court posited: "Suppose that, before the bankruptcy began, [the licensor] had broken its promise by failing to provide the motors." *Id.* In that event, the licensee could have opted either to treat the contract as terminated or to buy motors elsewhere and seek damages from the licensor. *Id.* at 376-377. The licensor "could not have ended [the licensee's] right to sell the box fans by failing to perform its own duties, any more than a borrower could end the lender's right to collect just by declaring that the debt will not be paid." *Id.* at 377.

Precisely the same is true here. Outside bankruptcy, Tempnology's breach of its obligations under the Agreement—such as its obligation to fill Mission's purchase orders—could never give it the right to stop Mission from using the licensed trademarks. (Indeed, that is precisely why Tempnology pursued rejection in bankruptcy—to obtain the power it lacked outside bankruptcy to revoke Mission's rights under the Agreement. *See supra* p. 9.) The Agreement gave Mission the legal entitlement to use the trademarks; had Tempnology tried to stop Mission from doing so, the Agreement would have been a full defense to that claim. "By definition, a party who holds a valid license to use a trademark and is not in breach of the license cannot be an infringer of the licensed mark." 3 *McCarthy* §18:40.

Fundamental principles of contract law—and common sense—require that result. A licensor's breach may give the *licensee* the right to terminate a license agreement, but not the breaching licensor. When one party to a contract commits a material breach, the non-breaching party may "either stop [its own] performance and assume the contract is avoided, or continue its performance and sue for damages." *S&R Corp.* v. *Jiffy Lube Int'l Inc.*, 968 F.2d 371, 376 (3d Cir. 1992); *see ARP Films, Inc.* v. *Marvel Entm't Grp., Inc.*, 952 F.2d 643, 649 (2d Cir. 1991); 13 *Williston* §39:32; *Restatement (First) of Contracts* §309 cmt. a (1932).[10] But "contract doctrine would not permit the breacher [of a license agreement] *to benefit from its own breach* by revoking the license." Westbrook 308 (criticizing *Lubrizol*); *see also* Baird 120 (under non-bankruptcy law, a licensor that breaches a license agreement cannot stop the licensee from continuing to use the licensed intellectual property). "No bankruptcy rule or policy" justifies a departure from that basic non-bankruptcy law principle. Westbrook 308.

B. Rejection Did Not Revoke Mission's Exclusivity Rights

Essentially the same analysis governs Mission's exclusivity rights. Tempnology granted Mission the ex-

[10] Of course, if the licensee "elect[s] to continue receiving benefits under the agreement, [it] cannot then refuse to perform its part of the bargain"; it must continue to comply with its own obligations under the agreement, including paying royalties. 13 *Williston* § 39:32; *see S&R*, 968 F.2d at 376-378; *Boscorale Operating, LLC* v. *Nautica Apparel, Inc.*, 749 N.Y.S.2d 233, 234-235 (App. Div. 2002); *2Die4Kourt* v. *Hillair Capital Mgmt., LLC*, 2016 WL 4487895, at *5 (C.D. Cal. Aug. 23, 2016), *aff'd*, 692 F. App'x 366 (9th Cir. 2017).

clusive right, for the term of the Agreement, to sell products practicing Tempnology's patents and bearing its trademarks in a particular geographic area (primarily, the United States) and a particular field of use (the Exclusive Cooling Products). JA203-205, 211-218. And Tempnology agreed that, within Mission's exclusive territory, it would not sell such products itself or license others to sell them. JA211-218.

Below, the First Circuit held that Mission's exclusivity rights were not exclusive "rights to intellectual property" within the meaning of §365(n), reasoning that Mission's rights were exclusive only within a particular field of use: "Debtor can use its intellectual property to make and sell products other than those for which the Agreement grants Mission exclusive distribution rights." Pet. App. 15a. Mission sought this Court's review of the First Circuit's holding that its exclusivity rights were not protected by §365(n) (Pet. i (question 2)), but the Court denied review of that question, and Mission accordingly does not challenge the First Circuit's §365(n) holding here. But even if the First Circuit was correct in its interpretation of §365(n), that does not answer the question whether—leaving §365(n) aside—rejection can strip Mission of its exclusivity rights. That distinct issue is encompassed within the question this Court granted: "Whether, under §365 of the Bankruptcy Code, a debtor-licensor's 'rejection' of a license agreement—which 'constitutes a breach of such contract,' 11 U.S.C. §365(g)—terminates rights of the licensee that would survive the licensor's breach under applicable non-bankruptcy law." Pet. i (question 1). It is therefore properly before the Court.[11]

[11] As noted above, *see supra* n.5, the First Circuit concluded that Mission had waived its argument that, under the logic of

Outside bankruptcy, Mission's exclusivity rights—like its non-exclusive trademark license—limited Tempnology's ability to use or transfer its intellectual property. Tempnology could not sell or assign its intellectual property free of Mission's exclusivity rights—as Tempnology itself recognized by filing for bankruptcy specifically seeking to use rejection to eliminate Mission's rights, JA321-323. And rejection cannot expand the estate's rights in that intellectual property by freeing the estate of the limitations to which Tempnology was subject outside bankruptcy. Moreover, as with the non-exclusive trademark rights, Tempnology's breach of the license agreement outside bankruptcy could not have terminated Mission's exclusivity rights. Rejection therefore could not do so in bankruptcy.

1. As a patent owner, Tempnology had "the right to exclude others from making, using, … or selling [its] invention throughout the United States." 35 U.S.C. §154(a)(1); *see id.* §271(a) ("[W]hoever without authority … sells any patented invention … infringes the patent."). Through the Agreement, Tempnology con-

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Sunbeam, rejection did not strip it of its exclusivity rights even if those rights were not protected by §365(n). Because this Court's answer to the *Sunbeam* question (question 1) would logically apply to both Mission's trademark rights and its exclusivity rights, Mission's petition argued that any issue of waiver with respect to the exclusivity rights should be addressed on remand. Pet. 15 n.4. Tempnology's brief in opposition did not dispute that point or raise waiver as a reason that this Court should not address the effect of rejection on Mission's exclusivity rights. Under this Court's rules, any non-jurisdictional "objection to consideration of a question presented based on what occurred in the proceedings below … may be deemed waived unless called to the Court's attention in the brief in opposition." S. Ct. R. 15.2; *see, e.g.*, *City of Oklahoma City* v. *Tuttle*, 471 U.S. 808, 816 (1985) (waiver argument by respondent deemed waived where not raised in brief in opposition).

veyed to Mission the right to sell products made from its patented cooling fabric, along with the right to exclude others from doing so within a specific field of use and geographic area. *See generally* Nimmer & Dodd, *Modern Licensing Law* §14:36 (2018) ("Nimmer & Dodd") ("[F]ield-of-use restriction[s]"—which "give[] the licensee rights to use the technology" in "a particular application"—are "routine[]" and "frequently coupled with other restrictions, such as geographic or other limitations.").

As with the non-exclusive trademark license, therefore, Tempnology granted Mission certain sticks in the bundle of sticks that comprised Tempnology's ownership of its intellectual property—the right to sell certain patented and trademarked products and to exclude others, including Tempnology itself, from doing so in the United States. *See, e.g.*, *Ortho Pharm. Corp.* v. *Genetics Inst., Inc.*, 52 F.3d 1026, 1032 (Fed. Cir. 1995) (an exclusive license "makes the licensee a beneficial owner of some identifiable part of the [licensor's] bundle of rights to exclude others"); *Davis* v. *Blige*, 505 F.3d 90, 99 (2d Cir. 2007) (an exclusive license grants the licensee an "exclusive right" that is "superior" to the "owners' rights" to use the intellectual property).

Outside bankruptcy, once it had transferred those rights to Mission through the Agreement, Tempnology could sell or assign its intellectual property only subject to Mission's rights. As with trademark licenses, *see supra* Part II.A.1, the principle that an assignee of a patent "'acquire[s] title subject to prior licenses'" has "'long passed into the text-books.'" *In re Cybernetic Servs., Inc.*, 252 F.3d 1039, 1052 (9th Cir. 2001); *see also, e.g.*, *L.L. Brown Paper Co.* v. *Hydroiloid, Inc.*, 118 F.2d 674, 677 (2d Cir. 1941) (rights of subsequent purchaser of patent were "diminished by [licensee's] right to use the patented process within the scope of its license"); *Sanofi, S.A.* v. *Med-Tech Veterinarian Prods., Inc.*, 565 F. Supp. 931, 939-940 (D.N.J. 1983) ("the purchaser of a patent" "takes subject to outstanding licenses," even if those "outstanding licenses interfere[] with his right of enjoyment"); Andrew 923 ("[I]f the owner of a patent first licenses and then assigns the patent, the assignee will take subject to the license, and will have no right to terminate the rights of the licensee[.]").

Again, under the principle of *Chicago Board of Trade*, the estate cannot be in any better position than an assignee of the intellectual property outside bankruptcy. Tempnology could transfer only what it had, and once Tempnology conveyed sticks in the bundle of its patent and trademark rights to Mission, the bundle came into the estate missing those sticks. Rejection is not avoidance, and it cannot bring the sticks back into the estate's bundle.

2. Moreover, as with the non-exclusive trademark license, Tempnology's breach of the Agreement outside bankruptcy could not entitle it to revoke Mission's exclusivity rights. Under basic principles of contract law, the licensor's breach, if material, could give the *licensee* the option to terminate the license agreement, but not the breaching licensor. *See supra* Part II.A.2. "A breach of [a licensing] contract entitles the *aggrieved party* to … end the contract because of breach by the other party" or seek available remedies. Nimmer & Dodd §11:23 (emphasis added). "Beyond doubt," however, neither patent nor contract law "would permit rescission [of a patent license] by the breaching party against a performing Other Party." Westbrook 309. The same result should obtain in bankruptcy.

III. The First Circuit's And Respondent's Remaining Arguments Fail

A. Section 365(n) Does Not Give Rise To Any "Negative Inference" Regarding Trademarks

Congress responded to *Lubrizol* by setting out a federal rule in §365(n) protecting licensees' rights in certain kinds of intellectual property, but omitted trademarks from the definition of "intellectual property," §101(35A). A handful of courts have concluded, and Tempnology suggests (Opp. 9), that §365(n) thus gives rise to a negative inference that Congress was endorsing the rule of *Lubrizol* for trademarks. But when §365 is considered as a whole and in light of basic bankruptcy principles—as well as the legislative history of §365(n)—it is evident that such a negative inference makes no sense.

Congress has at various times added provisions to §365 dealing with specific types of executory contracts that present the "two-asset" problem, including real-property leases, §365(h), contracts for the sale of real property, §365(i) and §365(j), and intellectual property licenses, §365(n). Often, Congress was responding to a specific court decision or decisions that treated rejection as an avoiding power, stripping away the counterparty's rights in the underlying asset. Andrew 902-903, 911-912. "[W]henever Congress has been confronted with the consequences of the avoiding-power rejection doctrine in a particular context, it has expressed its disapproval of the doctrine with a specific provision." *Id.* at 928. That pattern of responding to specific problems as they arise creates no "negative inference" that "Congress has endorsed avoiding-power rejection in all [other] contexts." *Id.*

The legislative history of §365(n) confirms that reading. When it enacted §365(n), Congress repudiated *Lubrizol*'s interpretation of the effect of rejection—in no way did it endorse *Lubrizol*. As the Senate Report explained, §365(n) was intended to clarify the law and correct *Lubrizol*'s error, not to create a new exception to a general rule of avoiding-power rejection. The bill's purpose was "*to make clear* that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license," "a result … that was never intended by Congress in enacting [§]365." S. Rep. No. 100-505, at 3200 (1988) (emphasis added). The Report explained that §365 merely permits the debtor "to breach … [its] affirmative ongoing performance of the contract." *Id.* at 3201. "Congress never anticipated that … the licensee would [also] lose … any right … to continue to use the intellectual property as originally agreed." *Id.* at 3201-3202. Accordingly, the bill "*correct[ed] the perception of some courts* that [§]365 was ever intended to be a mechanism for stripping innocent licensee[s] of rights" to the licensed intellectual property. *Id.* at 3203 (emphasis added).

The House Report similarly repudiated *Lubrizol*. It explained that, while a more "comprehensive reworking of [§]365" would be the "best way in the long run of dealing with this and other areas for which special exceptions to [§]365 have been created," the "potential chilling effect on the licensing of intellectual property" posed a "serious[] … problem" that warranted taking action specific to such licenses immediately. H.R. Rep. No. 100-1012, at 3-4 & nn.1-2, 6-7 (1988).[12]

[12] The House Report endorsed the hearing testimony of George Hahn of the National Bankruptcy Conference, who testi-

It is of course a traditional canon of statutory interpretation that courts should avoid interpretations that would render statutory provisions superfluous. *RadLAX Gateway Hotel, LLC* v. *Amalgamated Bank*, 566 U.S. 639, 645 (2012). But the explicit protections in §365(h) and §365(n) (as well as §§365(i)-(j)) for the rights of counterparties to particular types of contracts are not rendered superfluous under *Sunbeam*'s view of rejection. Rather, §365 sets forth "a statutory scheme in which the specific provision embraced within a general one is not superfluous, because it creates a so-called safe harbor." *RadLAX*, 566 U.S. at 647.

Congress not infrequently responds to a specific concern regarding the application of a statute by enacting such a "safe harbor" provision clarifying the law with respect to that specific concern, rather than rewriting the entire statute—an action that should not give rise to any negative inference regarding the meaning of the statute. "[A]mendments to a statute" addressing an area of "dispute or ambiguity" can "be an indication that [the] subsequent amendment is intended to clarify, rather than change, the existing law." *Brown* v. *Marquette Sav. & Loan Ass'n*, 686 F.2d 608, 615 (7th Cir. 1982) (citing 2A *Sutherland on Statutory Construction* §49.11 (1974)); *see also, e.g., O'Gilvie* v. *United States*, 519 U.S. 79, 89 (1996) (Tax Code provision stating that exemption for personal-injury damages did not

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fied that *Lubrizol* "misconstrued the consequences of rejection"; while he believed "the better solution" was a complete revision of §365, he testified that *Lubrizol*'s "chilling effect" on licensing needed to be addressed immediately, rather than "wait[ing] until we have a complete overhaul." *Intellectual Property Contracts in Bankruptcy: Hearing on H.R. 4657*, 100th Cong. 90-91, 100-101 (1988); *accord* 134 Cong. Rec. H9,304 (daily ed. Oct. 3, 1988) (statement of Rep. Fish).

apply to punitive damages for non-physical injuries did not create negative inference that exemption otherwise applied to punitive damages, but merely "clarif[ied] the matter in respect to nonphysical injuries" given "uncertain[ty]" under "then-current law"); *Viacom Int'l, Inc.* v. *YouTube, Inc.*, 676 F.3d 19, 27 (2d Cir. 2012) ("[T]o update domestic copyright law for the digital age," "[r]ather than embarking upon a wholesale clarification of various copyright doctrines, Congress … create[d] a series of safe harbors for certain common activities of service providers[.]" (internal quotation marks and brackets omitted)).

Section 365(n) provides licensees just such a safe harbor: It sets out a uniform federal rule specifying the rights of licensees and licensors following rejection, making it unnecessary for bankruptcy courts to look to non-bankruptcy law to determine those rights. Moreover, that uniform rule departs in some respects from the non-bankruptcy law that would otherwise be applicable, providing additional benefits to debtors. *See, e.g.*, §365(n)(2)(C) (prohibiting setoff of licensee's breach-of-contract damages against royalties owed to debtor-licensor). It is therefore not surplusage.

The Senate Report explained that trademark licenses were not included in §365(n) because "it was determined to postpone congressional action" to permit "more extensive study." S. Rep. No. 100-505, at 3204 (noting that "such contracts raise issues beyond the scope of this legislation," such as "control of the quality of the products … sold by the licensee"). But in deferring the question of whether and how to draft a uniform federal provision governing trademark licenses, Congress in no way suggested that it intended rejection to strip trademark licensees of their basic right to continue using the trademarks. To the contrary, it emphasized that "rejection [of trademark licenses] is of concern because of the interpretation of [§]365 by the *Lubrizol* court." *Id.*; *see Sunbeam*, 686 F.3d at 375; *Exide*, 607 F.3d at 966-967 (Ambro, J., concurring). And it warned that it did not "intend any inference to be drawn" concerning matters §365(n) did not address. S. Rep. No. 100-505, at 3204.

Section 365(n) thus does not give rise to any "negative inference" that *Lubrizol*'s rule governs rights to intellectual property, such as trademark rights, that §365(n) does not explicitly protect. *Sunbeam*, 686 F.3d at 375 (the omission of trademarks from §365(n) "is just an omission" that "means that §365(n) does not affect trademarks one way or the other"); *Exide*, 607 F.3d at 966-967 (Ambro, J., concurring) (same); Baird 118, 123 ("[s]etting out the rule explicitly" in §365(h) and §365(n) "does not require the inference that Congress was repudiating the general principle elsewhere"). Indeed, "[d]rawing a negative inference" that intellectual property license rights not explicitly protected by §365(n) can be terminated by rejection "assumes a notion of the rejection power that has no basis in history and makes little sense." Baird 123.[13]

"Avoiding-power rejection is … simply more freight than negative inference will bear. It requires

[13] *Lubrizol* itself erroneously relied on such a negative inference, reasoning that §365(h)'s explicit protection for lessees' rights was an exception to the general rule of rejection and that rejection of a license agreement must therefore terminate the licensee's rights. 756 F.2d at 1048; *accord* Wilton & Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Law. 739, 750-751, 774-775 (2013). Congress rejected that reading in adopting §365(n), explaining that §365(h) merely "clarified" the general rule of rejection as applied to real property leases. S. Rep. No. 100-505, at 3203.

that 'rejection' be assigned a meaning fundamentally at odds with both the history and purpose of executory contracts doctrine, with no legislative history in support.... That absurdity is not compelled by the statute, and should not be read between its lines." Andrew 929.

B. Licensors' Quality Control Obligations Under Trademark Law Do Not Warrant Treating Trademark Licenses Differently From Other Intellectual Property Licenses

The First Circuit's decision relied heavily on its belief that termination of licensees' rights is necessary to avoid imposing burdensome obligations on the debtor-licensor. Pet. App. 23a-27a. Specifically, the panel majority observed that "effective licensing of a trademark requires that the trademark owner … monitor and exercise control over the quality of the goods sold to the public under cover of the trademark," and that failure to do so may "jeopardiz[e] the continued validity of the owner's own trademark rights." *Id.* 23a. It then opined that "[t]he Seventh Circuit's approach [in *Sunbeam*] would … force Debtor to choose between performing executory obligations arising from the continuance of the license or risking the permanent loss of its trademarks, thereby diminishing their value to Debtor." *Id.* 24a. That analysis does not withstand scrutiny.

1. As an initial matter, the First Circuit's concern about trademark-monitoring burdens is entirely misplaced in this case. Tempnology licensed its trademarks to multiple other distributors at the same time it was seeking to rescind the license it had granted Mission. *See supra* pp. 9-11. Tempnology's evident goal in rejecting the Agreement was not to avoid the "burden" of monitoring licensees' use of its trademarks; it was to eliminate Mission as one of those licensees. The same

was true in *Sunbeam* and *Exide:* In each case, the debtor's successor wanted to avoid competition with the trademark licensee, not the burden of monitoring its mark. *Sunbeam*, 686 F.3d at 374; *Exide*, 607 F.3d at 961. That is often the reason licensors seek rejection of a license agreement: to eliminate the licensee's rights so that the licensor can strike what it perceives to be a more advantageous deal with a new buyer or licensee.

2. In any event, the First Circuit was wrong in believing that the "burden" of monitoring a licensee's use of its trademarks is the kind of burden rejection permits the estate to shed.

To be sure, a trademark licensor must maintain "'quality control of the goods and services sold under the trademark by the licensee'" to be certain that it will retain ownership of its mark. *Barcamerica Int'l USA Trust* v. *Tyfield Importers, Inc.*, 289 F.3d 589, 595 (9th Cir. 2002); *see* 15 U.S.C. §1055 ("legitimate[]," nondeceptive use of a mark "by related companies" will "not affect the validity of such mark"); *id.* §1127 (defining "related company" as "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods … on … which the mark is used"). "[W]here the licensor fails to exercise adequate quality control over [its] licensee, 'a court may find that the trademark owner has abandoned the trademark'" under the "naked licensing" doctrine. *Barcamerica*, 289 F.3d at 596.

But that quality-control burden is imposed by trademark law generally applicable to all trademark owners, not by contract. And it is not a performance obligation owed to the licensee, but an action taken for the benefit of the licensor, to preserve the value of its mark. As one court put it, "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." *In re SIMA Int'l, Inc.*, 2018 WL 2293705, at *7 n.24 (Bankr. D. Conn. May 17, 2018) (rejecting the First Circuit's analysis).

The First Circuit's notion that respecting a licensee's trademark rights "force[s]" a debtor to "perform[] executory obligations arising from the continuance of the license" is thus wrong because it conflates contractual obligations with burdens arising from generally applicable law. Pet. App. 24a. If Tempnology had had an affirmative obligation *under the Agreement* to monitor Mission's use of its marks, rejection would have relieved Tempnology's estate of that obligation.[14] But that is all rejection can do; it relieves the estate of the debtor's obligations to perform *under contracts*, while creating a pre-petition breach-of-contract claim against the debtor. It does not permit the estate to repudiate any and all responsibilities that might impede the debtor's reorganization or grant the estate an exemption from burdens imposed on property owners by generally applicable law. To the contrary, the trustee is required to manage the property of the estate in accordance with applicable law. *See* 28 U.S.C. §959(b).

3. Moreover, recognizing that a trademark licensee's rights survive rejection does not *compel* the estate to monitor the trademark. Whether to do so is an economic decision that the trustee can make in the best interest of the estate.

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[14] In fact, the Agreement did not impose any such duty on Tempnology. At most, it gave a Tempnology a right, but not an obligation, to monitor and control Mission's use of its trademarks. JA237-238 (Agreement §15(d)).

A trademark owner chooses to monitor the use of its mark for its own benefit, as an investment in preserving the mark. It will presumably choose to monitor whenever the mark has sufficient value that the investment makes financial sense. In bankruptcy, the trademark becomes an estate asset, and the trustee will be able to decide whether the mark has sufficient value that it is worth incurring the cost of monitoring to preserve that value. If the trademark does not have even that minimal value to the estate, the trustee should instead abandon it. *See* §554(a) (authorizing the trustee, with court approval, to "abandon any property of the estate that is burdensome to the estate" or "of inconsequential value").

That choice is no different than other choices trustees make every day regarding property of the bankruptcy estate: either to incur the necessary costs to preserve the property's value or, if those costs outweigh the benefits, to abandon the property. Rejection cannot relieve the estate of such choices.

4. Finally, monitoring is unlikely to be a significant burden in any event. The standards for licensor monitoring have, in practice, become increasingly lenient. A licensor demonstrating "minimal quality control" efforts will typically defeat an argument that it has abandoned its mark. *Kentucky Fried Chicken Corp.* v. *Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977). Courts have "generally proven reluctant to declare licenses invalid" so long as there is "any sign of control." Calboli, *The Sunset of 'Quality Control' in Modern Trademark Licensing*, 57 Am. U. L. Rev. 341, 370 (2007); *see also* Nguyen, *Bankrupting Trademarks*, 37 U.C. Davis L. Rev. 1267, 1281 (2004) ("Nguyen").

Moreover, licensors familiar with the production standards of their licensees are regularly permitted to rely on the representations and efforts of their licensees to satisfy their monitoring requirements. *See, e.g.*, *Restatement (Third) of Unfair Competition* §33 cmt. c (1995) ("If the trademark owner is justified in relying on the reputation and expertise of the licensee, the existence of contractual obligations undertaken by the licensee may be sufficient in itself to constitute reasonable quality control."); *Barcamerica*, 289 F.3d at 596.

Trademark licensees have substantial incentives to maintain quality-control standards. A licensee should be just as motivated to "control the quality of [its] goods and services as the trademark owner itself because, if the licensee puts out shoddy products and services, consumers will not buy them." Saunders, *Should the U.S. Bankruptcy Code Be Amended to Protect Trademark Licensees?*, 94 Trademark Rep. 934, 940 (2004). Often, the licensee has "invested substantial resources in building the goodwill of the trademark" and would not be inclined to "destroy that goodwill by selling goods or products of materially different quality under the trademark." Nguyen 1313. Nor would any rational trademark licensee want to see the licensor lose ownership of the mark under the naked-licensing doctrine: Failing to maintain quality control could give a third-party infringer (the typical plaintiff in a "naked licensing" suit) a basis to strip the trademark from the licensor and make it available for public use, greatly diminishing the mark's value to the licensee.

C. Chapter 11's Reorganizational Objective Does Not Justify Treating Rejection As An Avoidance Power

The First Circuit also claimed that Chapter 11's goal of facilitating reorganization supported its view of rejection. Pet. App. 22a. That, too, is wrong. As an initial matter, §365 applies to all bankruptcy cases, not just Chapter 11 reorganizations, and rejection cannot mean one thing in Chapter 11 and another in Chapter 7. *See, e.g.*, *Clark* v. *Martinez*, 534 U.S. 371, 378 (2005) (where statutory language applies to multiple categories, giving the "same words a different meaning for each category would be to invent a statute rather than interpret one"); Baird 123.

It is nonetheless true, as this Court has observed, that §365 is important "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." *Bildisco*, 465 U.S. at 528. But §365 furthers the broad goal of successful reorganization in a specific way: by ensuring that the estate need not assume the debtor's duty to perform under executory contracts if doing so would cost the estate more than it would receive from the counterparty. In *Bildisco*, for example, §365 ensured that a reorganizing business was not "saddled automatically with the debtor's prior collective-bargaining agreement" that agreed to pay future wages and benefits at levels that changed market conditions might render unsustainable. *Id.* at 518, 528.

No general policy in favor of reorganization supports reading §365, in contravention of its text and purpose, to go farther and give the trustee the power to claw back rights the debtor conveyed away before bankruptcy, without meeting the requirements for avoidance. To be sure, permitting the estate to revoke pre-bankruptcy licenses and sell or relicense its intellectual property free of those licenses might enable the estate to realize more value for that intellectual property. But that rationale "proves far too much": It would justify reading the Bankruptcy Code to terminate *all* rights of non-debtors in the debtor's assets. Andrew 930; *see* Baird 123 ("Arguments … giving the trustee the power to recapture rights that could never be taken from a third party outside of bankruptcy should not … rest on … a bankruptcy policy in favor of rehabilitating the debtor.").

As this Court has noted, "'[n]o legislation pursues its purposes at all costs,'" *American Express Co.* v. *Italian Colors Rest.*, 570 U.S. 228, 234 (2013), and the Bankruptcy Code is no exception. It does not give debtors the power to do anything and everything that might make reorganizing easier. And it does not give debtors the extraordinary power Tempnology argues for here.

CONCLUSION

The judgment of the First Circuit should be reversed.

Respectfully submitted.

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STATUTORY ADDENDUM

STATUTORY ADDENDUM

11 U.S.C. § 365

§ 365. Executory contracts and unexpired leases

(a) Except as provided in sections 765 and 766 of this title and in subsections (b), (c), and (d) of this section, the trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor.

(b)(1) If there has been a default in an executory contract or unexpired lease of the debtor, the trustee may not assume such contract or lease unless, at the time of assumption of such contract or lease, the trustee—

> **(A)** cures, or provides adequate assurance that the trustee will promptly cure, such default other than a default that is a breach of a provision relating to the satisfaction of any provision (other than a penalty rate or penalty provision) relating to a default arising from any failure to perform nonmonetary obligations under an unexpired lease of real property, if it is impossible for the trustee to cure such default by performing nonmonetary acts at and after the time of assumption, except that if such default arises from a failure to operate in accordance with a nonresidential real property lease, then such default shall be cured by performance at and after the time of assumption in accordance with such lease, and pecuniary losses resulting from such default shall be compensated in accordance with the provisions of this paragraph;
>
> **(B)** compensates, or provides adequate assurance that the trustee will promptly compen-

sate, a party other than the debtor to such contract or lease, for any actual pecuniary loss to such party resulting from such default; and

(C) provides adequate assurance of future performance under such contract or lease.

(2) Paragraph (1) of this subsection does not apply to a default that is a breach of a provision relating to—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title;

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement; or

(D) the satisfaction of any penalty rate or penalty provision relating to a default arising from any failure by the debtor to perform nonmonetary obligations under the executory contract or unexpired lease.

(3) For the purposes of paragraph (1) of this subsection and paragraph (2)(B) of subsection (f), adequate assurance of future performance of a lease of real property in a shopping center includes adequate assurance—

(A) of the source of rent and other consideration due under such lease, and in the case of an assignment, that the financial condition and operating performance of the proposed assignee and its guarantors, if any, shall be similar to the financial condition and operating performance of the debtor and its guarantors, if any, as of the time the debtor became the lessee under the lease;

(B) that any percentage rent due under such lease will not decline substantially;

(C) that assumption or assignment of such lease is subject to all the provisions thereof, including (but not limited to) provisions such as a radius, location, use, or exclusivity provision, and will not breach any such provision contained in any other lease, financing agreement, or master agreement relating to such shopping center; and

(D) that assumption or assignment of such lease will not disrupt any tenant mix or balance in such shopping center.

(4) Notwithstanding any other provision of this section, if there has been a default in an unexpired lease of the debtor, other than a default of a kind specified in paragraph (2) of this subsection, the trustee may not require a lessor to provide services or supplies incidental to such lease before assumption of such lease unless the lessor is compensated under the terms of such lease for any services and supplies provided under such lease before assumption of such lease.

(c) The trustee may not assume or assign any executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(1)(A) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to an entity other than the debtor or the debtor in possession, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(B) such party does not consent to such assumption or assignment; or

(2) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor; or

(3) such lease is of nonresidential real property and has been terminated under applicable nonbankruptcy law prior to the order for relief.

(d)(1) In a case under chapter 7 of this title, if the trustee does not assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor within 60 days after the order for relief, or within such additional time as the court, for cause, within such 60-day period, fixes, then such contract or lease is deemed rejected.

(2) In a case under chapter 9, 11, 12, or 13 of this title, the trustee may assume or reject an executory contract or unexpired lease of residential real property or of personal property of the debtor at any time before the confirmation of a plan but the court, on the request of any party to such contract or lease, may order the trustee to determine within a specified period of time whether to assume or reject such contract or lease.

(3) The trustee shall timely perform all the obligations of the debtor, except those specified in section 365(b)(2), arising from and after the order for relief under any unexpired lease of nonresidential real property, until such lease is assumed or rejected, notwithstanding section 503(b)(1) of this title. The court may extend, for cause, the time for performance of any such obligation that arises within 60 days after the date of the order for relief, but the time for performance shall not be extended beyond such 60-day period. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f) of this section. Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(4)(A) Subject to subparagraph (B), an unexpired lease of nonresidential real property under which the debtor is the lessee shall be deemed rejected, and the trustee shall immediately surrender that nonresidential real property to the lessor, if the trustee does not assume or reject the unexpired lease by the earlier of—

(i) the date that is 120 days after the date of the order for relief; or

(ii) the date of the entry of an order confirming a plan.

(B)(i) The court may extend the period determined under subparagraph (A), prior to the expiration of the 120-day period, for 90 days on the motion of the trustee or lessor for cause.

(ii) If the court grants an extension under clause (i), the court may grant a subsequent extension only upon prior written consent of the lessor in each instance.

(5) The trustee shall timely perform all of the obligations of the debtor, except those specified in section 365(b)(2), first arising from or after 60 days after the order for relief in a case under chapter 11 of this title under an unexpired lease of personal property (other than personal property leased to an individual primarily for personal, family, or household purposes), until such lease is assumed or rejected notwithstanding section 503(b)(1) of this title, unless the court, after notice and a hearing and based on the equities of the case, orders otherwise with respect to the obligations or timely performance thereof. This subsection shall not be deemed to affect the trustee's obligations under the provisions of subsection (b) or (f). Acceptance of any such performance does not constitute waiver or relinquishment of the lessor's rights under such lease or under this title.

(e)(1) Notwithstanding a provision in an executory contract or unexpired lease, or in applicable law, an executory contract or unexpired lease of the debtor may not be terminated or modified, and any right or obligation under such contract or lease may not be terminated or modified, at any time after the commencement of the case solely because of a provision in such contract or lease that is conditioned on—

(A) the insolvency or financial condition of the debtor at any time before the closing of the case;

(B) the commencement of a case under this title; or

(C) the appointment of or taking possession by a trustee in a case under this title or a custodian before such commencement.

(2) Paragraph (1) of this subsection does not apply to an executory contract or unexpired lease of the debtor, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties, if—

(A)(i) applicable law excuses a party, other than the debtor, to such contract or lease from accepting performance from or rendering performance to the trustee or to an assignee of such contract or lease, whether or not such contract or lease prohibits or restricts assignment of rights or delegation of duties; and

(ii) such party does not consent to such assumption or assignment; or

(B) such contract is a contract to make a loan, or extend other debt financing or financial accommodations, to or for the benefit of the debtor, or to issue a security of the debtor.

(f)(1) Except as provided in subsections (b) and (c) of this section, notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law, that prohibits, restricts, or conditions the assignment of such contract or lease, the trustee may assign such contract or lease under paragraph (2) of this subsection.

(2) The trustee may assign an executory contract or unexpired lease of the debtor only if—

(A) the trustee assumes such contract or lease in accordance with the provisions of this section; and

(B) adequate assurance of future performance by the assignee of such contract or lease is provided, whether or not there has been a default in such contract or lease.

(3) Notwithstanding a provision in an executory contract or unexpired lease of the debtor, or in applicable law that terminates or modifies, or permits a party other than the debtor to terminate or modify, such contract or lease or a right or obligation under such contract or lease on account of an assignment of such contract or lease, such contract, lease, right, or obligation may not be terminated or modified under such provision because of the assumption or assignment of such contract or lease by the trustee.

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

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

(2) if such contract or lease has been assumed under this section or under a plan confirmed under chapter 9, 11, 12, or 13 of this title—

(A) if before such rejection the case has not been converted under section 1112, 1208, or 1307 of this title, at the time of such rejection; or

(B) if before such rejection the case has been converted under section 1112, 1208, or 1307 of this title—

(i) immediately before the date of such conversion, if such contract or lease was assumed before such conversion; or

(ii) at the time of such rejection, if such contract or lease was assumed after such conversion.

(h)(1)(A) If the trustee rejects an unexpired lease of real property under which the debtor is the lessor and—

(i) if the rejection by the trustee amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or

(ii) if the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance of the term of such lease and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.

(B) If the lessee retains its rights under subparagraph (A)(ii), the lessee may offset against the rent reserved under such lease for the balance of the term after the date of the rejection of such lease and for the term of any renewal or extension of such lease, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such lease, but the lessee shall not have any other right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(C) The rejection of a lease of real property in a shopping center with respect to which the lessee elects to retain its rights under subparagraph (A)(ii) does not affect the enforceability under applicable nonbankruptcy law of any provision in the lease pertaining to radius, location, use, exclusivity, or tenant mix or balance.

(D) In this paragraph, "lessee" includes any successor, assign, or mortgagee permitted under the terms of such lease.

(2)(A) If the trustee rejects a timeshare interest under a timeshare plan under which the debtor is the timeshare interest seller and—

(i) if the rejection amounts to such a breach as would entitle the timeshare interest purchaser to treat the timeshare plan as terminated under its terms, applicable nonbankruptcy law, or any agreement made by timeshare interest purchaser, the timeshare interest purchaser under the timeshare plan may treat the timeshare plan as terminated by such rejection; or

(ii) if the term of such timeshare interest has commenced, then the timeshare interest purchaser may retain its rights in such timeshare interest for the balance of such term and for any term of renewal or extension of such timeshare interest to the extent that such rights are enforceable under applicable nonbankruptcy law.

(B) If the timeshare interest purchaser retains its rights under subparagraph (A), such timeshare interest purchaser may offset against the moneys due for such timeshare interest for the balance of the term after the date of the rejection of such timeshare interest, and the term of any renewal or extension of such timeshare interest, the value of any damage caused by the nonperformance after the date of such rejection, of any obligation of the debtor under such timeshare plan, but the timeshare interest purchaser shall not have any right against the estate or the debtor on account of any damage occurring after such date caused by such nonperformance.

(i)(1) If the trustee rejects an executory contract of the debtor for the sale of real property or for the sale of a timeshare interest under a timeshare plan, under which the purchaser is in possession, such purchaser may treat such contract as terminated, or, in the alternative, may remain in possession of such real property or timeshare interest.

(2) If such purchaser remains in possession—

(A) such purchaser shall continue to make all payments due under such contract, but may,[1] offset against such payments any damages oc-

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[1] So in original. The comma probably should not appear.

curring after the date of the rejection of such contract caused by the nonperformance of any obligation of the debtor after such date, but such purchaser does not have any rights against the estate on account of any damages arising after such date from such rejection, other than such offset; and

(B) the trustee shall deliver title to such purchaser in accordance with the provisions of such contract, but is relieved of all other obligations to perform under such contract.

(j) A purchaser that treats an executory contract as terminated under subsection (i) of this section, or a party whose executory contract to purchase real property from the debtor is rejected and under which such party is not in possession, has a lien on the interest of the debtor in such property for the recovery of any portion of the purchase price that such purchaser or party has paid.

(k) Assignment by the trustee to an entity of a contract or lease assumed under this section relieves the trustee and the estate from any liability for any breach of such contract or lease occurring after such assignment.

(l) If an unexpired lease under which the debtor is the lessee is assigned pursuant to this section, the lessor of the property may require a deposit or other security for the performance of the debtor's obligations under the lease substantially the same as would have been required by the landlord upon the initial leasing to a similar tenant.

(m) For purposes of this section 365 and sections 541(b)(2) and 362(b)(10), leases of real property shall include any rental agreement to use real property.

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

> **(A)** to treat such contract as terminated by such rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity; or
>
> **(B)** to retain its rights (including a right to enforce any exclusivity provision of such contract, but excluding any other right under applicable nonbankruptcy law to specific performance of such contract) under such contract and under any agreement supplementary to such contract, to such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law), as such rights existed immediately before the case commenced, for—
>
> > **(i)** the duration of such contract; and
> >
> > **(ii)** any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.

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

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

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

(C) the licensee shall be deemed to waive—

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

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

(3) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, then on the written request of the licensee the trustee shall—

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

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

(4) Unless and until the trustee rejects such contract, on the written request of the licensee the trustee shall—

(A) to the extent provided in such contract or any agreement supplementary to such contract—

(i) perform such contract; or

(ii) provide to the licensee such intellectual property (including any embodiment of such intellectual property to the extent protected by applicable nonbankruptcy law) held by the trustee; and

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

(o) In a case under chapter 11 of this title, the trustee shall be deemed to have assumed (consistent with the debtor's other obligations under section 507), and shall immediately cure any deficit under, any commitment by the debtor to a Federal depository institutions regulatory agency (or predecessor to such agency) to maintain the capital of an insured depository institution, and any claim for a subsequent breach of the obligations thereunder shall be entitled to priority under section 507. This subsection shall not extend any commitment that would otherwise be terminated by any act of such an agency.

(p)(1) If a lease of personal property is rejected or not timely assumed by the trustee under subsection (d), the leased property is no longer property of the estate and the stay under section 362(a) is automatically terminated.

(2)(A) If the debtor in a case under chapter 7 is an individual, the debtor may notify the creditor in writing that the debtor desires to assume the lease. Upon being so notified, the creditor may, at its option, notify the debtor that it is willing to have the lease assumed by the debtor and may condition such assumption on cure of any outstanding default on terms set by the contract.

(B) If, not later than 30 days after notice is provided under subparagraph (A), the debtor notifies the lessor in writing that the lease is assumed, the liability under the lease will be assumed by the debtor and not by the estate.

(C) The stay under section 362 and the injunction under section 524(a) (2) shall not be violated by notification of the debtor and negotiation of cure under this subsection.

(3) In a case under chapter 11 in which the debtor is an individual and in a case under chapter 13, if the debtor is the lessee with respect to personal property and the lease is not assumed in the plan confirmed by the court, the lease is deemed rejected as of the conclusion of the hearing on confirmation. If the lease is rejected, the stay under section 362 and any stay under section 1301 is automatically terminated with respect to the property subject to the lease.