No. 17-1657

In the Supreme Court of the United States

MISSION PRODUCT HOLDINGS, INC., PETITIONER

v.

TEMPNOLOGY, LLC, NKA OLD COLD LLC

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

BRIEF FOR THE UNITED STATES
AS AMICUS CURIAE SUPPORTING PETITIONER

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QUESTION PRESENTED

Section 365 of the Bankruptcy Code provides that the bankruptcy trustee, "subject to the court's approval, may assume or reject any executory contract," *i.e.*, a contract under which both parties still have performance obligations. 11 U.S.C. 365(a). The trustee's rejection of a contract pursuant to that authority "constitutes a breach of such contract." 11 U.S.C. 365(g). It is undisputed that, if a trustee "rejects" and thus breaches an executory contract by halting performance, the counterparty may file a claim against the estate for damages caused by the non-performance. The question presented is as follows:

When a debtor has entered into a pre-bankruptcy contract that granted a counterparty a license to use the debtor's trademark, does the debtor's "rejection" of the contract that granted the license have the effect of revoking the license itself?

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INTEREST OF THE UNITED STATES

Section 365 of the Bankruptcy Code, 11 U.S.C. 365, provides that the bankruptcy trustee, "subject to the court's approval, may assume or reject any executory contract," *i.e.*, any contract under which both parties still have obligations to perform. 11 U.S.C. 365(a). The trustee's rejection of a contract pursuant to that authority rejection "constitutes a breach of such contract." 11 U.S.C. 365(g). It is undisputed that, if the trustee "rejects" such a contract and thus chooses to stop performing the debtor's obligations under it, the counterparty may file a claim against the estate for damages caused by the non-performance.

The court of appeals held in this case that, when the debtor has previously granted a counterparty a license to use the debtor's trademark, the trustee's later "rejection" of the contract that granted the license has the

legal effect of terminating the license itself. The United States Patent and Trademark Office plays a central role in the administration of the federal trademark system. See Lanham Act, 15 U.S.C. 1051 *et seq.* The United States has a strong interest in ensuring that trademarks serve as reliable symbols of source in consumer transactions and that trademark owners obtain the full value of the goodwill associated with their marks, while also protecting the pro-competitive nature of trademarks and the stability of trademark licenses. The court of appeals' reasoning, moreover, is not limited to trademark licenses, and may implicate the interests of the United States and its agencies as creditors in bankruptcy proceedings under federal programs involving loans, contracts, leases, assistance and benefit payments, and tax-collection activities. Finally, United States Trustees are charged with supervising the administration of bankruptcy cases. See 28 U.S.C. 581-589a. The United States therefore has a substantial interest in the resolution of the question presented.

STATUTORY PROVISIONS INVOLVED

Pertinent provisions of the Bankruptcy Code are reprinted in an appendix to this brief. App., *infra*, 1a-17a.

STATEMENT

1. Respondent Tempnology, LLC, developed cooling fabrics for towels, socks, headbands, and other accessories that were "designed to remain at low temperatures even when used during exercise." Pet. App. 2a. Respondent marketed those products under the brand name "Coolcore," and it has registered trademarks associated with that brand. *Id.* at 2a-3a.

In 2012, Tempnology entered into a "Co-Marketing and Distribution Agreement" (the Agreement) with petitioner Mission Product Holdings, Inc. Pet. App. 3a. The Agreement called for Mission to distribute Coolcore clothing and accessories for several years, subject to automatic one-year renewals. *Ibid.*; see *id.* at 105a-106a. Tempnology granted Mission (1) a "non-exclusive, non-transferable, limited license" to use the Coolcore mark; and (2) exclusive rights to distribute certain Coolcore products in the United States. *Id.* at 3a-4a.[1] The Agreement gave Tempnology "the right to review and approve" Mission's uses of the mark that had not been preapproved; required Tempnology to indemnify Mission for any failure of Tempnology's products to meet quality-control standards; and required Tempnology to protect its intellectual property from third parties. *Id.* at 4a; see J.A. 237-238, 244-245 (Agreement ¶¶ 15(d), 20(c)).

The Agreement also established a process for unwinding the relationship. In particular, it permitted either party to terminate the relationship without cause, subject to a two-year "Wind-Down Period" during which both parties would retain their rights. Pet. App. 4a. (If either party failed to cure a material breach within 90 days, the Agreement allowed the other party to terminate immediately. J.A. 207.) Tempnology thus could not unilaterally terminate Mission's license and

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[1] The Agreement also granted Mission a non-exclusive license to practice certain Tempnology patents. Pet. App. 3a-4a. It is undisputed that Mission retained that license notwithstanding Tempnology's rejection of the Agreement. *Id.* at 6a; see 11 U.S.C. 101(35A). 365(n).

exclusive-distribution rights during the wind-down period. In June 2014, Mission initiated the two-year wind-down period. *Ibid.*

b. At approximately the same time, Tempnology's "financial outlook dimmed." Pet. App. 5a. On September 1, 2015, Tempnology filed a voluntary petition for Chapter 11 bankruptcy. *Ibid.*

Chapter 11 of the Bankruptcy Code establishes a framework for reorganization of a bankrupt business. See 11 U.S.C. 1101-1174. Filing a petition for bankruptcy creates a bankruptcy "estate," which is administered by a "trustee" and generally consists of all the debtor's rights and assets. 11 U.S.C. 323, 541(a). In Chapter 11 cases, the debtor itself is ordinarily given the powers and duties of the trustee, and is called a "debtor in possession." See 11 U.S.C. 1101(1), 1107(a). Here, Tempnology was a debtor in possession with the powers of a trustee.

2. a. The day after it filed the bankruptcy petition, Tempnology moved to "reject" the Agreement pursuant to 11 U.S.C. 365(a). Section 365 provides that the "trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." *Ibid.* A contract is executory if "performance remains due to some extent on both sides." *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984) (citation omitted). "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." Pet. Br. 17.

Rejection of an executory contract or unexpired lease "constitutes a breach of such contract or lease," deemed to occur "immediately before the date of the filing of the [bankruptcy] petition." 11 U.S.C. 365(g) and

(g)(1). The counterparty thus may file a pre-petition claim against the estate for damages caused by the non-performance, but ordinarily cannot sue for specific performance of the debtor's unperformed obligations. See *Bildisco & Bildisco*, 465 U.S. at 531-532.

Because the bankruptcy court generally reviews a trustee's choice to reject an executory contract under the deferential "business judgment" rule, it will ordinarily authorize rejection so long as the trustee has exercised sound business judgment. See *Bildisco & Bildisco*, 465 U.S. at 523. That standard gives the trustee broad leeway either to step into the debtor's shoes and perform the debtor's remaining obligations under a contract (thus maintaining in effect the counterparty's own contractual obligations, including future payment obligations), or to decline to assume those duties (thereby "releas[ing] the debtor's estate from burdensome obligations that can impede a successful reorganization"). *Id.* at 528. As this case comes to the Court, it is undisputed that (1) the Agreement is executory, because both parties had ongoing obligations to perform when the bankruptcy petition was filed; and (2) the bankruptcy court's approval of Tempnology's motion to "reject" the contract allowed Tempnology to stop its future performance, in which event Mission could file a pre-petition claim for any damages caused by that non-performance.

In articulating its business justification for rejecting the Agreement, however, Tempnology did not assert that performance of its remaining obligations under the Agreement would be burdensome to the estate. Rather, it "faulted Mission—and particularly the Agreement's grant of exclusive distribution rights—for its bankruptcy." Pet. App. 6a. Tempnology stated that Mission had stopped distributing Coolcore products, and that

Mission's inaction coupled with Mission's exclusive rights to distribute the products had "starv[ed]" Tempnology of income and "suffocated [its] ability to market and distribute its products." *Ibid.* Tempnology asserted that its rejection of the Agreement, if authorized by the court, would terminate the rights that Tempnology had already granted to Mission, including its exclusive-distribution rights and its license to use the Coolcore mark. See *ibid.* The basic question in this case is whether Tempnology's rejection of the Agreement actually had this effect.

b. In *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (1985), cert. denied, 475 U.S. 1057 (1986), the Fourth Circuit addressed a similar question in the context of patent licenses, holding that "rejection" under Section 365(a) of an executory contract empowered a patentholder to unilaterally revoke an existing patent license. *Id.* at 1045. The debtor in that case (RMF) had granted Lubrizol a nonexclusive license to use a patented process for coating metal. *Ibid.* RMF then filed for Chapter 11 bankruptcy and moved to reject the contract that had granted the license, with the aim of terminating the license itself and transforming Lubrizol from a licensee into an infringer. The court of appeals held that that the contract was executory; that the debtor's motion to reject it should be granted; and that rejection of the contract terminated Lubrizol's license to use the patent, thus relegating it to a damages claim against the estate. See *id.* at 1047-1048.

Congress subsequently amended Section 365 to abrogate *Lubrizol*. See Act of Oct. 18, 1988, Pub. L. No. 100-506, 102 Stat. 2538; S. Rep. No. 505, 100th Cong., 2d Sess. 3 (1988) (Senate Report) (describing *Lubrizol* as

"a fundamental threat to the creative process that has nurtured innovation in the United States"). Congress added to Section 365 a new subsection (n), which provides that, if the trustee rejects an executory contract "under which the debtor is a licensor of a right to intellectual property," the licensee "may elect" either:

> (A) to treat such contract as terminated * * * ; 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 * * * to such intellectual property.

11 U.S.C. 365(n)(1).

Under Section 365(n), the trustee cannot unilaterally terminate a license to use "intellectual property." Rather, if the trustee rejects an executory contract that granted such a license, the licensee can still choose to retain the license so long as it makes any royalty payments that are still due. 11 U.S.C. 365(n)(2)(B). Section 365(n) contains a definition of the term "intellectual property," and that definition does not encompass trademarks. 11 U.S.C. 101(35A).

The Senate Report explained that "the bill does not address the rejection of executory trademark" licenses, even though "such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court." Senate Report 5. The Report noted that trademark relationships "depend to a large extent on control of the quality of the products or services sold by the licensee." *Ibid.* Concluding that "these matters could not be addressed without more extensive study," the Committee "determined to postpone congressional action in this

area and to allow the development of equitable treatment of this situation by bankruptcy courts." *Ibid.* This case presents the question that Congress reserved when it enacted Section 365(n).

3. a. On October 2, 2015, the bankruptcy court granted Tempnology's motion to reject the Agreement, "subject to [Mission's] election to preserve its rights under 11 U.S.C. § 365(n)." Pet. App. 83a-84a. Tempnology then asked the court to determine what effect rejection had on Mission's continuing rights to use the Coolcore mark and to be the exclusive U.S. distributor of Coolcore clothing. See *id.* at 67a. The bankruptcy court issued an order declaring that Tempnology's rejection of the Agreement had terminated Mission's trademark license and its exclusive-distribution rights. *Id.* at 67a-68a; see *id.* at 77a-81a. Mission appealed but did not seek a stay, and the bankruptcy proceedings continued.

Mission then filed a claim against the estate for $4.16 million. J.A. 547-557. Mission's claim primarily asserted losses flowing from alleged breaches of Mission's exclusive distribution rights. J.A. 556-557. Mission stated that its damages were based on the assumption that its exclusive rights had been terminated, although it noted that it had appealed on that issue and that it reserved the right to amend its claim. J.A. 557 & n.4. It is unclear whether Mission's claim encompasses losses flowing from Mission's inability to use the Coolcore mark, or whether Mission was using the mark at the time the bankruptcy petition was filed.[2]

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[2] On December 18, 2015, the bankruptcy court approved the sale of substantially all of Tempnology's assets—including its intellectual property and distribution rights—for $2.7 million to Schleicher & Stebbins Hotels L.L.C. (S&S). J.A. 399, 411-412. Mission has sued S&S for damages, contending that S&S tortiously interfered

b. The Bankruptcy Appellate Panel (BAP) affirmed in part and reversed in part. Pet. App. 35a-65a. First, the BAP rejected Mission's argument that Section 365(n) protected its right to be the exclusive U.S. distributor of Coolcore clothing. *Id.* at 49a-51a. The BAP determined that exclusive-distribution rights do not constitute "intellectual property" as defined by 11 U.S.C. 101(35A), and that Section 365(n) therefore did not apply.

Second, the BAP held that Mission's license to use the Coolcore mark had survived rejection. Pet. App. 51a-60a. The BAP agreed with the bankruptcy court that Section 365(n) does not protect trademark licenses because the statutory definition of "intellectual property" does not encompass trademarks. *Id.* at 58a-59a. The BAP explained, however, that the inapplicability of Section 365(n) did not resolve the question because the outcome ultimately depended on "the consequences of rejection of an executory contract under § 365(g)." *Id.* at 59a. The BAP followed the Seventh Circuit's decision in *Sunbeam Products, Inc.* v. *Chicago American Manufacturing, LLC*, 686 F.3d 372 (Easterbrook, J.), cert. denied, 568 U.S. 1076 (2012), and held that "rejection" of an executory contract does not terminate a trademark license that has previously been granted. The court explained that, under that approach, "[t]he debtor's unfulfilled obligations are converted to damages," but "nothing about this process implies that any rights of the other contracting party have been vaporized." Pet. App. 60a (quoting *Sunbeam Products*, 686 F.3d at 377).

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with the Agreement, including by interfering with its exclusive-distribution rights. See 15-cv-9785, D. Ct. Doc. 1-2 (S.D.N.Y. Dec. 15, 2015). That suit has been stayed. See 15-cv-9785 Docket entry No. 19 (Feb. 11, 2016).

c. The court of appeals affirmed the bankruptcy court in full, disagreeing with the BAP's trademark ruling. Pet. App. 1a-28a. First, the court held that Mission's exclusive-distribution rights did not survive Tempnology's rejection of the Agreement. The court agreed with the BAP that Section 365(n) did not protect those rights, and it held that Mission had waived the argument that those rights survived rejection under Section 365(a) and (g). *Id.* at 12a-20a.

Second, the court of appeals held that Tempnology's rejection of the Agreement had terminated Mission's license to use the Coolcore mark. The court stated that it is 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," because "the effective licensing of a trademark requires" that the owner "monitor and exercise control over the quality of goods sold to the public under cover of the trademark." Pet. App. 22a-23a. The court viewed the need for ongoing monitoring by the owner as distinguishing trademarks from patents, which Congress had addressed in Section 365(n). *Id.* at 23a. The court of appeals acknowledged that its holding was contrary to *Sunbeam Products* and to Judge Ambro's concurrence in *In re Exide Technologies*, 607 F.3d 957, 964-968 (3d Cir. 2010), cert. denied, 562 U.S. 1216 (2011). Pet. App. 22a.

Judge Torruella dissented in relevant part. Pet. App. 29a-34a. He largely agreed with the BAP's analysis, but, relying in part on the Senate Report, he further suggested that bankruptcy courts should apply equitable principles to determine the proper status of trademark licenses in bankruptcy. *Id.* at 32a-34a.

SUMMARY OF ARGUMENT

The statutory text, context, history, and purpose all support the Seventh Circuit's holding in *Sunbeam Products, Inc.* v. *Chicago American Manufacturing, LLC*, 686 F.3d 372, 377 (Easterbrook, J.), cert. denied, 568 U.S. 1076 (2012), that a trademark owner cannot revoke a trademark license by "reject[ing]" (11 U.S.C. 365(a)) in bankruptcy the contract under which that license was previously granted. The contrary decision of the court below should be reversed.

A. Outside bankruptcy, Tempnology could not have unilaterally revoked Mission's trademark license. Tempnology had already granted Mission a license to use the Coolcore mark that could not be terminated during the two-year wind-down period. In particular, Tempnology could not have revoked that license simply by refusing to perform its own obligations to monitor the mark. Halting its own performance might have made the license less valuable to Mission, but it would not have unwound the prior transfer of the right to use the mark or made the right revocable during the wind-down period. If a landlord has rented a family an apartment and has agreed to pay the utilities, the landlord cannot later terminate the family's lease simply by refusing to pay the cable bill. The same principle applies to agreements that authorize the use of intellectual property.

B. A trademark owner does not gain power to revoke a trademark license that it could not revoke outside bankruptcy, simply by filing for bankruptcy and then "reject[ing]" the contract under which that license had previously been granted. Under the Bankruptcy Code, the trustee's "reject[ion]" of an "executory contract"—*i.e.*, a contract under which both parties have remaining

performance obligations—simply means that the trustee has refused to assume those obligations and has halted its own performance. 11 U.S.C. 365(a). Although such non-performance "constitutes a breach of the contract," 11 U.S.C. 365(g), it does not rescind the debtor's pre-bankruptcy grant of a trademark license.

C. Congress's enactment of 11 U.S.C. 365(n) does not undermine that conclusion. Section 365(n) makes clear that, once an owner has granted a license to use a patent or certain other listed kinds of "intellectual property," the owner cannot unilaterally terminate the license through "rejection" of the contract under which the license was previously granted. Congress adopted subsection (n) to abrogate the Fourth Circuit's holding in *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (1985), cert. denied, 475 U.S. 1057 (1986), that the owner of a patent could unilaterally terminate a patent license by "rejecting" the contract under which the license had been granted.

Because the applicable definition of "intellectual property" does not encompass trademarks, see 11 U.S.C. 101(35A), a trademark licensee cannot invoke Section 365(n)'s protections. The omission of trademarks from Section 365(n)'s coverage does not suggest, however, that Congress intended the *Lubrizol* rule to control in the trademark context. Rather, questions concerning the legal effect of a trustee's rejection of a pre-bankruptcy contract granting a trademark license continue to be governed by Section 365(a) and (g). Under those provisions, as the Seventh Circuit correctly held in *Sunbeam Products*, rejection enables the trustee not to take on the debtor's own obligations under such a contract, but it does not divest the debtor's counterparty of its right to use the licensed trademark.

ARGUMENT

SECTION 365 DOES NOT EMPOWER A BANKRUPT TRADEMARK OWNER TO REVOKE A TRADEMARK LICENSE THAT IT COULD NOT HAVE REVOKED OUTSIDE BANKRUPTCY

A. Outside Bankruptcy, Tempnology Could Not Have Revoked Mission's Trademark License

The day before it entered bankruptcy, Tempnology could not have unilaterally revoked Mission's license to use the "Coolcore" mark. Tempnology had already granted Mission a license to use that mark; the Agreement mandated a two-year wind-down period before termination could occur absent a material breach by the other party; and there was no such breach here. See Pet. App. 4a-5a. Mission's license was thus irrevocable during the wind-down period, which was ongoing when Tempnology filed its bankruptcy petition. Accordingly, if Tempnology had purported to revoke the license outside of bankruptcy, and had alleged that Mission's continued use of the trademark would constitute infringement, Mission could have prevailed in any infringement suit on the ground that its use was authorized by the license and therefore was not infringing.

In addition to granting Mission a license, the Agreement imposed continuing obligations on Tempnology, which the court of appeals appeared to understand to include a duty to monitor and control the quality of Coolcore-branded goods. Pet. App. 4a, 23a-24a; see p. 3, *supra*. If Tempnology had ceased performing those functions outside of bankruptcy, consumers might have become "deceived" because the trademark might no longer have signified "that the trademark owner is controlling the nature and quality of the goods or services sold under the mark," undermining the value of the

Coolcore brand. 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 18:48, at 126-127 (5th ed. 2018) (McCarthy). In response, Mission might have sued Tempnology for (1) money damages for losses caused by Tempnology's non-performance; or (2) an order for specific performance, if damages were inadequate and such relief was otherwise available. See Restatement (Second) of Contracts §§ 345, 357, 359 (1981); 25 Samuel Williston & Richard A. Lord, *A Treatise on the Law of Contracts* § 67:32, at 292-294 (4th ed. 2002).

If Tempnology's non-performance were material, Mission also could have chosen to terminate the agreement and halted its own performance. See Restatement (Second) of Contracts § 237; see also Pet. App. 106a-108a. Nothing in the law of contracts, however, would have compelled Mission to make that choice if it believed that its license retained value notwithstanding Tempnology's failure to perform its own obligations. Nor could Tempnology have effectively imposed that choice on Mission by declaring the license terminated based on Tempnology's own breach. See *Sunbeam Products, Inc.* v. *Chicago Am. Mfg., LLC*, 686 F.3d 372, 376 (7th Cir.) ("Outside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property.") cert. denied, 568 U.S. 1076 (2012); *In re Exide Techs.*, 607 F.3d 957, 967-968 (3d Cir. 2010) (Ambro, J., concurring), cert. denied, 562 U.S. 1216 (2011).[3]

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[3] Tempnology also could not have barred Mission from using the Coolcore mark by entirely abandoning the mark and causing it to "lose its significance as a mark." 15 U.S.C. 1127; see McCarthy § 18:48, at 133. Abandonment returns the mark to "the public do-

This principle is fundamental, and examples of it are legion. If a dealer sells a car and agrees in the same contract to provide routine maintenance, the dealer would breach that contract if it subsequently refused to change the oil, thus triggering a potential suit for damages or specific performance. But the dealer's refusal to change the oil would not revoke the buyer's ownership of the car. Similarly, if a law firm leases a photocopier and the dealer agrees in that contract to service it every month, the dealer could not unilaterally revoke the law firm's rights to use the copier simply by refusing to appear for a service appointment. And if a landlord rents an apartment to a family and agrees in the contract to pay the utilities, the landlord could not revoke the family's lease simply by refusing to pay the cable bill. Rather, the family would retain its right to live in the apartment so long as they paid the rent.

B. Section 365(a) Does Not Empower A Bankrupt Trademark Owner To Revoke A Trademark License It Could Not Revoke Outside Bankruptcy

Section 365(a) does not break from this basic principle of the stability of contracts. Section 365(a) codifies a preexisting rule that a trustee ordinarily may decline to take on ("reject") the debtor's remaining contractual obligations if the trustee concludes that continued performance would be detrimental to the estate and its creditors. But the owner of a trademark who enters Chapter 11 bankruptcy cannot revoke a trademark li-

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main," making it "free for all to use." McCarthy § 17:1, at 2-3. Mission's right to use the mark during the wind-down period was thus secure from revocation by Tempnology outside bankruptcy.

cense that it could not have revoked outside bankruptcy, simply by "rejecting" the contract under which that license was granted.

1. Under Section 365(a) and (g), the Chapter 11 trustee may decline to undertake the debtor's future performance obligations under an executory contract

a. Section 365(a) provides that the "trustee, subject to the court's approval, may assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. 365(a). The "trustee" is the entity that administers the bankruptcy estate, see 11 U.S.C. 323, and the "debtor" is the bankrupt individual or business. In ordinary speech, "assume" means "to take up or into," "to take upon oneself," or "to take over as one's own." *Webster's Third New International Dictionary* 133 (2002). "Reject" means "to refuse to acknowledge [or] adopt," "decline to accept," or "to refuse * * * to take for some purpose." *Id.* at 1915. And a contract is "executory" if "performance remains due to some extent on both sides." *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984) (quoting H.R. Rep. No. 595, 95th Cong., 1st. Sess. 347 (1977)); see *Black's Law Dictionary* 393 (10th ed. 2014) (contract is "executory" where "there remains something still to be done on both sides").

The trustee accordingly "assumes" a contract under which the debtor has remaining performance obligations when the trustee agrees to take upon itself the debtor's remaining obligations and thus performs them. The trustee "rejects" such a contract when the trustee instead refuses to take on the debtor's obligations and accordingly does not perform them. Section 365(g) confirms this understanding by specifying that rejection of an executory contract or unexpired lease "constitutes a breach of such contract or lease." 11 U.S.C. 365(g).

Section 365 makes clear that the trustee can elect not to complete the debtor's remaining contractual performance obligations, if performance has become uneconomical and thus would be harmful to the estate and other creditors. See *Enterprise Energy Corp.* v. *United States*, 50 F.3d 233, 239 n.8 (3d Cir. 1995) ("Rejection, which is appropriate when a contract is a liability to the bankrupt, is equivalent to a nonbankruptcy breach.").

Taken together, Section 365(a) and (g) thus establish that a trustee's choice not to take on the debtor's future performance obligations constitutes a breach of the contract, even though the trustee was not originally a party to the contract and thus may not have "breached" it under ordinary contract principles. "[B]y classifying rejection as breach," Section 365(g) thus *protects* counterparties by establishing that "in bankruptcy, as outside of it, the other party's rights remain in place." *Sunbeam Products*, 686 F.3d at 377. In particular, if the trustee chooses to reject a contract, the counterparty can assert a pre-petition claim for damages against the estate. See Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding 'Rejection'*, 59 U. Colo. L. Rev. 845, 877 (1988) (Andrew) ("The 'breach' rule thus is not in any sense designed to diminish the nondebtor's rights vis-a-vis *the estate*, but rather to buttress them."). Section 365(a) and (g) ensure that the trustee can halt burdensome contractual performance obligations, leaving the counterparty with a pre-petition claim for damages.

b. Nothing in Section 365, however, empowers a trustee to revoke the grant of a trademark license that the debtor already granted and could not revoke under the terms of the parties' original agreement. "Rejection" does not "render[] void the contract and requir[e]

that the parties be put back in the positions they occupied before the contract was formed." *Thompkins* v. *Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir.), cert. denied, 552 U.S. 1022 (2007); see *O'Neill* v. *Continental Airlines, Inc.*, 981 F.2d 1450, 1459 (5th Cir. 1993) ("To assert that a contract effectively does not exist as of the date of rejection is inconsistent with deeming the same contract breached."). *Rejection* is thus different from *rescission*, which typically allows a counterparty to halt its own performance and terminate a contract in response to a repudiation or material breach by the other party. See 26 Samuel Williston & Richard A. Lord, *A Treatise on the Law of Contracts* § 68.2, at 37-42 (4th ed. 2003).

For example, in the photocopier scenario described above (see p. 15, *supra*), if the dealer entered bankruptcy, the trustee could "assume or reject" the contract by deciding whether to take upon itself the obligation to provide free monthly servicing. The trustee's power to reject the contract, however, would not include the power to repossess the copier before the lease term expired. The same principle applies to trademark licenses. When the owner of a mark has granted a license to use that mark and the owner later enters bankruptcy, the trustee can "assume or reject"—decide whether to take upon itself—the owner's remaining obligations under the contract. Those obligations may include monitoring and quality control to protect consumers' expectations about the licensed goods or services. But the trustee's power to "reject" the contract, and thus to decline to take on the debtor's remaining obligations under the agreement, does not include the power to revoke a license that the debtor previously granted and could not revoke outside bankruptcy.

Congress's decision to limit the trustee's rejection authority to "executory" contracts reinforces that conclusion. Congress did not give trustees the substantially broader power to unwind contractual undertakings that have already been completed. Under the court of appeals' approach, however, the trustee could undo a contractually-required act that the debtor had fully performed pre-bankruptcy, simply because of the happenstance that some *other* term of the contract had yet to be performed when the bankruptcy petition was filed. Nothing in Section 365 suggests that Congress intended the haphazard results that such a regime would produce.

2. The court of appeals' understanding of "rejection" would undermine the statutory limitations on "avoidance" of pre-bankruptcy transfers

a. In certain limited circumstances, the Bankruptcy Code authorizes trustees to unwind completed transfers from debtors to third parties. That power is not conferred by Section 365, however, and it does not encompass Tempnology's revocation of the trademark license at issue here.

In 11 U.S.C. 544-553, as part of a subchapter titled "The Estate," the Bankruptcy Code vests the trustee with "avoiding powers" to "'set aside certain types of transfers and recapture the value of those avoided transfers for the benefit of the estate.'" *Merit Mgmt. Grp., LP* v. *FTI Consulting, Inc.*, 138 S. Ct. 883, 888 (2018) (quoting Charles Jordan Tabb, *Law of Bankruptcy* § 6.2, at 474 (4th ed. 2016)) (brackets and ellipses omitted). For example, the trustee may "avoid" a fraudulent transfer of property or an interest in property from the debtor to a creditor in the run-up to bankruptcy. 11 U.S.C. 548(a). By "avoiding" a transfer, the

trustee (subject to various exceptions) may "recover, for the benefit of the estate, the property transferred" from the transferee. 11 U.S.C. 550(a). The avoidance power is thus a means by which the trustee may unwind a pre-petition transfer and recapture the transferred property for the estate.

Congress has carefully cabined the trustee's avoidance powers, however, by imposing "a number of limits" that constrain its use to a "limited category" of circumstances. *Merit Mgmt.*, 138 S. Ct. at 887, 889. To unwind a fraudulent transfer, the trustee must establish that the transfer was actually or constructively fraudulent, 11 U.S.C. 548(a)(1)(A)-(B), and that the transfer occurred within a specified period of time before the bankruptcy, 11 U.S.C. 546(a). See also 11 U.S.C. 546(b)-(j) (additional limitations applicable in certain cases). The trustee thus cannot use "avoidance" to revoke a trademark license simply because the estate would benefit financially by selling the license a second time.

b. The court of appeals' understanding of "rejection" would allow trustees to circumvent the Bankruptcy Code's limitations on the avoidance power. Under the court of appeals' approach, the only practical difference between "avoidance" and "rejection" of a trademark license is that "rejection" would allow the licensee to file a prepetition claim for damages while avoidance would not. But unlike the trustee's "avoidance" powers, which are tightly cabined, the trustee has broad authority to "reject" an executory contract. The choice is discretionary, see 11 U.S.C. 365(a) ("may assume or reject"), and the bankruptcy court ordinarily reviews the trustee's choice under the deferential "business judgment" rule, *Bildisco & Bildisco*, 465 U.S. at 523. The trustee will be able to satisfy that standard whenever it concludes

that the ability to offer a trademark license to a new licensee is worth more to the estate than whatever payments remain due from the incumbent under the terms of the original contract. It would subvert the statutory scheme to allow the trustee to undertake the functional equivalent of avoidance without satisfying the stringent standards that the Bankruptcy Code places on overt exercises of the avoidance power.[4]

3. The statute's history supports the Seventh Circuit's decision in Sunbeam Products

Section 365(a) codifies a preexisting common-law rule under which a bankruptcy trustee (formerly called an "assignee") did not automatically take on the debtor's ongoing contractual obligations, but instead could "accept or refuse" to perform them. See Andrew 855-866 (detailing this history); see also *Copeland* v. *Stephens*, 106 Eng. Rep. 218, 222 (K.B. 1818). More than a century ago, this Court described it as a "general rule" that "an assignee or receiver is not bound to adopt the contracts, accept the leases, or otherwise step into the shoes of [the debtor], if, in his opinion, it would be unprofitable or undesirable to do so." *United States Trust Co.* v. *Wabash W. Ry. Co.*, 150 U.S. 287, 299 (1893); see *Sparhawk* v. *Yerkes*, 142 U.S. 1, 13 (1891) (assignees "could elect whether they would accept or not"); *Watson*

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[4] The Federal Rules of Bankruptcy Procedure also impose more stringent procedures in avoidance actions. Avoidance requires an adversary proceeding, akin to a "full-blown federal lawsuit[]," whereas rejection is typically resolved as a contested matter, "generally designed for adjudication of simple issues, often on an expedited basis." *In re TransAmerican Natural Gas Corp.*, 978 F.2d 1409, 1416 (5th Cir. 1992); see Fed. R. Bankr. P. 7001 advisory committee's note (adversary proceedings are used in proceedings "brought to avoid transfers by the debtor").

v. *Merrill*, 136 F. 359, 363 (8th Cir. 1905) (trustee may "assume or renounce" the debtor's "executory contracts); *In re Frazin*, 183 F. 28, 30, 32 (2d Cir. 1910) (trustee may "assume or reject" an unexpired lease for which the debtor was the lessee). These decisions made clear that the trustee could decline to take on the debtor's remaining performance obligations under an executory contract or unexpired lease.

In *Sparhwark*, for example, the Court explained that bankruptcy assignees could elect not to assume the debtor's obligation to pay "annual dues and charges" and take other steps needed to maintain a valid seat on the board of a stock exchange. 142 U.S. at 12-14; see *Watson*, 136 F.3d at 363 (trustee for bankrupt tenant could decline to take on a lease with a burdensome future rent). Although the issue did not often arise, courts had also held that a trustee for a bankrupt landlord could decline to take on the landlord's burdensome future performance obligations, but could not terminate the tenant's lease itself. In *Vass* v. *Conron Brothers Co.*, 59 F.2d 969 (2d Cir. 1932) (L. Hand, J.), for example, a landlord had rented out a space to a cold storage plant and had "agreed to refrigerate" the space. *Ibid.* When the landlord later entered bankruptcy, the court held that the trustee could decline to take on the obligation to refrigerate the space, but "could not eject" the tenants. *Id.* at 971; see *American Brake Shoe & Foundry Co.* v. *New York Rys. Co.*, 278 F. 842, 843-844 (S.D.N.Y. 1922) (receiver of a bankrupt landlord "might refuse to carry out" "executory covenants as to furnishing heat, electric current, etc.," but could not "commence any proceeding to evict or eject the tenant").

In 1938, Congress codified the "assume or reject" authority by directing that "the trustee shall assume or

reject any executory contract, including unexpired leases of real property," within 60 days, and that "the rejection" of such a contract "shall constitute a breach." Act of June 22, 1938, ch. 575, §§ 63c, 70b, 52 Stat. 873, 880; see Andrew 861 n.75. The text remains materially identical today. This historical backdrop strongly supports the *Sunbeam Products* court's understanding that the trustee may "reject," and thus decide not to fulfill, the debtor's ongoing performance obligations. But it provides no support for treating the trustee's authority to "reject" an executory contract as a far-reaching power to revoke a license that the debtor previously granted and could not revoke outside bankruptcy.[5]

4. The court of appeals' concerns were misplaced

In construing Section 365 to authorize the revocation of Mission's trademark license, the court of appeals observed that trademark licenses are different from other kinds of intellectual-property licenses because "the 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," so that trademarks will "signal uniform

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[5] The leading bankruptcy commentators support the *Sunbeam Products* rule. See 3 *Collier on Bankruptcy* ¶ 365.10[3], at 83 (Richard Levin & Henry J. Sommer, eds., 16th ed. 2017) ("The effect of rejection of an executory contract or unexpired lease is limited to a breach or abandonment by the trustee or debtor in possession rather than a complete termination of the lease."); Robert E. Ginsberg et al., *Ginsberg & Martin on Bankruptcy* § 7.03[C], at 53 (5th ed. 2018) ("Rejection does not terminate or rescind the contract; rather, it is a statutory breach."); 2 William L. Norton III, *Norton Bankruptcy Law and Practice* § 46.24, at 108-109 (3d ed. 2018) ("[R]ejection of an executory contract does not cause the contract to vanish or become a nullity"; it "is not avoidance, rescission, or termination.").

quality" to consumers. Pet. App. 23a. The court explained that "[t]he licensor's monitoring and control thus serve to ensure that the public is not deceived as to the nature or quality of the goods sold." *Ibid.*; see McCarthy § 18:48, at 126-127. The court concluded that leaving Mission's license intact would "force" Tempnology "to choose between performing executory obligations" and "risking the permanent loss of its trademarks." Pet. App. 24a. To ensure that Tempnology was not put to that choice, the court construed Section 365(a)'s authorization to "reject" the contract as encompassing the power to terminate the license, even though Tempnology could not have terminated it outside bankruptcy.

The court of appeals' premise is correct, so far as it goes, but its conclusion does not follow. As a condition of continuing trademark protection, a trademark owner must engage in ongoing efforts to exercise quality control over the goods associated with the mark, in order to avoid upsetting consumer expectations about the level of quality associated with the mark, and to ensure that the entity that controls the use of the mark is the owner. This obligation remains in effect even if the trademark owner has licensed another to use its mark. See p. 13, *supra*; Senate Report 5 ("[T]rademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee."). The recognition that this obligation exists, however, does not support the court of appeals' conclusion as to the consequences of a breach. If a trademark owner stops maintaining the mark, the value of the mark (and thus of any license to use it) may decrease over time. See *Defiance Button Mach. Co.* v. *C & C Metal Prods. Corp.*, 759 F.2d 1053,

1060 (2d Cir.) (goodwill associated with a mark "does not ordinarily disappear or completely lose its value overnight"), cert. denied, 474 U.S. 844 (1985). But inside or outside bankruptcy, the licensor's failure to perform its own responsibilities does not revoke the existing license.

In this regard, trademark licensing resembles the car, photocopier, and apartment examples discussed above, in which the failure of a seller or lessor to perform its ongoing maintenance obligations may reduce the value of the counterparty's rights and interests. If that diminution is severe enough, the counterparty may be entitled as a matter of contract law to discontinue its own performance, renounce the agreement, return the sold or leased property, and potentially unwind other terms of the contract. But the seller or lessor cannot *compel* that result simply by committing its own breach. There is no sound basis for giving a trustee's rejection of a trademarks-licensing contract a more far-reaching effect than an analogous breach would have outside bankruptcy.

The rule announced in *Sunbeam Products* thus does not impose "residual enforcement burden[s]" on a debtor who has previously granted a license of its trademark. Pet. App. 27a. As with other "executory burdens," *ibid.*, the trustee by rejecting the contract may decline to take on contractual obligations to conduct quality control or the like. But the decision whether the mark is still worth using during the remaining term of the license is the *licensee's* to make, because the trustee's rejection of the contract does not rescind the license that the debtor previously granted.

5. The court of appeals' rule would undermine strong reliance interests

The court of appeals' interpretation of Section 365 would upset the "delicate balance of a debtor's protections and obligations" in bankruptcy. *Midland Funding, LLC* v. *Johnson*, 137 S. Ct. 1407, 1415 (2017) (quoting *Kokoszka* v. *Belford*, 417 U.S. 642, 651 (1974)). In particular, it would "make[] bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve," *In re Exide Techs.*, 607 F.3d at 967-968 (Ambro, J., concurring), and divesting counterparties of valuable rights—licenses to use trademarks—that they have already bought from debtors.

Termination of a trademark license can significantly disrupt a licensee's strong reliance interests. Because it is unclear whether Mission was using the Coolcore mark at the time of Tempnology's bankruptcy, it is unclear whether termination had a significant impact on Mission's financial condition. In many cases, however, termination of trademark licenses will be profoundly disruptive because businesses often invest substantial resources in reliance on such licenses.

For example, an individual who opens a local franchise of a chain restaurant ("BurgerTown") may invest significant resources buying "BurgerTown" branded signs, furniture, menus, uniforms, franchisor-approved cooking equipment, and the like. Under the court of appeals' approach, however, if the corporate owner of the BurgerTown mark entered Chapter 11 bankruptcy to reorganize any aspect of its business (even one separate from the BurgerTown chain), it could immediately revoke the franchisee's license, effectively forcing the individual to negotiate a second license in order to continue its operations. That rule would give the trustee or

debtor in possession extraordinary and unwarranted leverage over a particular class of creditors. The court of appeals' approach also would create significant economic disincentives for would-be licensees to acquire trademark licenses in the first place, particularly if the potential licensor was perceived to be in perilous financial condition.

Furthermore, although the court of appeals' holding is specific to trademark licenses, its rationale is not. The court's reasoning instead depends on its interpretation of Section 365(a) and (g), which apply to executory contracts generally. See Pet. App. 20a-27a. As discussed above, analogous situations can arise in many other contexts where an entity has granted an interest in property but is contractually required to perform ongoing maintenance responsibilities. See p. 15, *supra* (collecting examples). A rule treating the trustee's power to "reject" such contracts as encompassing the power to repossess the property or otherwise negate the counterparty's rights and interests in it could have broad and deleterious consequences. To be sure, Section 365 contains certain safe harbors to protect specific classes of counterparties from disruption. See, *e.g.*, 11 U.S.C. 365(h) (protecting tenants in the event of the bankruptcy of the lessor); pp. 28-31, *infra* (discussing Section 365(n)). But those safe harbors are not intended to be comprehensive, and similar risks could arise in other contexts. The *Sunbeam Products* rule avoids these problems.

C. Neither Congress's Enactment Of Section 365(n), Nor Its Omission Of Trademarks From The Applicable Definition Of "Intellectual Property," Supports The Court Of Appeals' Decision In This Case

1. In *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (1985), cert. denied, 475 U.S. 1057 (1986), the Fourth Circuit adopted an approach to rejection of patent licenses that was substantially similar to the trademark-licensing rule announced by the First Circuit in this case. The *Lubrizol* court held that the patentholder-debtor's rejection of an executory contract empowered the debtor to revoke a patent license that it had granted pre-bankruptcy. See *id.* at 1045-1048. Congress responded to *Lubrizol* by enacting Section 365(n). That provision states that, if a trustee rejects an executory contract that granted an "intellectual property" license, the licensee may elect to retain its rights (including any exclusive rights), subject to specified conditions. 11 U.S.C. 365(n). Congress defined the term "intellectual property" to mean patents, copyrights, and four other listed kinds of intellectual property. 11 U.S.C. 101(35A).

Because the enumerated categories of "intellectual property" do not include trademarks, the scope of Tempnology's power to "reject" the Agreement, and the legal consequences of its decision to do so, are controlled by statutory provisions *other than* Section 365(n). See Senate Report 5 (explaining that the bill that included Section 365(n) "does not address the rejection of executory trademark" licenses). In particular, Congress's decision to omit trademarks from Section 101(35A)'s definition of "intellectual property" means that the question presented here continues to be governed by Section 365(a) and (g). For the reasons set forth above, those

provisions empower Tempnology to cease performing its own obligations under the Agreement, but not to rescind the trademark license that it had previously granted. If that reading of Section 365(a) and (g) is otherwise persuasive, Congress's decision to mandate an analogous approach for patent licenses provides no sound reason to reject it.

To be sure, Congress could have unambiguously discountenanced the approach that the First Circuit took in this case by including trademarks within the categories of "intellectual property" enumerated in the statute. But Congress's failure to take that step in 1988 does not imply any particular view as to the legal consequences that rejection of a trademark-licensing agreement should entail. It is worth noting, in this regard, that Section 365(n) establishes a reticulated scheme that addresses patent licenses at a greater level of detail than does the generally worded language of Section 365(a) and (g). Congress's unwillingness to subject trademark licenses to that specific scheme does not suggest disagreement with the general principle that a trademark license survives the trustee's rejection of an executory contract under which the license was previously granted.

2. *Lubrizol* itself involved a debtor's rejection of a patent- rather than a trademark-licensing agreement. By enacting Section 365(n), Congress overruled the holding in *Lubrizol* in the specific intellectual-property context in which that case arose. It would be particularly strange to treat that congressional action as implicitly *ratifying* the *Lubrizol* court's rationale in the trademark context.

The Senate Report accompanying Section 365(n) identified *Lubrizol* as a "recent court decision[] interpreting Section 365 [that] imposed a burden on American technological development" and "threaten[ed] the very flexible and beneficial system of intellectual property licensing which has developed in the United States." Senate Report 1, 3. The Report further stated that the bill was "intended to respond to a particular problem arising out of recent court decisions," and to "correct[] the perception of some courts that Section 365 was ever intended to be a mechanism for stripping innocent licensee of rights central to the operations of their ongoing business." *Id.* at 4-5.

The Report also stated that the bill was "not in any way intended to address broader matters under Section 365," and in particular that it "d[id] not address the rejection of executory trademark" licenses. Senate Report 5. The Report explained that trademarks were "beyond the scope of this legislation," and that the Committee had "determined to postpone congressional action in [the trademark] area and to allow the development of equitable treatment of this situation by bankruptcy courts," because the Committee viewed trademarks as presenting somewhat different policy concerns. *Ibid.*[6] Section 365(n)'s legislative history is thus

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[6] The Senate Report suggested that bankruptcy courts could apply equitable principles to determine the consequences of rejecting an executory contract that had previously granted a trademark license. Senate Report 5; see Pet. App. 32a-34a (Torruella, J., dissenting in part). But bankruptcy courts' equitable powers "'must and can only be exercised within the confines of' the Bankruptcy Code." *Law* v. *Siegel*, 571 U.S. 415, 421 (2014) (citation omitted). For the reasons set forth above, bankruptcy courts lack the authority to revoke a trademark license based on the trustee's "rejection" of an executory contract, because the license has already been

consistent with the Seventh Circuit's subsequent observation in *Sunbeam Products* that sometimes "an omission is just an omission." 686 F.3d at 375. In enacting Section 365(n), Congress responded to a specific problem (*Lubrizol*'s threat to patent licensees) with a targeted solution that eliminated that threat, while leaving related questions to be dealt with under more general pre-existing Code provisions.

Congress thus did not implicitly ratify *Lubrizol*'s reasoning and extend it to trademarks by expressly rejecting *Lubrizol*'s result as to patents. In omitting trademarks from the applicable definition of "intellectual property" (and thus from Section 365(n)'s coverage), Congress instead left to the courts the task of deciding how trademark licenses should be treated under Section 365(a) and (g). For the reasons set forth above, this Court should hold that a debtor cannot use "rejection" to revoke a trademark license that the debtor has already granted and that it could not revoke outside bankruptcy.

D. This Court Should Not Decide In The First Instance What Effect Rejection Of The Agreement Had On Mission's Exclusive-Distribution Rights

This Court granted review on the first question presented in the certiorari petition, which extends beyond Mission's trademark license to encompass the related argument that Mission's right to be the exclusive U.S. distributor of Coolcore clothing survived Tempnology's "rejection" of the Agreement under Section 365(a) and (g). See Pet. i. This Court should not resolve any exclusive-distribution issue in the first instance.

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granted and cannot be revoked simply by the trustee declining to take on the contract and its future performance obligations.

The court of appeals' only holding regarding Section 365(a) and (g) was that Tempnology's rejection of the Agreement terminated Mission's trademark license. Pet. App. 20a-27a. The conflict between that holding and the Seventh Circuit's decision in *Sunbeam Products* is specific to trademarks. The First Circuit declined to review the bankruptcy court's holding that Tempnology's rejection of the Agreement under Section 365(a) and (g) had terminated Mission's exclusive-distribution rights, because the court of appeals determined that Mission had failed to preserve its contrary argument below. See *id.* at 19a-20a.[7]

This Court is "a court of review, not of first view." *Nautilus, Inc.* v. *Biosig Instruments, Inc.*, 572 U.S. 898, 913 (2014) (citation omitted). The Court accordingly should adopt the *Sunbeam Products* rule and reverse. On remand, the court of appeals can decide in the first instance whether to reconsider its preservation decision and, if so, whether exclusive-distribution rights can be terminated via "rejection" under Section 365(a) and (g).

[7] The court of appeals held that Section 365(n) itself did not protect Mission's exclusive-distribution rights. Pet. App. 12a-19a. This Court did not grant certiorari on that question.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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APPENDIX

1. 11 U.S.C. 365 provides:

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 compensate, 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 condi-

tion 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 hy-

pothecation) 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, offset against such payments any damages occurring 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.

2. 11 U.S.C. 101 provides in pertinent part:

Definitions

In this title the following definitions shall apply:

* * * * *

(35A) The term "intellectual property" means—

(A) trade secret;

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

(C) patent application;

(D) plant variety;

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

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

to the extent protected by applicable non-bankruptcy law.

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