SUPREME COURT OF THE UNITED STATES

IN THE SUPREME COURT OF THE	UNITED STATES
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MISSION PRODUCT HOLDINGS, INC.,)
Petitioner,)
v.) No. 17-1657
TEMPNOLOGY, LLC, NKA OLD COLD LLC,)
Respondent.)
	_

Pages: 1 through 68

Place: Washington, D.C.

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4	Petitioner,)
5	v.) No. 17-1657
6	TEMPNOLOGY, LLC, NKA OLD COLD LLC,)
7	Respondent.)
8	
9	
LO	Washington, D.C.
L1	Wednesday, February 20, 2019
L2	
L3	The above-entitled matter came on for
L4	oral argument before the Supreme Court of the
15	United States at 10:10 a.m.
L6	
L7	APPEARANCES:
L8	DANIELLE SPINELLI, ESQ., Washington, D.C.;
L9	on behalf of the Petitioner.
20	ZACHARY D. TRIPP, Assistant to the Solicitor General
21	Department of Justice, Washington, D.C.;
22	for the United States, as amicus curiae,
23	in support of the Petitioner.
24	DOUGLAS HALLWARD-DRIEMEIER, ESQ., Washington, D.C.;
25	on behalf of the Respondent.

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1	PROCEEDINGS
2	(10:10 a.m.)
3	CHIEF JUSTICE ROBERTS: We'll hear
4	argument this morning in Case 17-1657, Mission
5	Product Holdings versus Tempnology, LLC.
6	Ms. Spinelli.
7	ORAL ARGUMENT OF DANIELLE SPINELLI
8	ON BEHALF OF THE PETITIONER
9	MS. SPINELLI: Mr. Chief Justice, and
10	may it please the Court:
11	Section 365 of the Bankruptcy Code
12	lets the trustee decide whether the estate will
13	become a party to an executory contract of the
14	debtor. If so, the trustee assumes the
15	contract and the estate steps in to the
16	debtor's shoes. If not, the trustee rejects
17	the contract.
18	The statute's plain text tells us what
19	that means. Rejection constitutes a breach of
20	such contract immediately before the date of
21	the filing of the petition. The debtor will
22	not fulfill any remaining unperformed
23	obligations under the contract, and the
24	counterparty will have a prepetition claim
25	against the debtor for any resulting damages.

1	But that's all rejection is, the
2	estate's decision not to take on the debtor's
3	future performance obligations, which are
4	therefore breached.
5	The overwhelming consensus of courts
6	and scholars is that rejection can't give the
7	estate any greater rights with respect to the
8	rejected contract than the debtor would have
9	outside bankruptcy.
LO	And as Respondent doesn't contest,
11	outside bankruptcy, a licensor could not use
12	its own breach of contract as a basis to
13	terminate the licensee's rights under the
L4	agreement.
15	JUSTICE ALITO: But you just said, and
L6	I think it's correct, that the debtor would be
17	rejection means that the debtor has no
18	obligation to perform future duties under the
L9	contract.
20	But, if the debtor in this case, as
21	the owner of the trademark in question, did not
22	continue to perform quality control activities
23	in relationship to the mark, would that not
24	imperil the future of the the
25	validity of the mark? So how can how can

- 1 the debtor not continue to perform duties under
- 2 the contract?
- 3 MS. SPINELLI: So the -- the quality
- 4 control obligation is an obligation that's
- 5 imposed by trademark law, not solely by the
- 6 contract and, in many cases, not at all by the
- 7 contract.
- 8 It is quite true that if --
- 9 JUSTICE SOTOMAYOR: How is that
- 10 relevant? Meaning, yes, I -- I assume that
- 11 there's both a contractual obligation and a
- 12 legal obligation under trademark law, but to
- 13 the extent that there's a rejection of the
- 14 contract, the property owner is electing to
- 15 say, as he -- as it is entitled to say under
- the law, I reject that obligation vis-a-vis
- 17 you. Hence, you can't continue to use my mark
- 18 because I can't assure -- I'm not capable --
- 19 that's why you reject a contract, because it's
- 20 not beneficial to the company -- I reject that
- 21 obligation. Hence, I reject your being able to
- 22 use it.
- MS. SPINELLI: No. With respect,
- Justice Sotomayor, that is not how it works.
- JUSTICE SOTOMAYOR: Why?

1	MS. SPINELLI: When
2	JUSTICE SOTOMAYOR: Why? Why isn't
3	that exactly how it works? Meaning, once I
4	lend you something and say it's conditioned on
5	my approval of what you're doing, and I
6	withdraw that approval, haven't I withdrawn
7	MS. SPINELLI: No. So the the
8	license so let's imagine that the agreement
9	itself imposed an obligation on the licensor to
10	monitor the quality of the licensee's goods.
11	If that is so, the licensor is free
12	the the estate can choose not to assume that
13	going-forward obligation, but rejection only
14	relates to contractual obligations. It does
15	JUSTICE SOTOMAYOR: One of the
16	trademark amici briefs said, if you're the
17	licensee, you don't have the right to produce
18	an item. If this license was one in which I
19	gave you the license to sell my goods, that
20	they and I refuse to sell you the goods,
21	they can't go out and make the goods, they
22	can't go out and put the trademark on something
23	else because they don't have the right to do
24	that.
25	MS. SPINELLI: Different license

- agreements work in different ways. And it's -
 2 JUSTICE SOTOMAYOR: I don't disagree,
- 3 but the point is that you've been -- that by
- 4 rejecting the contract, I've basically said you
- 5 can't use my goods. You're -- you're entitled
- 6 to sue me. You can't use my mark. You're
- 7 entitled to sue me.
- 8 MS. SPINELLI: Justice Sotomayor, let
- 9 me explain why I think that's not correct.
- 10 First of all, outside bankruptcy, as
- 11 Respondent has conceded, the licensor's breach
- would not let it take away the licensee's right
- 13 to use the mark. The licensor could say I'm
- 14 breaching all day long, but the licensee could
- 15 continue to use the mark.
- 16 JUSTICE KAGAN: When -- when you say
- that, Ms. Spinelli, what law do you look to to
- 18 find that, to find that principle?
- 19 MS. SPINELLI: That --
- JUSTICE KAGAN: I mean, you say you
- 21 look to outside bankruptcy law.
- MS. SPINELLI: Correct. Correct.
- JUSTICE KAGAN: Are you looking to
- 24 state law? Is it a kind of common law?
- 25 MS. SPINELLI: Trademarks are governed

- 1 by state law, by federal -- and by federal
- 2 statute, the Lanham Act, and the case law
- 3 that's developed under the Lanham Act.
- 4 So -- but this is actually a much
- 5 simpler principle. It's simply that there --
- 6 there is nothing that the licensor could do
- 7 outside bankruptcy by breaching to stop the
- 8 licensee from using the mark. The only thing
- 9 that it could do is bring a suit to enjoin the
- 10 licensee from using the mark, and in that case,
- 11 the license would be a complete defense.
- So, outside bankruptcy, it can't be
- done. The other point --
- 14 JUSTICE SOTOMAYOR: I do have a
- 15 question about --
- MS. SPINELLI: Of course.
- 17 JUSTICE SOTOMAYOR: -- 365(n).
- 18 MS. SPINELLI: Of course.
- 19 JUSTICE SOTOMAYOR: Which is 365(n) is
- 20 not the default rule with respect to
- 21 intellectual property. It gives more and less
- 22 rights to the lessors and lessees than the
- 23 common law would permit.
- MS. SPINELLI: That's correct.
- 25 JUSTICE SOTOMAYOR: Seems

- 1 counterintuitive to me or counterlogical, given
- 2 the explanation that the Congress gave, that it
- 3 understood that trademark owners would get more
- 4 rights than (n) provides to other licensors in
- 5 the intellectual property field.
- It mentioned the reason why the courts
- 7 up to that time who had recognized rejection as
- 8 termination, that trademark owners were
- 9 different because they had quality control
- 10 problems. So I read that and I think to
- 11 myself: Why would you think of giving
- 12 trademark owners more rights or less rights
- than -- than people under (n)?
- MS. SPINELLI: Let me -- let me
- 15 explain, Justice Sotomayor. It is certainly
- true that Congress made an advertent decision
- to leave trademarks out of 365(n), but the
- 18 legislative history makes it very clear that,
- in enacting 365(n), Congress did so because it
- 20 thought the rule of Lubrizol, which is that
- 21 rejection deprives the counterparty of rights
- 22 already conveyed under the agreement, was
- wrong. And that principle can't logically be
- 24 confined --
- 25 JUSTICE SOTOMAYOR: But it didn't --

- 1 it didn't think it was wrong completely.
- 2 MS. SPINELLI: I --
- JUSTICE SOTOMAYOR: Because -- because
- 4 it -- it did a sort of hybrid, giving more and
- 5 less at the same time.
- 6 MS. SPINELLI: But it did completely
- 7 repudiate the Lubrizol rule.
- JUSTICE SOTOMAYOR: Not really.
- 9 MS. SPINELLI: It said --
- 10 JUSTICE SOTOMAYOR: It -- it -- it
- 11 kept some of it and it rejected others because
- 12 of the situational difference.
- MS. SPINELLI: No, with respect,
- Justice Sotomayor, what it -- what it did is it
- said that the licensee can retain its rights
- 16 under the contract. And that's precisely at
- 17 issue in Lubrizol.
- 18 It did -- it did, in addition, go on
- 19 to set out a specific federal regime governing
- 20 subsidiary issues that arise with respect to
- 21 the relationship between the licensee and the
- 22 licensor following rejection. And you're
- 23 correct that that regime differs in some
- 24 respects from the state law that would
- otherwise apply.

1 But there is no question whatsoever 2 that Congress repudiated the basic rule of 3 Lubrizol, saying that it was never intended, 4 that, in addition to relieving itself of the 5 debtor's affirmative performance obligations, 6 Congress never thought that rejection would 7 enable the estate to take back rights already 8 conveyed to the licensee. 9 JUSTICE GINSBURG: Could one say it 10 didn't take any position on Lubrizol one way or another in the trademark context? It did quite 11 12 specifically in the patent context, but it 13 didn't either approve or disapprove. 14 MS. SPINELLI: One could say that, 15 Justice Ginsburg. I -- I believe the reason that Congress didn't include trademarks in 16 365(n) is because it -- first of all, it was 17 18 dealing with an emergency with respect to 19 patent licenses. The situation was described 20 as urgent. That was what Lubrizol was about. 21 Congress recognized that trademarks do 22 have some differences from patents, and it 23 thought that further study was required in order to shape the federal rules that would 24 25 govern the parties' relationship.

1 JUSTICE KAGAN: But -- but the 2 difference -- it said specifically, didn't it, 3 what the difference it thought there was, 4 right? 5 MS. SPINELLI: Yes, it did. 6 JUSTICE KAGAN: Which was this quality 7 control --8 MS. SPINELLI: Correct. 9 JUSTICE KAGAN: -- obligation that 10 Justice Alito started us off with. And I guess just to take us back there, why is it that that 11 12 obligation does not make trademarks different 13 under -- you -- you say we look to state law. 14 I mean, is it -- are you saying that 15 there's uniform state law that says that the quality control obligation sort of makes no 16 difference with respect to this issue, that the 17 18 entire contract is not unwound? 19 MS. SPINELLI: There's -- I don't 20 believe anyone would say that the entire 21 contract can be unwound by the unilateral act 22 of the licensor. That's just basic contract 23 law. 24 JUSTICE KAGAN: Right. I mean, the

question is whether the quality control

- 1 obligation makes trademarks different --2 MS. SPINELLI: Not --3 JUSTICE KAGAN: -- from normal 4 contract law. 5 MS. SPINELLI: No. 6 JUSTICE KAGAN: That's the question. 7 MS. SPINELLI: And the answer is no. 8 There is no support for that at all. What 9 happens -- what happens when the licensor 10 abdicates its quality control obligations, which, again, stem from trademark law, not from 11 12 the contract, is that the licensor risks 13 abandonment of the mark. 14 So the licensor may use the -- may 15 lose its rights in the mark. If that happens, then the mark is up for grabs. The licensee 16 can continue to use it. So can third parties. 17 18 Whoever can establish rights in it through use 19 will be the new owner. 20 But it absolutely does not change 21 basic contract law principles, including that 22 the breaching party cannot terminate the
- JUSTICE ALITO: What would that -- I'm

contract because it breaches. The opposite is

23

2.4

true.

- 1 sorry.
- 2 MS. SPINELLI: I'm sorry, Justice
- 3 Alito.
- 4 JUSTICE ALITO: What would happen in
- 5 this situation? So the debtor is the lessor of
- 6 residential property. It rejects the lease,
- 7 and you would say that the -- the -- however,
- 8 the -- the lessee could continue to live --
- 9 MS. SPINELLI: Correct.
- 10 JUSTICE ALITO: -- in the residential
- 11 property, and the lessor would be relieved of
- any further obligations under the contract?
- MS. SPINELLI: Correct.
- 14 JUSTICE ALITO: But not statutory
- 15 obligations?
- MS. SPINELLI: Correct -- it --
- 17 correct. So if --
- 18 JUSTICE ALITO: So if there was a
- 19 statute that said that the -- any lessor of
- 20 residential property has to provide heat, they
- 21 would continue -- it would have to continue to
- 22 do that?
- 23 MS. SPINELLI: Precisely. And the
- 24 reason that's so is that the estate is the
- owner of the underlying property. So, if it's

- 1 an apartment building, the estate now owns the
- 2 apartment building.
- 3 The estate is not given any kind of
- 4 exemption from generally applicable law
- 5 relating to property ownership simply because
- 6 it's in bankruptcy or because a contract
- 7 relating to that asset has been rejected.
- 8 This is the kind of thing the trustee
- 9 deals with every day. The trustee is obligated
- 10 with respect to all of the estate's assets to
- 11 comply with generally applicable law, and it's
- 12 also required to decide whether a particular
- asset is valuable enough to be worth investing
- 14 estate funds in.
- So, with regard to the quality control
- obligation, the trustee will have to make a
- 17 decision: Is this mark valuable to the estate?
- 18 And, if so, is it valuable enough to warrant
- making the really pretty minimal investment
- that's necessary to continue monitoring
- 21 quality?
- JUSTICE KAGAN: I mean, just thinking
- 23 --
- MS. SPINELLI: That --
- JUSTICE KAGAN: I'm sorry.

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1
               MS. SPINELLI: No, please, Justice
 2
     Kaqan.
 3
               JUSTICE KAGAN: You know, just
 4
      thinking about that example you gave, the
 5
      analogy of the --- the lessor of real property,
 6
      there is in many cities background law that
 7
      says once the landlord stops maintaining the
 8
     property, the city insists that the tenant
 9
      leave because the property isn't safe anymore.
10
               And I guess one question is whether
11
      there might be or is a similar background rule
12
      with respect to what happens to a trademark
13
     where the obligation for quality control is not
14
     being maintained? Is that a silly analogy?
15
               MS. SPINELLI: It's not a silly
16
      analogy at all, but there is not analogous law.
      It -- you know, the -- again, the licensor's
17
      breach doesn't entitle it to terminate the
18
19
      licensee's rights.
20
               JUSTICE SOTOMAYOR: Before you --
               CHIEF JUSTICE ROBERTS: Does -- does
21
22
      the licensee have any rights with respect to
23
      quality control if the licensor is not
      fulfilling its duty?
24
25
               MS. SPINELLI: So the licensee
```

- 1 frequently takes upon itself the great burden
- of quality control. I mean, quality control is
- 3 obviously in the licensee's interest as much as
- 4 the licensor's, because the licensee wants to
- 5 maintain the validity of the mark just as much
- 6 as the licensor. And the licensee is selling
- 7 goods, and it doesn't want them to get a
- 8 reputation for poor quality.
- 9 JUSTICE GORSUCH: Can I ask you to
- 10 address the mootness question in this case?
- MS. SPINELLI: Of course.
- 12 JUSTICE GORSUCH: So as I understand
- it -- let's put the exclusive distribution
- 14 rights off the table. The -- the court below
- said they're forfeited. Assume for the moment
- 16 that I'm going to -- I'm not going to
- 17 un-forfeit them. So we just have the license
- 18 arrangement.
- 19 And as I understand it, your client
- 20 wasn't under any orders not to use the license,
- 21 the trademark, and so what -- on what theory
- 22 are you injured and -- and what damages might
- 23 you have?
- MS. SPINELLI: Mission was injured
- 25 because it was wrongly prevented from using the

- 1 trademark on its goods post-rejection. The
- 2 bankruptcy court --
- JUSTICE SOTOMAYOR: But, wait a
- 4 minute, it had stopped -- it had said two years
- 5 before, leading up to the agreement, that it
- 6 wasn't going to order any goods.
- 7 MS. SPINELLI: Well, what happened,
- 8 Justice Sotomayor, is that, prior to
- 9 bankruptcy, Tempnology attempted to terminate
- 10 the contract. Mission placed a purchase order.
- 11 Tempnology said, we're not going to fill that
- 12 order.
- So it's true that immediately before
- 14 the bankruptcy, Mission hadn't been placing
- purchase orders because Tempnology was refusing
- 16 to fill them. And then, once the rejection
- 17 order was put in place --
- 18 JUSTICE SOTOMAYOR: Were you producing
- 19 your own goods using their trademark, or were
- 20 you just --
- MS. SPINELLI: No.
- JUSTICE SOTOMAYOR: -- buying from
- 23 them?
- MS. SPINELLI: Oh, I'm sorry -- no.
- 25 At that point, we were purchasing the goods

Т.	Trom remphorogy, which was a requirement under
2	the contract.
3	JUSTICE SOTOMAYOR: So they no longer
4	had to supply you with goods. So why are we
5	here? Meaning
6	MS. SPINELLI: They did have an
7	obligation
8	JUSTICE SOTOMAYOR: that's a
9	brief they have they have they have an
10	obligation and you're open to damages, but
11	without an without you producing the goods,
12	I thought that brief from the amici said that
13	you're relieved from supplying goods, the
14	lessor is relieved from supplying goods.
15	MS. SPINELLI: But, Justice Sotomayor,
16	we had a right under the agreement, if
17	Tempnology failed to provide us with goods, to
18	source those goods elsewhere.
19	May I reserve the remainder of my
20	time?
21	CHIEF JUSTICE ROBERTS: Yes.
22	MS. SPINELLI: Thank you.
23	CHIEF JUSTICE ROBERTS: Mr. Tripp.
24	
25	

1 ORAL ARGUMENT OF ZACHARY D. TRIPP 2 FOR THE UNITED STATES, AS AMICUS 3 CURIAE, IN SUPPORT OF THE PETITIONER 4 MR. TRIPP: Excuse me. Mr. Chief 5 Justice, and may it please the Court: 6 If I could just pick up on a couple of 7 the questions about whether trademarks are 8 different and then say a few words about our 9 rule, why Respondents are wrong, and what the 10 United States' interest is here. 11 So I -- I think an important point 12 about trademarks with the quality control --13 JUSTICE GORSUCH: I'm not going to 14 interrupt you again --15 MR. TRIPP: Yeah. JUSTICE GORSUCH: -- but if you could 16 add to that excellent list of things to do 17 18 discussing mootness. 19 MR. TRIPP: Yeah --20 JUSTICE GORSUCH: Thank you. MR. TRIPP: -- I'll -- I'll start with 21 22 the mootness. The case is not moot. 23 at bottom, a claim for money damages, and it's still up in the air whether Petitioner is going 24 25 to get a judgment in its favor.

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1
               Respondent has raised a number of
 2
      arguments why, on remand, Petitioner would lose
 3
      even if you rule in their favor here, but
 4
      Petitioner disputes all of that, and no court
 5
      has resolved those remaining disputes. But --
 6
               JUSTICE GORSUCH: Well, if we put
 7
      aside the exclusive distribution agreement, and
 8
      I -- I really don't want to belabor this --
 9
               MR. TRIPP: Yeah.
10
               JUSTICE GORSUCH: -- but I'd like you
      to focus specifically on -- on the trademark
11
12
      license.
               If there was no order prohibiting
13
14
      Petitioner from using the trademark at any
15
     point, then where are the damages?
16
               MR. TRIPP: But this part of
17
      Respondent's argument I'm -- I'm not sure I
18
      understand because it seems to prove way too
19
     much, because if it's right that you can't get
20
      damages even when there's a bankruptcy court
21
      order, basically a declaratory judgment saying
22
      that it would be unlawful for you to use the
23
      mark, then you wouldn't be able to get damages
24
      even under their theory of the case that you
25
      can take away the license in bankruptcy by
```

2.2

- 1 rejecting it and terminating it; you -- you
- 2 would leave the counterparty with nothing,
- 3 unless they went back into court and asked for
- 4 an injunction against the thing the court just
- 5 told it was already illegal.
- It's a very strange argument, so I'm
- 7 not sure I follow that.
- 8 JUSTICE GORSUCH: The bankruptcy
- 9 argument -- well, I'm not sure I follow you.
- 10 So one of us is just confused --
- 11 MR. TRIPP: Yeah.
- 12 JUSTICE GORSUCH: -- and it may well
- 13 be me, but if -- if the bankruptcy court is
- 14 simply saying you've rejected it and if
- 15 rejection only means that you don't have to
- 16 perform and that you breached, does that
- 17 prohibit --
- 18 MR. TRIPP: No, that -- that wouldn't
- 19 have prohibited it. But the bankruptcy court
- 20 here went further and said, the effect of
- 21 rejection is to terminate your license, is to
- 22 take it away from you. They -- they -- it --
- it adopted Respondent's rule, which we're
- 24 respectfully submitting is wrong.
- JUSTICE GORSUCH: I see. Okay.

```
1
               MR. TRIPP: And Petitioner --
 2
               JUSTICE GORSUCH: I under -- I track
 3
      you now. Thank you.
 4
               MR. TRIPP: And so Petitioner is
 5
      saying there's -- there's money on the table.
 6
               JUSTICE SOTOMAYOR: So go back to the
 7
      argument you were making. So the court tells
      them you can't, you don't have an exclusive
 8
 9
      license. That's been waived or forfeited.
               So what remains of this case?
10
               MR. TRIPP: Well, they also --
11
12
               JUSTICE SOTOMAYOR: Because you're
      saying under their theory they can't move
13
14
      forward, they have a non-exclusive license, but
15
      if they're not getting goods, what's their --
16
      why isn't this case moot?
17
               MR. TRIPP: Well, at least as I
18
      understand Petitioner's theory, and, of course,
19
     we wouldn't have a position on -- on what's
20
      going to happen on remand. They are saying
21
      there is still money on the table they could
22
     have gotten, they could have sourced the goods
23
      from somewhere else. And -- and no court has
24
      resolved these remaining claims.
25
               And so this is still a very much alive
```

- 1 case. And we're really urging the Court just
- 2 to answer the trademark question here and to
- 3 send it back down. The First Circuit has a
- 4 damaging precedent on the books that we think
- 5 really just undermines the -- the stability and
- 6 value of trademark licenses across the board.
- 7 I mean, you imagine a situation where
- 8 you're a franchisee who's invested millions of
- 9 dollars in reliance on the ability, you know,
- 10 to -- to -- to put up the name McDonald's and
- 11 the -- and the golden arches and all of that.
- 12 What -- under Respondent's rule, what
- 13 they are saying is as soon as the -- the
- 14 trademark owner goes into bankruptcy for any
- reason, they can pull the rug out from under
- 16 every single one of its franchisees and
- 17 basically put them to an extortionate choice
- 18 between paying a higher royalty payment or
- 19 shutting down their business and firing all
- 20 their workers.
- 21 And -- and so we're really urging the
- 22 Court just to adopt the Sunbeam rule and to
- 23 reverse.
- 24 And to get back to --
- 25 JUSTICE BREYER: Do you want -- do you

- 1 want -- are you -- I mean, the main question
- 2 that I have, I think, is the same that Justice
- 3 Alito and Justice Kagan had --
- 4 MR. TRIPP: Yeah. That's where I was
- 5 just --
- 6 JUSTICE BREYER: -- where I think --
- 7 well, let me show you. Where I think this
- 8 comes from an article by Professor Andrews, and
- 9 he says, look, I'm the debtor, you're the
- 10 licensee, but say you leased a house. There
- 11 are two assets here; one is the house, which
- 12 you've leased, and the other is a promise by me
- 13 to replace the windows. All right?
- So, if you can analogize it to that,
- 15 you win. Well, the more I think about it, I'm
- 16 not sure. Why?
- 17 A, there are a lot of special
- 18 provisions in the trademark law and in
- 19 bankruptcy law about houses and leases. B,
- 20 it's really a special kind of house. It's like
- 21 a house that would collapse unless you keep it
- 22 up; maybe like an igloo that you promised to
- 23 air condition. You know, you break your
- 24 promise to air condition, no more igloo.
- Now, if you seem to think of it like

- 1 that, you think, no, there aren't two rights.
- 2 MR. TRIPP: Yeah.
- JUSTICE BREYER: This upkeep business
- 4 is an essential part of one right, which is
- 5 going to give you the house to live in. So I
- 6 -- I -- I -- so I had -- I would like you or
- 7 Ms. Spinelli or, you know --
- 8 MR. TRIPP: Yeah. So --
- 9 JUSTICE BREYER: -- at some point to
- 10 tell me which is the strong -- why is it
- 11 stronger when --
- MR. TRIPP: Yeah. It's not really
- 13 like that. And I think a key portion of this,
- 14 key -- key piece of it is if the trademark
- owner stops performing the quality control --
- JUSTICE BREYER: Yeah.
- 17 MR. TRIPP: -- and maintaining the
- 18 distinctiveness of the mark to consumers, that
- does not instantly destroy the mark, right?
- 20 That is a process, gradual, it's over time.
- 21 And then another thing that makes it
- 22 different from your igloo example is that, at
- 23 the end of the day, the licensee can still use
- 24 the mark because the only thing that happens if
- 25 you stop performing the quality control is

- 1 eventually, at the end of the day, after some
- period of time, it'll be abandoned and returned
- 3 to the public domain.
- 4 And I -- I really think it's --
- 5 actually, it's a lot more like the situation in
- 6 our brief, which we talk about, of leasing
- 7 somebody a photocopier where you agree to
- 8 maintain it over time.
- 9 It may well be that if you stop the
- 10 maintenance on the photocopier, that eventually
- 11 the photocopier is going to -- going to
- 12 eventually break down. But that doesn't mean
- that you can repossess the copier by breaching
- 14 your obligation to perform the maintenance,
- 15 right? That's, I think, really the heart of
- 16 this case.
- 17 Just to say a couple words about why
- 18 Respondents are wrong, they're pressing an
- 19 argument in their -- in their briefs that you
- 20 should draw a negative inference from (n), that
- 21 the exact opposite rule should apply for
- 22 trademarks.
- 23 And I just want to emphasize how
- 24 bizarre it would be to read (n) that way. The
- 25 whole point of (n) was to overrule Lubrizol's

2.8

- 1 specific result as to patents. And nobody
- 2 implicitly ratifies or endorses a court's mode
- 3 of reasoning.
- 4 JUSTICE SOTOMAYOR: Except the report
- 5 said exactly the opposite, that they weren't
- 6 taking a position.
- 7 MR. TRIPP: Yeah, so I -- I --
- 8 JUSTICE SOTOMAYOR: So it can't be
- 9 that their entire -- their entire purpose was
- 10 to overrule. As I mentioned, they overruled it
- in part and didn't in part.
- MR. TRIPP: Yeah. So --
- 13 JUSTICE SOTOMAYOR: Because there are
- 14 certain contracts they gave the lessees more
- 15 rights or the lessors more rights. They
- 16 exempted some things from royalty payments or
- 17 royalty setoffs. They did a bunch of different
- 18 things.
- 19 MR. TRIPP: So I think that's -- I
- 20 think really they overwhelmingly overruled
- 21 Lubrizol. That's really the bottom line. And
- 22 the differences are really far down in the
- 23 details. This is a reticulated scheme that
- 24 Congress established for patents that is, I
- 25 admit, somewhat different than what would apply

- 1 under the general background rule, like under
- (n)(3) and (n)(4), this is pretty far down in
- 3 the weeds, but -- and this is reproduced in our
- 4 brief in 14-A and 15-A.
- 5 It imposes basically an obligation on
- 6 the licensor to actually continue performing
- 7 some of the obligations under the contract,
- 8 notwithstanding the rejection. In (n)(4), it
- 9 imposes a duty to continue performing, even
- during the period where the trustee's still
- 11 trying to figure out whether to assume or
- 12 reject it.
- 13 And so I think really the right lesson
- 14 to take away from (n) is the one Justice
- 15 Ginsburg was saying, which is that it doesn't
- 16 put a thumb on the scale one way or the other.
- 17 They just didn't answer the trademark question.
- 18 Sometimes an omission is just an omission, as
- 19 Judge Easterbrook put it.
- 20 But -- so then what you have to do is
- just resolve this by looking at the background
- 22 rule under (a) and (g). And on that, I think
- 23 we have just by -- by far the better of the
- reading because (g) tells you what happens when
- you reject a contract, and the answer is that

- 1 the rejection constitutes a breach.
- 2 And I guess just one last point about
- 3 (g) which I think is very helpful to our
- 4 position, and this is reproduced in -- in the
- 5 text at 8-A.
- 6 I mean, really, Respondents are
- 7 effectively reading (n) to be an exception to
- 8 the general rule in (g). They are saying that
- 9 the general rule in (g) is that you can claw
- 10 back somebody's rights, take back past
- 11 performance. But, if you look at the text of
- 12 (g), it just doesn't say that.
- 13 It doesn't mention (n). It doesn't
- 14 say that it's an exception. And it identifies
- these two other provisions, (h)(2) and (i)(2),
- as exceptions to the general rule, and they
- 17 have nothing to do with what we're talking
- 18 about here. Those are about situations where
- 19 you get an offset rather than a prepetition
- 20 claim.
- JUSTICE SOTOMAYOR: I'm sorry, I don't
- 22 really understand that argument. It seems as
- 23 all of these are exceptions by their nature,
- 24 and that goes contrary to the general rule that
- if it's an exception, the rule is different

- 1 than the exception.
- 2 MR. TRIPP: No, I think what they
- 3 really are are codifications of the background
- 4 rule to clarify difficult situations that have
- 5 arisen --
- 6 JUSTICE SOTOMAYOR: That's what you
- 7 think, but, you know, the greatest problem here
- 8 is that rejection is not a contract term. We
- 9 don't -- when we talk about contracts, we talk
- 10 about repudiating them, terminating them,
- 11 avoiding them, a bunch of different language.
- But bankruptcy is using a very
- 13 specialized term, rejection. And your
- 14 adversary's right that it's not generally that
- we reject a piece of a contract. We generally
- 16 reject the entire contract. And so it's not
- 17 the rejection of one claim under a contract.
- 18 So it -- there is some force to their
- 19 argument that reading it the way you do is
- 20 contrary to its language.
- 21 MR. TRIPP: If I could answer the
- 22 question?
- 23 CHIEF JUSTICE ROBERTS: Yes.
- MR. TRIPP: So just, I mean, (g) says
- 25 that it constitutes a breach. I've already

- 1 walked through a couple other things, the
- 2 avoidance powers cut back on this, but just one
- 3 last one is the history of this language which
- 4 we discuss in our brief, that it's grounded in
- 5 the common law of trusts and receiverships, the
- 6 idea that the trustee is not technically a
- 7 party to the contract, and it has a choice of
- 8 whether to assume or reject it.
- 9 And the rule back then under the
- 10 common law was the same one we're advocating
- 11 now, the Learned Hand decision we cite in our
- 12 brief drives this home, that the trust -- that
- 13 the bankrupt landlord, the trustee, can stop
- 14 paying for your heat and hot water, but he
- 15 cannot evict you. You keep your rights.
- And so we're asking the Court to
- 17 reverse.
- 18 CHIEF JUSTICE ROBERTS: Thank you, Mr.
- 19 Tripp.
- 20 Mr. Hallward-Driemeier.
- ORAL ARGUMENT OF DOUGLAS HALLWARD-DRIEMEIER
- ON BEHALF OF THE RESPONDENTS
- 23 MR. HALLWARD-DRIEMEIER: Mr. Chief
- 24 Justice, and may it please the Court:
- 25 I'd like to start with the issue of

- 1 mootness. And if we take the exclusive
- 2 distribution rights off the table, which was
- 3 the source of the \$4 million of claims that
- 4 Petitioner referred to in their reply at the
- 5 petition stage that kept the case from being
- 6 moot, we're left only with a non-exclusive
- 7 trademark license that has already expired.
- 8 And any dispute about the rights under
- 9 that is moot. As I said, it's already expired,
- 10 so we don't have a forward-looking issue. It
- 11 would only be a past issue. And as the
- 12 questions have indicated, there were -- was no
- use of the trademark during the post-rejection
- 14 period.
- 15 JUSTICE SOTOMAYOR: The -- the
- 16 bankruptcy court did not stop that
- 17 non-exclusive use, correct?
- 18 MR. HALLWARD-DRIEMEIER: That --
- 19 that's right. All that the bankruptcy court
- 20 did was, at our request, declare the parties'
- 21 rights, what was the meaning of rejection.
- 22 And the -- the only argument that
- 23 Petitioner has that would -- that they have
- some basis of claim against my client for the
- 25 post-rejection period is that we sought that

ruling from the court. But --1 2 JUSTICE GORSUCH: Why isn't that 3 enough to have -- at least have an acorn of 4 injury for Article III purposes, the 5 uncertainty created by a declaratory judgment 6 that effectively you can't use it? It may not 7 prohibit you from using it, but it sure may 8 cause you to think twice about doing so. And 9 there might be damages available. 10 MR. HALLWARD-DRIEMEIER: Your Honor, I -- I think that would be directly contrary to 11 12 the First Amendment and the Noerr-Pennington doctrine. We have a right to go to court to 13 14 ask it to declare the parties' rights, and that 15 can't be the tortious act that creates damages on the part of the other side. They have no 16 17 claim against us because we took no action 18 against them to stop them from using the -- the 19 trademark. Their own words in the First Circuit 20 21 reflect this because, by their own words -- and this is at JA 572 -- they say, "But for the 22 23 bankruptcy court decision, Mission would have 24 continued using Coolcore's trademarks." So it 25 was only that decision, and our only act is

- 1 asking the court to make a ruling. And I don't
- 2 believe that this Court's precedent would allow
- 3 a claim to be based on that.
- 4 That's our mootness argument. And
- 5 with that, I'm happy to proceed to the merits
- on the assumption that the Court might reach
- 7 them.
- 8 JUSTICE SOTOMAYOR: Could you answer
- 9 the solicitor general's concern that a ruling
- in your favor would affect any number of other
- 11 contracts, the copier example, the -- the car
- 12 example, any of the other, or the McDonald's
- 13 franchise?
- 14 MR. HALLWARD-DRIEMEIER: I'd -- I'd be
- 15 happy to, Your Honor, because I think the
- 16 photocopier example is actually paradigmatic.
- 17 And there is -- we -- we mentioned that there's
- another section of the code, Section 542(a),
- 19 that -- that provides for a party who's in
- 20 possession of property of the estate to return
- 21 that property to the estate upon the filing of
- 22 the petition.
- 23 And if the copier is held under a
- lease, then the copier is property of the
- 25 estate. And that provision would require the

- 1 -- the party to return the copier to the -- to
- 2 the -- to the bankruptcy estate, unless they
- 3 assume the contract, which they're going to do
- 4 because that's a source of income.
- 5 So, as a practical matter, they always
- 6 assume that. The copier in position under the
- 7 contract is worth more than getting back a used
- 8 copier, which is not worth very much.
- 9 But that's what the rule provides.
- 10 If, on the other hand, the copier has already
- 11 been sold, then it's no longer property of the
- 12 estate, and the other party does not have to
- 13 return it.
- 14 And that's exactly what -- the rule
- 15 that we advocate for. So under Section 365 --
- JUSTICE SOTOMAYOR: And the McDonald's
- 17 franchise?
- 18 MR. HALLWARD-DRIEMEIER: The
- 19 McDonald's franchise is an interesting
- 20 exception because they highlight the million
- 21 dollars perhaps or more that's been invested by
- 22 the franchisee. That does not distinguish the
- 23 franchisee from any of the other creditors of
- 24 the bankruptcy estate.
- 25 A person might have invested millions

- of dollars as a bondholder in the estate. It
- 2 might have been a -- a trade creditor with
- 3 millions of dollars of claims.
- 4 All of those claims are reduced to
- often pennies on the dollars because they're
- 6 prepetition claims. And that's the same that
- 7 Congress provided for counterparties. All the
- 8 creditors of the bankruptcy estate have to
- 9 bring these claims as prepetition claims.
- 10 And that's the critical language of
- 365(g)(1). It says that it constitutes a
- 12 breach, but doesn't stop there. It says that
- it constitutes a breach as of the day before
- 14 the petition. It's a prepetition claim for
- 15 breach.
- And it's the temporal element that's
- 17 critical. And that temporal element continues
- through the other provisions. 502(g)(1) says
- 19 that you must bring your claims on the basis of
- 20 rejection and that that claim is as if the
- 21 breach had happened before the petition.
- 22 And when you get to 1114, which is the
- 23 discharge provision, it says that those claims
- that arose before the plan is confirmed are
- 25 discharged, and then it specifically

- 1 cross-references 502.
- 2 JUSTICE ALITO: And what do you say
- 3 about the -- the example of the lessor and the
- 4 lessee?
- 5 MR. HALLWARD-DRIEMEIER: Well, Your
- 6 Honor, ever since the 1934 Act, Congress has
- 7 included exceptions that specifically deal with
- 8 real estate. And so I would say we'd have to
- 9 go to the terms of the specific -- specific
- 10 exception in 365(h)(1).
- 11 Now what's notable is that that
- 12 exception -- two things. One, it provides less
- rights, not more, but less rights than under
- 14 Petitioner's general rule. So instead of being
- 15 an exception that -- that protects a -- a
- 16 favored class, which is what Congress thought
- 17 it was doing, it's instead a statement that --
- 18 that puts them in a worse position.
- 19 The other thing that's interesting
- about it is that 365(h)(1) only applies to
- lessees where the lease has commenced. So, in
- other words, the party whose lease has
- 23 commenced, which is the party that would have a
- 24 particular claim on Congress's interest, has
- 25 lesser rights than a lessee whose lease has not

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1
     yet commenced. If you've not --
 2
               JUSTICE GINSBURG: Can we go back and
 3
      see -- is there any disagreement between you
 4
      and the other side about what would happen
 5
      outside bankruptcy? And as we're told, outside
 6
     bankruptcy, one party's rejection doesn't
 7
      terminate the rights of the opposing party.
 8
               MR. HALLWARD-DRIEMEIER: That --
 9
      that's right, Your Honor. The -- the out --
      the non-bankruptcy rule is that the
10
      counterparty has the choice. They can either
11
12
      treat the contract as having been a total
     breach, once -- an anticipatory rejection,
13
14
      counterparty may treat it as a total breach, or
15
      it may seek to enforce the contract.
16
               What Congress did in 365 is --
17
               JUSTICE KAGAN: And -- and you don't
18
      think that there's, outside bankruptcy, any
19
      special rule for trademarks? You agree --
20
               MR. HALLWARD-DRIEMEIER: I -- I -- no,
21
      no, I do think that there are special -- I
22
      think that trademarks is a special rule. But
23
      what I'm trying to explain is that -- that the
      statute does not operate as they presuppose it
24
25
      does, that the general rule --
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1 JUSTICE KAGAN: Well, I just want -- I 2 want -- I want you to tell me -- and I think 3 this is consistent with Justice Ginsburg's 4 question -- outside bankruptcy, what would be 5 the rule in this context, in the trademark 6 context? 7 MR. HALLWARD-DRIEMEIER: Well. Your Honor, I -- I think -- our view is that you 8 9 would have a breach of contract claim, but you 10 would not have an ongoing use of -- of the trademark because -- precisely because of the 11 12 nature of the trademark. The nature of the trademark is that it is the trademark owner's 13 14 reputation. 15 JUSTICE BREYER: All right. It's a 16 day before bankruptcy. Nobody knows bankruptcy's going to take place. I am the 17 holder of a trademark. I have leased it to 18 19 you, and you can use it for 10 years, and I 20 assume certain obligations. 21 And I write you a letter. You say, 22 ha, ha, ha, I'm not going to do it. Which is a 23 material breach of the contract. Now you bring a lawsuit, the day before, and you say: Judge, 24 25 you know, I want to keep the leased good, which

- 1 could be anything, jewels for a costume
- 2 company, you know -- I don't know about igloos,
- 3 but -- but -- but nonetheless, you say it could
- 4 be anything.
- 5 Okay. What's the law? Can I keep it
- 6 or not keep it?
- 7 MR. HALLWARD-DRIEMEIER: Well, in --
- 8 in our view, you -- you can't because --
- 9 JUSTICE BREYER: Now, when you say "in
- 10 -- in -- in your view," I already stop you
- 11 because it's amazing to me that there is no
- 12 authority that's more on point than this real
- estate stuff, which, as you say, is absolutely
- 14 filled with writings in the statute.
- 15 All right, but -- so -- so you say "in
- 16 your view, " that means you're not certain?
- 17 MR. HALLWARD-DRIEMEIER: Well, I -- I
- 18 don't think that there's -- there's case law
- 19 that's clear on this --
- JUSTICE BREYER: No?
- MR. HALLWARD-DRIEMEIER: -- but -- but
- the notion of the trademark as property, and
- 23 McCarthy is very clear --
- JUSTICE BREYER: No, I'm not talking
- 25 about trademarks. Let's -- necessarily, but --

- 1 but, gee, I mean, they've had property law for
- 2 500 years and people have breached for 500
- 3 years. And --
- 4 MR. HALLWARD-DRIEMEIER: But not
- 5 trademarks, Your Honor, because --
- JUSTICE BREYER: Well, no, okay,
- 7 but there --
- 8 MR. HALLWARD-DRIEMEIER: Because you
- 9 couldn't -- at common law, you couldn't even
- 10 license a --
- 11 JUSTICE BREYER: Okay.
- 12 MR. HALLWARD-DRIEMEIER: -- a
- 13 trademark because it was the person, the
- owner's reputation.
- JUSTICE BREYER: You can't think of
- any analogy or anything that would tell us when
- 17 you walk in the day before, say nobody knows
- 18 about bankruptcy, and you say Breyer has
- 19 breached the contract --
- 20 MR. HALLWARD-DRIEMEIER: I -- I --
- JUSTICE BREYER: -- but I want to keep
- the property.
- 23 MR. HALLWARD-DRIEMEIER: I think --
- 24 JUSTICE BREYER: There's just no good
- 25 case that would help me?

MR. HALLWARD-DRIEMEIER: Well, if 1 2 we're talking about something other than --3 other than trademark --4 JUSTICE BREYER: Anything that you 5 think is analogous. 6 MR. HALLWARD-DRIEMEIER: -- other than 7 trademark, then you're right, that the -- the 8 -- the non-bankruptcy law is that the 9 counterparty gets to choose whether to treat 10 that anticipatory breach as --11 JUSTICE BREYER: Okay. If that's --12 JUSTICE KAGAN: Right. But the question is whether you have any authority for 13 14 the proposition that trademark is different, whether there's any authority that says if 15 16 you're outside bankruptcy and the licensor breaches, is there any authority for the idea 17 18 that the licensee then has to stop using the 19 mark? MR. HALLWARD-DRIEMEIER: I don't have 20 21 a case to --22 JUSTICE BREYER: No. And then --23 MR. HALLWARD-DRIEMEIER: -- to that effect, Your Honor. 24 25 JUSTICE BREYER: -- you see then --

- 1 then the argument really turns down to, which
- 2 is where I sort of felt after reading the
- 3 briefs, well, is this continuous obligation to
- 4 keep the trademark going, which is on me, the
- 5 breacher, is that enough?
- And at that point, I become uncertain.
- 7 And one of the things cutting against you is
- 8 that the licensee can keep up the trademark
- 9 himself. I don't know if that's enough. So
- 10 have you found anything that would really help
- 11 me?
- 12 MR. HALLWARD-DRIEMEIER: No, but the
- licensee cannot keep up the trademark. That's
- 14 the problem.
- 15 JUSTICE BREYER: Right.
- MR. HALLWARD-DRIEMEIER: The licensee,
- 17 under the Lanham Act, the licensee may license
- 18 the trademark as a "related party" and it's not
- 19 meaning, you know, subsidiary. It means that
- 20 it is acting under the control of the trademark
- owner.
- 22 Without that control, the trademark no
- 23 longer serves as the source of identifying for
- 24 the consumers that it is a genuine article.
- 25 That's why trademarks are recognized as

- 1 property. Of course, historically --
- 2 CHIEF JUSTICE ROBERTS: So the -- the
- 3 license -- the licensee can't take any steps
- 4 when a third-party is infringing the trademark
- 5 regardless of what the licensor thinks?
- 6 MR. HALLWARD-DRIEMEIER: No. It's --
- 7 it's --
- 8 CHIEF JUSTICE ROBERTS: Because the
- 9 licensee is certainly injured by those infringe
- 10 -- infringing activities.
- MR. HALLWARD-DRIEMEIER: It's -- it's
- 12 the licensor who enforces the trademark because
- it is the licensor's reputation, and the -- and
- 14 the law imposes on the licensor that
- 15 responsibility.
- 16 CHIEF JUSTICE ROBERTS: Well, it may
- 17 be the licensor's reputation, but it's the
- 18 licensee's income, right? If the -- if the
- 19 trademark no longer has value, that certainly
- 20 undermines the value that the licensee saw in
- 21 the original contract.
- MR. HALLWARD-DRIEMEIER: Well, it --
- it may be, Your Honor, but, again, this is why
- 24 McCarthy specifically warns against analogies
- of trademark to other forms of property, even

- 1 those that look very similar, like patents,
- because trademarks require a unity of
- 3 ownership. All goodwill must accrue to the
- 4 trademark owner because --
- 5 JUSTICE BREYER: All right. That may
- 6 be, but there are thousands of McDonald's, I
- 7 guess, firms that have leased the word
- 8 "McDonald." And if one of -- if somehow super
- 9 McDonald went bankrupt, couldn't those trustees
- 10 say the people in this neighborhood trust me to
- 11 have real McDonald's, and what I'll do is I
- 12 will look at every hamburger and I will make
- 13 certain that -- that these hamburgers are
- 14 exactly the same as they were when McDonald was
- 15 still alive or whatever.
- Now he doesn't have a right to do
- 17 that? Because I got the impression in the
- 18 other briefs he does.
- 19 MR. HALLWARD-DRIEMEIER: Your -- Your
- 20 -- Your -- Your Honor, once -- once the
- 21 trademark owner ceases to control the mark and
- 22 enforce the -- the -- the quality --
- JUSTICE BREYER: Yeah. What happens?
- MR. HALLWARD-DRIEMEIER: -- then it
- 25 becomes an abandoned trademark and it loses its

1 value. 2 JUSTICE BREYER: But what happens to an abandoned trademark? Can you use an 3 4 abandoned trademark? 5 MR. HALLWARD-DRIEMEIER: Well, it's no 6 longer a trademark. It's no longer --7 JUSTICE BREYER: No. Can a person --8 MR. HALLWARD-DRIEMEIER: Yes. 9 JUSTICE BREYER: Can --10 MR. HALLWARD-DRIEMEIER: Yes. 11 JUSTICE BREYER: He can, okay. 12 MR. HALLWARD-DRIEMEIER: 13 JUSTICE BREYER: If he can, and here 14 we're dealing with non-exclusive licenses, why 15 isn't that his problem? 16 MR. HALLWARD-DRIEMEIER: Well, Your 17 Honor, again, the -- the -- the rule, the 18 general rule under the 365(g) is that all 19 claims for breach of the contract have to be 20 brought prepetition. And that's because a 21 prepetition claim is pennies on the dollar. 22 postpetition claim is dollars for dollar. 23 If you allow the counterparty to 24 choose, do I want prepetition pennies or do I

want postpetition dollars, they're always going

- 1 to choose dollars. And that would frustrate
- 2 Congress's purpose of ensuring that all claims
- 3 are brought, resolved, and discharged as part
- 4 of the bankruptcy.
- 5 And that's why Congress knew that it
- 6 had to provide all of the exceptions to the
- 7 rule under --
- 8 JUSTICE KAGAN: Okay. But that's your
- 9 -- that's your bigger argument, which is not a
- 10 trademark argument. Your -- that's an argument
- 11 about everything, right, which is that we
- should not read (g) to say that, you know, what
- 13 (g) says, honestly, (g) says constitutes a
- 14 breach. That suggests that you just look to
- the effects of a breach under non-bankruptcy
- 16 law. Why -- why doesn't (g) say that?
- 17 MR. HALLWARD-DRIEMEIER: What (q) says
- is that it constitutes a breach pre-bankruptcy.
- 19 So the question is, what are the claims that
- 20 have to be brought? Are they all claims? Is
- 21 it a total breach and you have to bring the
- full value of claims, or there are some rights
- 23 that -- that continue?
- 24 If Congress thought that some rights
- 25 would continue --

- 1 JUSTICE KAGAN: But what -- but what 2 you're saying, Mr. Hallward-Driemeier, is that 3 -- is that what (g) tells you is that you can 4 unwind the entire deal. And that's not the 5 effect of a breach outside of bankruptcy in --6 in -- certainly in the usual context. 7 MR. HALLWARD-DRIEMEIER: It -- it can be. But -- but the --8 9 JUSTICE KAGAN: Well --10 MR. HALLWARD-DRIEMEIER: -non-bankruptcy rule gives that choice to the 11 12 counterparty. And Congress flipped that in 13 365. It's only in the exceptions that the 14 counterparty has the choice. 15 JUSTICE KAGAN: Well, what language 16 are you pointing to in 36 -- 365(g) that says anything other than we look to see what happens 17 18 when you breach? 19 MR. HALLWARD-DRIEMEIER: It -- the 20 principal language is that it's a prepetition
- 22 -- and I realize the Bankruptcy Code is very

breach. And then you have to trace it through

- 23 convoluted, but you have to trace it through
- 24 502(g)(1).

21

JUSTICE KAGAN: Well, I think we can

1 understand it. 2 (Laughter.) 3 MR. HALLWARD-DRIEMEIER: I'm sure you 4 can, but just to explain why it's going to take 5 me some steps. 502(g)(1) says that a claim 6 that arises from the rejection must be brought, 7 administered, and is discharged under the 8 general rule as if it had arisen 9 pre-bankruptcy. 10 And then the discharge statute, 1114, also refers to 502(g). It says that all claims 11 12 that arose pre-confirmation are discharged. 13 And then it specifically references 14 the claims specified in 502(q). Why? Because 15 what 502(q) does is make clear that all claims based on the breach that is the rejection are 16 17 deemed prepetition breach. 18 If Congress thought that some of those 19 claims would be brought for pennies but other 20 claims could be brought for full dollars, 21 Congress would have told us where that line 22 was, and it didn't. 23 What instead Congress did is it 24 provided the general rule that the -- the --

instead of the counterparty getting the choice

- 1 to treat it as a total breach, if terminated,
- or sue to enforce, the debtor, the trustee gets
- 3 that choice. I'm going to treat it as a total
- 4 breach, terminate it.
- 5 And then what the exceptions do in
- 6 each of them is it gives the counterparty a
- 7 choice. So now it's the exception. Now, as in
- 8 non-bankruptcy law, the counterparty gets the
- 9 choice to treat it as terminated; that's the
- 10 general rule when Congress enacted (n), they
- 11 said that's the general rule, what would apply,
- 12 apart from the exception, or accept these
- 13 rights. But the rights that are accepted are a
- 14 subset of rights that would exist under
- 15 non-bankruptcy law.
- 16 And -- and I'll point you to (n) in
- 17 particular, because (n) makes clear that the
- 18 following rights that the patentee -- that the
- 19 licensee would not -- would have under
- 20 non-bankruptcy law are not available to it,
- 21 okay?
- The right to specific performance.
- 23 The right to updates in the -- in the software
- 24 or the patent. The right to setoff that would
- 25 be available under non-bankruptcy law. The

- 1 right to an administrative claim.
- 2 All of those rights that a party would
- 3 have under non-bankruptcy law the counterparty
- 4 does not have if they elect the rights that
- 5 Congress has provided them under (n).
- 6 So the idea that Congress adopted this
- 7 very detailed exception that goes on for pages
- 8 to provide for patentees' licenses, rather,
- 9 patent licensees, because they were a favored
- 10 party, and that in the end those are fewer and
- 11 lesser than the rights of trademark owners or
- 12 that patent licensees would have had --
- JUSTICE GINSBURG: How do you --
- 14 MR. HALLWARD-DRIEMEIER: -- had there
- 15 been no exception at all.
- JUSTICE GINSBURG: -- how do you
- explain that the scholars in this field, the
- 18 bankruptcy field, disagree with your
- 19 interpretation and they say Lubrizol was wrong
- 20 and Sunbeam was right?
- MR. HALLWARD-DRIEMEIER: Well, Your
- Honor, it's not a uniform view. We've pointed
- 23 to articles that agree with us. The Peter
- Menell article agrees that upon the rejection
- of a trademark license, the licensee's right to

- 1 use is terminated, and instead they have a
- 2 claim for pre-bankruptcy pennies on the dollar.
- And, of course, the Wilton article
- 4 says the same. Mr. Wilton is my co-counsel, so
- 5 I understand you may discount that, but the --
- 6 (Laughter.)
- 7 MR. HALLWARD-DRIEMEIER: But -- but it
- 8 is absolutely not true that the views are
- 9 unanimous in one -- in one respect.
- 10 Among the amici that the other side
- 11 have are the INTA and other organizations that
- 12 have gone to Congress many times to ask
- Congress to adopt an exception similar to (n)
- 14 for trademark licensees, and Congress has
- 15 refused to do so.
- So now they're asking this Court to do
- 17 what they have failed to obtain from Congress.
- 18 But note when they went to Congress to ask them
- 19 to adopt an exception, they understood that it
- 20 had to be nuanced. It had to balance the
- 21 parties' respective rights.
- It had to, for example, provide that
- 23 you had to continue to conform to trademark
- standards, and, for example, that you have to
- 25 continue to pay your share of advertising fees.

1 All of these are things that are 2 different because of trademark, because of the 3 duty of control, because of the need to 4 maintain consistency. And Congress could do 5 that in a statute, that's what was proposed, 6 Congress has declined to do so. And it's --7 JUSTICE BREYER: Let me -- let me be 8 sure I'm not missing something. Forget 9 bankruptcy. Think of contract law over the course of the centuries, all right? 10 Now, as I started out, A breaches a 11 12 provision. The ordinary rule is B can keep the property that he's got if he wants. Isn't that 13 14 the ordinary rule? 15 But then there are lots -- there 16 should be lots of not ordinary cases. should be lots of cases where, maybe not like 17 18 igloos, but the property is severely injured, disappears, dah-dah-dah, unless the breachor 19 20 keeps it up. 21 And in those non-bankruptcy cases, 22 what happens? Does he -- does he -- does --23 does he -- what happens? 2.4 MR. HALLWARD-DRIEMEIER: Well, Your 25 Honor, previously I said that I was not aware

- of a case that specifically held that breach by
- 2 a licensor ends the licensee's right to use the
- 3 mark. My colleagues have --
- 4 JUSTICE BREYER: Yeah.
- 5 MR. HALLWARD-DRIEMEIER: -- have
- 6 reminded me of the Seventh Circuit's decision
- 7 in Gorenstein Enterprises v. Quality Care-USA,
- 8 874 F.2d 431, which holds that it does end the
- 9 licensee's right to use the mark.
- 10 Again, I think that's because of the
- 11 nature of trademark, that it represents the --
- the owner's reputation, the unitary theory of
- ownership, which is unique to trademark, and
- 14 the fact that without that control there is no
- 15 related party to -- to use the -- the -- the
- 16 mark and, therefore, it ceases to be effective.
- 17 JUSTICE ALITO: So this is --
- 18 MR. HALLWARD-DRIEMEIER: But --
- 19 JUSTICE ALITO: -- a special rule --
- 20 we're outside of bankruptcy -- this is a
- 21 special rule for trademarks? It's different
- from the rule that would apply outside
- 23 bankruptcy for, let's say, leased property?
- 24 And it's -- the reason why there's a different
- 25 rule is because of the duty of the -- the

- 1 licensor to maintain the quality control?
- 2 MR. HALLWARD-DRIEMEIER: Right, right.
- 3 There's --
- 4 JUSTICE KAGAN: I thought you were
- 5 saying exactly the opposite,
- 6 Mr. Hallward-Driemeier. I mean, you said this
- 7 is consistent with the rule for photocopiers.
- 8 MR. HALLWARD-DRIEMEIER: In -- in --
- 9 JUSTICE ALITO: And your entire brief
- 10 --
- 11 MR. HALLWARD-DRIEMEIER: -- in
- 12 bankruptcy, in bankruptcy, that's right. I
- 13 thought Justice Alito's question --
- JUSTICE ALITO: Yeah. No, this is --
- MR. HALLWARD-DRIEMEIER: -- had to do
- 16 with non-bankruptcy.
- 17 JUSTICE ALITO: -- outside bankruptcy.
- 18 So I -- I don't -- I don't understand why there
- 19 would be a special rule for trademark, outside
- 20 bankruptcy, that would be -- it would be
- 21 predicated on the licensor's failure to
- 22 exercise the quality control.
- 23 And so, because -- because the
- licensor doesn't want to do that, the licensor
- in -- in breach of the contract gets a more

- 1 favorable result. It doesn't seem to make any
- 2 sense.
- 3 MR. HALLWARD-DRIEMEIER: Well, Your --
- 4 Your Honor, it -- again, I think it's because
- of the unique nature of the trademark as being
- 6 only -- you can only have a valid license of
- 7 the trademark if there is that control. That's
- 8 specified by the Lanham Act. It's -- and --
- 9 and so, if you don't have that control, then
- 10 you no longer have a valid lease --
- JUSTICE SOTOMAYOR: I'm sorry --
- 12 MR. HALLWARD-DRIEMEIER: -- and so --
- JUSTICE SOTOMAYOR: -- but I don't
- 14 know why that doesn't control non-bankruptcy
- 15 rights.
- 16 MR. HALLWARD-DRIEMEIER: We -- if --
- 17 if --
- JUSTICE SOTOMAYOR: Your point would
- 19 seem to control both, but it doesn't seem to.
- You're saying bankruptcy gives you more rights.
- MR. HALLWARD-DRIEMEIER: Well, what --
- 22 what we're saying is that there -- we think
- that with trademarks especially, you can't
- 24 continue to exercise the trademark license
- 25 after rejection and that -- because of the

- 1 unique character of trademarks.
- But, under our view, it's true
- 3 generally as well, because if you have a lease
- 4 of a photocopier, it -- it -- the -- the
- 5 general rule of 365(g) is that if you -- if you
- 6 reject a -- a lease of a photocopier, that
- 7 lease now is -- is effectively terminated.
- 8 It's been reduced to a claim for prepetition
- 9 damages.
- 10 And 542(a) would tell us that the
- 11 possessor of the -- of the photocopier has to
- 12 return it to the estate, unless the -- the
- lease is assumed, which it normally is, because
- 14 it's more beneficial.
- So the general rule is that these
- types of ongoing relationships are terminated,
- they're reduced to a claim for pre-bankruptcy
- damages, breach of contract damages that are
- 19 paid pennies on the dollar, and that it's not
- 20 up to the counterparty to decide they don't
- 21 want pennies on the dollar, they would rather
- 22 have dollars for dollar, because if that were
- 23 the case, then no counterparty would bring a
- 24 claim for pre-bankruptcy breach. They would
- 25 all wait and try to enforce, seek specific

- performance --
- JUSTICE SOTOMAYOR: Do you have any
- 3 argument that would limit a ruling in your
- 4 favor just to trademark law? Because it seems
- 5 to me that you're asking us to do exactly what
- 6 the other side wants us to do, to announce a
- 7 general interpretation of this provision that
- 8 basically says these types of contracts
- 9 actually do survive --
- 10 MR. HALLWARD-DRIEMEIER: Well --
- JUSTICE SOTOMAYOR: -- lessees have
- 12 the right to terminate, in part, and keep other
- 13 rights alive.
- MR. HALLWARD-DRIEMEIER: Well, Your --
- 15 Your Honor --
- 16 JUSTICE SOTOMAYOR: You -- I thought
- when I read your briefs that you had an
- argument as to why we should limit our ruling
- 19 to trademark law. But there's no way to do
- 20 that even under your interpretation.
- MR. HALLWARD-DRIEMEIER: No -- no,
- 22 Your Honor. I -- I think that -- that there
- 23 is.
- 24 First of all, all we're asking the
- 25 Court to do is adhere to its ruling in

- 1 Bildisco, which said that the effect of
- 2 rejection is that the contract is no longer an
- 3 enforceable contract. That's -- that's our
- 4 rule.
- 5 This Court decided it in Bildisco.
- 6 They -- it was in the NLRA context, but the
- 7 first part of the opinion is all about how --
- 8 why, you know, collective bargaining agreements
- 9 are subject to 365(a) and (g), just like any
- 10 other contract.
- 11 And so, when the Court said --
- 12 JUSTICE SOTOMAYOR: That's somewhat
- different because that requires actual
- 14 affirmative obligations by the employers.
- MR. HALLWARD-DRIEMEIER: Well, Your
- 16 Honor --
- 17 JUSTICE SOTOMAYOR: And you're not
- 18 arguing the employer has to -- the trademark
- 19 owner has to continue his rights.
- MR. HALLWARD-DRIEMEIER: One -- one of
- 21 the rights that was -- was deemed one that had
- 22 to be brought as a prepetition claim in
- 23 Bildisco was a -- a -- a claim based upon the
- loss of seniority rights. Seniority rights is
- 25 a form of property right that would be

- 1 protected certainly by the Due Process Clause.
- 2 And yet, that claim for the value of
- 3 the seniority rights had to be brought as a
- 4 prepetition claim. It couldn't just be
- 5 enforced against the employer anymore. It had
- 6 -- it was reduced to a claim for prepetition
- 7 damages.
- 8 And that's the rule that we're
- 9 articulating. But even if 365 didn't work the
- way we say, even if the general rule of 365(g)
- is that non-bankruptcy law provides such that
- 12 the exceptions become superfluous and -- and
- actually give the favored parties fewer rights
- than the general rule would provide, which is,
- of course, contrary to everything this Court
- has ever said about exceptions, which they're
- called, "exceptions" in 365(g), we would still
- 18 have an argument --
- 19 JUSTICE KAGAN: But -- so could I --
- MR. HALLWARD-DRIEMEIER: -- that
- 21 trademark is different.
- JUSTICE KAGAN: -- understand the sort
- of nature of the argument? I mean, you have
- your general argument, and the way that goes is
- 25 Ms. Spinelli says the effect of rejection is

- 1 breach, and you say the effect of rejection is
- 2 rescission. And that's the basic argument,
- 3 where, you know, honestly, Ms. Spinelli has
- 4 this language that says it constitutes a
- 5 breach. So -- but --
- 6 MR. HALLWARD-DRIEMEIER: Prepetition
- 7 breach.
- 8 JUSTICE KAGAN: So -- but then you
- 9 say, even if Ms. Spinelli is right on that and
- 10 we just look to what it means to breach outside
- 11 non -- outside bankruptcy law, then you say we
- 12 have a special rule for trademarks because
- 13 trademarks are different outside bankruptcy
- law, and you point us to a single Seventh
- 15 Circuit case, is that correct?
- 16 MR. HALLWARD-DRIEMEIER: And -- and --
- 17 and the nature of -- of the trademark. And
- 18 McCarthy explains the -- the rule of unitary
- ownership, that it's a different type of
- 20 property, that the property is really just the
- 21 property interest in the owner's reputation,
- 22 and the fact that the whole notion of -- of
- 23 licensing, which was a new advent in trademark,
- 24 was because the licensee is treated as a
- 25 related party because it is operating under the

- 1 control.
- 2 So it is in the nature of the -- it is
- 3 in the nature of trademark that it is subject
- 4 to that control. And without that control, it
- 5 ceases to exist.
- 6 But I want to point the Court to the
- 7 specific language of this trademark license
- 8 which I think really brings home the point.
- 9 This trademark license -- and this is at JA
- 10 237 -- says that it grants to Mission a
- 11 non-exclusive, non-transferable, limited
- 12 license for the duration of the term to use its
- mark for the limited purposes of performing its
- obligations, exercising its rights under the
- 15 agreement, subject to written trademark
- 16 guidelines of the -- of Coolcore and the right
- of Coolcore to review and approve.
- In other words, all it was was a
- 19 contract right. It's not a property right in
- 20 the license. There can't be because of the
- 21 rule of unitary ownership. All it was was a
- 22 contract right to use the trademark subject to
- 23 Coolcore's control.
- 24 And if that control goes away because
- you can't enforce that, that's one of the --

- one of the, you know, prospective performance

 obligations of Coolcore in a rejected contract,
- 3 you can't enforce that, then that control goes
- 4 away, and with the control goes the license.
- 5 Thank you very much.
- 6 CHIEF JUSTICE ROBERTS: Thank you,
- 7 counsel.
- 8 Three minutes, Ms. Spinelli.
- 9 REBUTTAL ARGUMENT OF DANIELLE SPINELLI
- 10 ON BEHALF OF THE PETITIONER
- 11 MS. SPINELLI: Thank you. I have
- three points that I'll try to make quickly.
- 13 First, the Gorenstein case that
- 14 counsel referred to does not hold that a
- 15 trademark licensor can unilaterally terminate a
- license by ceasing to exercise quality control.
- 17 That was a case in which the licensee defaulted
- on the agreement for other reasons and then
- 19 tried to continue using the trademark
- 20 afterwards. Obviously, that can't be done.
- 21 So there's no authority for the
- 22 proposition that general contract principles
- don't apply to trademark licenses.
- 24 Second, this is not about whether the
- 25 debtor can abandon the trademark and get rid of

- 1 its monitoring obligations. It's about whether
- 2 the estate can take back the rights in the
- 3 license and resell them to somebody else and
- 4 distribute the proceeds among creditors, and it
- 5 can't.
- 6 Rejection is not avoidance. There are
- 7 separate avoidance procedures in the code.
- 8 Rejection doesn't let the estate claw back
- 9 interests in the debtor's assets that the
- 10 debtor conveyed before bankruptcy.
- JUSTICE SOTOMAYOR: Could you --
- MS. SPINELLI: So, just --
- 13 JUSTICE SOTOMAYOR: -- answer just one
- 14 question for me? If you continue using the
- mark, do the damages that you incur after the
- 16 filing of the bankruptcy -- are they
- 17 prepetition debt or postpetition debt? Are you
- going to get a priority for the damages that
- 19 accrue after you declare bankruptcy -- after
- 20 bankruptcy had been declared?
- 21 MS. SPINELLI: In this case, Mission
- 22 has an administrative claim stemming from the
- 23 wrongful deprivation of its right to use the
- 24 trademark post-rejection. The estate -- it's a
- 25 claim against the estate that arose

```
postpetition, which is an administrative --
 1
 2
               JUSTICE SOTOMAYOR:
                                   So --
 3
               MS. SPINELLI: -- claim.
 4
               JUSTICE SOTOMAYOR: -- you're going to
 5
      get more rights than (n) gives other
 6
      intellectual --
 7
               MS. SPINELLI: Yes.
 8
               JUSTICE SOTOMAYOR: -- property.
 9
               MS. SPINELLI: And let me explain why
10
      that's exactly what should happen. Prior to
      bankruptcy -- and this is just like a lease,
11
12
      Justice Breyer -- prior to bankruptcy, the
13
     debtor conveyed the licensee an interest in its
14
      intellectual property. We don't have to call
15
      that a property right. It doesn't matter what
      we call it. But it's a stick in the bundle of
16
17
      sticks, just the same way that a lease grants
      the tenant a leasehold interest in the
18
19
      landlord's real property. And McCarthy makes
20
      this exact analogy.
21
               Once the license has been granted, the
22
      licensor no longer has that stick. And it's
23
      uncontested that the licensor can transfer only
24
      what it has. Respondent doesn't dispute that,
25
      outside bankruptcy, if the licensor sold the
```

- 1 intellectual property, the buyer would take
- 2 subject to the license.
- And we do have authority for this.
- 4 It's in the blue brief. And because of that,
- 5 the licensor's creditors also cannot access the
- 6 value of the license for their claims against
- 7 the debtor.
- 8 JUSTICE BREYER: One quick question
- 9 and then there's your third. But -- but --
- and, look, outside of bankruptcy or in general,
- 11 you lease, the lessor leases a trademark to the
- 12 lessee. Lessor doesn't keep it up, doesn't
- 13 quality control.
- Does that stick, which is now in the
- 15 hands of the lessee, dissolve, disappear --
- MS. SPINELLI: No.
- 17 JUSTICE BREYER: -- gone?
- MS. SPINELLI: No, it does not. May
- 19 I --
- 20 CHIEF JUSTICE ROBERTS: Sure.
- MS. SPINELLI: -- respond, Justice
- 22 Roberts?
- No, it doesn't. It -- it continues to
- 24 exist. The -- ceasing quality control does not
- 25 immediately dissolve the license. And because,

1	outside bankruptcy, the deptor doesn't have the
2	right to transfer the license to a buyer or to
3	its creditors, that is also true in bankruptcy.
4	One of the most fundamental principles
5	of bankruptcy is that the estate can't have any
6	greater rights to property than the debtor
7	itself had at the time of filing. The the
8	debtor's IP comes into the bankruptcy estate
9	subject to the license, so the value of the
10	license is not available to creditors. It
11	belongs to the licensee. And nothing about
12	rejection enables the estate to take that
13	license back.
L4	Thank you.
15	CHIEF JUSTICE ROBERTS: Thank you,
L6	counsel. The case is submitted.
17	(Whereupon, at 11:13 a.m., the case
18	was submitted.)
19	
20	
21	
22	
23	
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25	

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