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CONCURRENT SESSION

Are Trademarks Really That Special, or Did Congress Just Miss Something?

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BACKGROUND

A. Mission's Licensing Agreement with Tempnology

Debtor Tempnology developed chemical-free cooling fabrics on which it held issued and pending patents. It produced clothing and accessories like towels, socks, and headbands that were designed to remain cool when used during exercise. Tempnology marketed these products using the COOLCORE and DR. COOL trademarks.

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

The Agreement also carved out a territory for Mission—primarily consisting of the United States—in which Mission had the exclusive right to sell certain products practicing Tempnology's patents and bearing its trademarks, including towels, wraps, and hoodies (the "Exclusive Cooling Accessories"), for the term of the Agreement. Tempnology agreed that, within Mission's exclusive territory, it would not sell the Exclusive Cooling Accessories itself or license others to sell them. Thus, the Agreement gave Mission two distinct licenses: a non-exclusive worldwide license to use Tempnology's trademarks (the "non-exclusive trademark rights") and an exclusive license to sell certain products practicing Tempnology's patents and bearing its trademarks within the United States (the "exclusivity rights").[1]

The Agreement provided that Tempnology would supply finished Cooling Accessories to Mission, which was required to order a minimum number of products from Tempnology. If Mission did not meet those minimum requirements, it would lose its exclusivity rights, and if Mission did not meet the minimum requirements during the initial term of the Agreement, Tempnology would be entitled to terminate the Agreement for cause. The Agreement also provided, however, that if Tempnology did not fill any of Mission's purchase orders in a timely manner, Mission would be entitled to source and manufacture the Cooling Accessories itself, rather than purchasing them from Tempnology. In that event, Mission would not be obligated to meet the minimum purchase requirements.

Either party could terminate the Agreement without cause, triggering a two-year wind-down period during which the Agreement would remain in effect. Moreover, if either party failed to cure a material breach, the other party could terminate the Agreement for cause, ending the Agree- ment immediately with no wind-down period.

In June 2014, Mission exercised its right to terminate the Agreement without cause, triggering the two-year wind-down period. The next month, Tempnology purported to terminate the Agreement for cause. Tempnology did not claim that Mission had failed to satisfy the Agreement's minimum purchase requirements (since Mission had met those requirements). Rather,

[1] The parties agreed that the non-exclusive, worldwide patent license survived rejection, and it is not at issue here.

Tempnology asserted that Mission's hiring of Tempnology's former president seven months earlier violated the Agreement.

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

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

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

B. Tempnology's Bankruptcy and Rejection of the Agreement

On September 1, 2015, after Tempnology's attempt to terminate the Agreement outside bankruptcy had failed, Tempnology filed a Chapter 11 petition, which halted the arbitration proceedings. The next day, Tempnology moved to reject the Agreement under §365(a). Tempnology explained that it filed for bankruptcy in large part because "absent a rejection of the … Agreement, [Tempnology] is prohibited from selling all of the contract exclusive products in the U.S. … until June 2016." Tempnology sought to reject the Agreement to free itself from Mission's rights under the Agreement, which it claimed had "hinder[ed] [its] ability to derive revenue by other marketing and distribution opportunities."

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

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

Tempnology's controlling shareholder, Schleicher & Stebbins Hotels L.L.C. ("S&S"), then agreed to purchase substantially all of Tempnology's assets, including its intellectual property. S&S agreed to pay all unsecured claims against Tempnology in full, except for certain disputed claims, including Mission's rejection damages claim. The sale closed on December 18, 2015.

Although the Agreement was rejected as of the bankruptcy petition date (September 1, 2015), it remained in effect for nearly another year, until expiration of the wind-down period on July 1, 2016. Tempnology and S&S continued to license Tempnology's trademark and contract with third parties to distribute goods bearing that mark during this post-rejection, pre-termination period, including by selling—and licensing multiple additional third parties to sell—the Exclusive Cooling Accessories in the United States.

Mission filed an initial claim for over $4 million for the estimated damages resulting from Tempnology's alleged violations of Mission's rights under the Agreement. Mission reserved the right to amend its damages claim following formal discovery and to assert an administrative claim for damages incurred after the bankruptcy filing if the courts ultimately held that its rights survived rejection. The parties agreed to stay proceedings on Mission's claim pending the Supreme Court's resolution of this matter.

C. Appeal

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

A divided First Circuit disagreed with the BAP in part and affirmed the bankruptcy court. Before deciding the merits, the First Circuit requested that the parties address whether the appeal was moot. Tempnology argued that the appeal was moot because Mission's trademark and exclusivity rights had terminated upon expiration of the wind-down period on July 1, 2016. Mission argued that the appeal was not moot because the treatment of its damages claim for the violation of its rights during the post-rejection, pre-expiration period would turn on the outcome of the appeal. The court rejected Tempnology's mootness argument and reached the merits.

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

In doing so, the majority followed the Fourth Circuit's widely criticized decision in *Lubrizol Enterprises* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1047-1048 (4th Cir. 1985), which held that rejection of a patent licensing agreement enabled the debtor-licensor to take back the rights it had transferred to the licensee under the agreement before bankruptcy. The majority rejected the Seventh Circuit's contrary decision in *Sunbeam*, opining that *Sunbeam* contravened

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[2] The second question presented in Mission's petition for certiorari sought review of that holding, but the Supreme Court denied certiorari on that question.

"Congress's principal aim" in providing for rejection under §365—"'releas[ing] the debtor's estate from burdensome obligations that c[ould] impede a successful reorganization.'"

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

In dissent, Judge Torruella criticized the majority for "treat[ing] a debtor's rejection as a contract cancellation, rather than a contractual breach." The BAP, he concluded, "was correct to follow the Seventh Circuit's lead in finding that … [Tempnology's] rejection of the executory contract d[id] not rescind the Agreement" and did not "eviscerate any of Mission's remaining trademark rights."

IN THE

Supreme Court of the United States

No. 17-1657

MISSION PRODUCT HOLDINGS, INC.,

Petitioner,

v.

TEMPNOLOGY, LLC, n/k/a OLD COLD LLC,

Respondent.

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

EXCERPTS OF BRIEF FOR PETITIONER[1]

INTRODUCTION

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

[1] These excerpts are drawn from the Brief for Petitioner filed by Danielle Spinelli, Craig Goldblatt, Joel Millar, and James Barton of Wilmer Cutler Pickering Hale and Dorr LLP and Robert Keach and Lindsay Zahradka Milne of Bernstein Shur.

agreement. After its pretextual attempts to terminate the agreement outside bankruptcy failed, Tempnology filed a Chapter 11 bankruptcy petition, openly avowing that its goal was to revoke the license it had granted Mission and make a better deal with other licensees. It filed and ob- tained approval of a motion to "reject" the license agree- ment under §365 of the Bankruptcy Code, which permits a trustee or debtor-in-possession, on behalf of the bankruptcy estate, to "assume or reject any executory contract of the debtor," §365(a).

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

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

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

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

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

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

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

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SUMMARY OF ARGUMENT

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

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

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

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

ARGUMENT

I. Rejection Of An Executory Contract Does Not Rescind The Contract Or Revoke Interests In Property The Debtor Granted The Counterparty Pre-Bankruptcy

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

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

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

One significant part of the trustee's role in maximizing the value of the estate is determining whether the estate should assume ongoing contracts that the debtor entered before bankruptcy. Section 365 provides that, subject to bankruptcy court approval, the trustee "may assume or re- ject any executory contract or unexpired lease of the debt- or." §365(a). An executory contract is a contract '"on which performance is due to some extent on both sides."' *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 522 n.6 (1984). Executory contracts thus represent both an asset—the debtor's right to obtain the counterparty's future performance—and a liability—the debtor's obligation to perform in the future, or to pay damages if it breaches that obligation. Baird, *Elements of Bankruptcy* 112 (6th ed. 2014) ("Baird").

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

To take a stylized example, say that before bankruptcy the debtor, *D*, a widget merchant, entered into an agreement with a counterparty, *C*, in which *D* agreed to ship *C* 1,000 widgets a month for 10 months, and *C* agreed to pay *D* $1 per widget on delivery. Before shipping any widgets, *D* files for bankruptcy. Widgets are a volatile commodity, and between the time the parties enter the contract and the bankruptcy filing, the market price of a widget falls to 50 cents. The value of *C*'s performance—$10,000—now exceeds the cost of *D*'s performance, since *D* can buy the widgets for $5,000 and make a $5,000 profit. Under these circumstances, a rational trustee would assume the contract.

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

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

Rejecting the contract does not make it go away. Like assumption, it does not change the contract at all. It simply means that the estate is not assuming the debtor's future performance obligations to the counterparty, which remain the debtor's and thus will not be performed. Rejection is in many ways analogous to anticipatory repudiation of a con- tract—which is a breach of that contract—outside bank- ruptcy. *See, e.g., Central States, Se. & Sw. Areas Pension Fund* v. *Basic Am. Indus., Inc.*, 252 F.3d 911, 916 (7th Cir. 2001); 23 Lord, *Williston on Contracts* §63:50 (4th ed. 1990) ("*Williston*"); *see also Restatement (Second) of Contracts* §253 cmt. a (1981) (anticipatory repudiation is a breach of contract).

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

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

The statutory text accordingly makes clear that, except where §365 specifically provides otherwise, rejection of a contract has whatever consequences breach of that contract would have under non-bankruptcy law. It does not give the estate anything more, or the counterparty anything less, than the parties would have outside bankruptcy. That is consistent with the "'basic federal rule' in bankruptcy … that state law governs the substance of claims." *Raleigh* v.

Illinois Dep't of Revenue, 530 U.S. 15, 20 (2000) (quoting *Butner* v. *United States*, 440 U.S. 48, 57 (1979)); *accord Travelers Cas. & Sur. Co. of Am.* v. *Pacific Gas & Elec. Co.*, 549 U.S. 443, 450-451 (2007); *Vanston Bondholders Protective Comm.* v. *Green*, 329 U.S. 156, 161 (1946); *see also, e.g., BFP* v. *Resolution Trust Corp.*, 511 U.S. 531, 544-545 (1994) (absent a '"clear and manifest"' purpose to the contrary, "the Bankruptcy Code will be construed to adopt, rather than to displace, pre-existing state law").

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

That is the conclusion the Seventh Circuit reached in *Sunbeam*, which held—in contradiction to the First Circuit here—that a debtor-licensor's rejection of a trademark license could not deprive the licensee of its right to use the trademark. *Sunbeam Prods., Inc.* v. *Chicago Am. Mfg., LLC*, 686 F.3d 372, 377 (7th Cir. 2012). As the Seventh Circuit explained: "What §365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place." *Id.* While rejection means that "[t]he debtor's unfulfilled obligations are converted to damages," "nothing about this process implies that any rights of the contracting party have been vapor- ized." *Id.* Accordingly, since "[o]utside of bankruptcy, a li- censor's breach does not terminate a licensee's right to use intellectual property," rejection of a license agreement in bankruptcy cannot do so either. *Id.* at 376.

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

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

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

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

1. The bankruptcy estate created upon the filing of a petition comprises all "legal and equitable interests *of the debtor* in property," §541(a)(1) (emphasis added). The es-

tate does not include any interests in property held by another party. If the debtor's rights in an asset would be limited in the debtor's hands outside bankruptcy by interests granted to third parties, the estate's rights in the asset are equally limited in bankruptcy.

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

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

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

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

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

2. The trustee can expand the estate's interest in property beyond what the debtor had on the petition date in only one way: by bringing and prevailing in an action un-

der the avoidance provisions of the Code. Those provisions apply only in specific, narrow circumstances.

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

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

3. Rejection is not an avoidance power and cannot enhance the estate's rights in property. As a textual matter, §365 contains no hint that rejection of a contract entitles

the debtor to "avoid" or terminate any rights conveyed to the counterparty before bankruptcy. As discussed, *see su- pra* Part I.A, rejection is merely a breach of the debtor's fu- ture performance obligations under the contract. §365(g). By its terms, '"[§]365 addresses only future performance obligations of the parties'"; it does not "reverse[] any transfer of asset ownership" or other interests in property "previously carried out by the rejected contract." *Thompkins*, 476 F.3d at 1306-1307; *see also Austin*, 19 F.3d at 1083 (re- jection is not an "implied avoidance power").

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

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

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

As the Seventh Circuit put it in *Sunbeam*:

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

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

The same principle applies whenever the debtor has conveyed an interest in an asset under an executory contract before bankruptcy. Rejection is a breach of the debtor's future performance obligations; it does not permit the trustee to avoid and recover for the estate property interests the debtor previously granted under the contract. *See, e.g.*, *Ground Round*, 482 F.3d at 17-21 (trustee's rejection of real property lease did not terminate landlord's reversion- ary interest in liquor license, which debtor granted under the lease before bankruptcy); *Leasing Serv. Corp.* v. *First Tenn. Bank Nat'l Ass'n*, 826 F.2d 434, 436-437 (6th Cir. 1987) (trustee's rejection of equipment lease did not strip counterparty of security interest in debtor's assets, which debtor granted under the lease before bankruptcy).

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

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

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

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

The court then held—in a single cursory paragraph—that rejection of the license agreement not only relieved the debtor from performing its future obligations under the contract, but also enabled it to "deprive [the licensee] of all rights to the [metal-coating] process" and make a new, more profitable deal for those rights. *Lubrizol*, 756 F.2d at 1048. The court opined that "the legislative history of §365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt par- ty" and that the licensee thus "could not seek to retain its contract rights in the technology by specific performance." *Id*. Even though, outside bankruptcy, the licensee would have been entitled to continue to use the technology after the debtor's breach, the Fourth Circuit concluded that §365 overrode those rights and gave the licensee only a pre-petition damages claim. *Id.*

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

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

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

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

3. *Lubrizol* and the decision below both seemingly re- lied in significant part on the notion that the remedy of "specific performance" is unavailable in bankruptcy, and that allowing licensees to retain their rights after rejection would be a form of specific performance. 756 F.2d at 1048; *see* Pet. App. 22a-23a. But no categorical bar on "specific performance" in bankruptcy justifies turning rejection into an avoidance power.

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

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

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

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

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

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

II. Rejection Of The License Agreement Did Not Revoke Mission's Rights Under The Agreement

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

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

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

1. Like leases, licenses of intellectual property, including trademarks, implicate two distinct assets: the license agreement and the underlying intellectual property. And, as with leases, "[b]ecause the estate succeeds only to the debtor's [rights]" in the intellectual property, rejection of the agreement cannot "terminate the non-debtor party's right to the licensed … use" of that intellectual property. Andrew 916. "Whether the debtor is a licensor, lessor, ven-

dor, or mortgagor, or any other owner of real or personal property in or to which a third party has rights under a contract, the analysis should be the same…. [R]ejection of the *contract* does not enhance the estate's rights to the *underlying asset*." *Id.* at 920-921.

Trademarks are no exception to that rule, which is merely an application of the basic principle announced in *Chicago Board of Trade*. Trademarks are "property" within the meaning of the Bankruptcy Code. *See, e.g.*, *College Sav. Bank* v. *Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999) (trademarks constitute '"proper- ty'" of their owner); *K Mart Corp.* v. *Cartier, Inc.*, 485 U.S. 176, 185-186 (1988) (trademarks afford their owners a "bundle … of rights," including the power to exclude others from using them, to sell them, and to license them); 1 *McCarthy on Trademarks and Unfair Competition* §2:10 (5th ed. 2017) ("*McCarthy*") (same).

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

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

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

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

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

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

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

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III. THE FIRST CIRCUIT'S AND RESPONDENT'S REMAINING ARGUMENTS FAIL

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

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

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

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

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

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

Congress not infrequently responds to a specific concern regarding the application of a statute by enacting such a "safe harbor" provision clarifying the law with respect to that specific concern, rather than rewriting the entire stat- ute—an action that should not give rise to any negative in- ference regarding the meaning of the statute. "[A]mendments to a statute" addressing an area of "dispute or ambiguity" can "be an indication that [the] subsequent amendment is intended to clarify, rather than change, the existing law." *Brown* v. *Marquette Sav. & Loan Ass'n*, 686 F.2d 608, 615 (7th Cir. 1982) (citing 2A *Sutherland on Statu- tory Construction* §49.11 (1974)); *see also, e.g., O'Gilvie* v. *United States*, 519 U.S. 79, 89 (1996) (Tax Code provision stating that exemption for personal-injury damages did not apply to punitive damages for non-physical injuries did not create negative inference that exemption otherwise applied to punitive damages, but merely "clarif[ied] the matter in respect to nonphysical injuries" given "uncertain[ty]" under "then-current law"); *Viacom Int'l, Inc.* v. *YouTube, Inc.*, 676 F.3d 19, 27 (2d Cir. 2012) ("[T]o update domestic copyright law for the digital age," "[r]ather than embarking upon a wholesale clarification of various copyright doctrines, Con- gress … create[d] a series of safe harbors for certain com- mon activities of service providers[.]" (internal quotation marks and brackets omitted)).

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

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

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

"Avoiding-power rejection is … simply more freight than negative inference will bear. It requires that 'rejection' be assigned a meaning fundamentally at odds with both the history and purpose of executory contracts doctrine, with no legislative history in support…. That absurdity is not compelled by the statute, and should not be read between its lines." Andrew 929.

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

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

1. As an initial matter, the First Circuit's concern about trademark-monitoring burdens is entirely misplaced in this case. Tempnology licensed its trademarks to multiple

other distributors at the same time it was seeking to rescind the license it had granted Mission. *See supra* pp. 9-11. Tempnology's evident goal in rejecting the Agreement was not to avoid the "burden" of monitoring licensees' use of its trademarks; it was to eliminate Mission as one of those licensees. The same was true in *Sunbeam* and *Exide:* In each case, the debtor's successor wanted to avoid competition with the trademark licensee, not the burden of monitoring its mark. *Sunbeam*, 686 F.3d at 374; *Exide*, 607 F.3d at 961. That is often the reason licensors seek rejection of a license agreement: to eliminate the licensee's rights so that the licensor can strike what it perceives to be a more advantageous deal with a new buyer or licensee.

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

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

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

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

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

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

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

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

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

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

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

The First Circuit also claimed that Chapter 11's goal of facilitating reorganization supported its view of rejection. Pet. App. 22a. That, too, is wrong. As an initial matter,

§365 applies to all bankruptcy cases, not just Chapter 11 reorganizations, and rejection cannot mean one thing in Chapter 11 and another in Chapter 7. *See, e.g.*, *Clark* v. *Martinez*, 534 U.S. 371, 378 (2005) (where statutory language applies to multiple categories, giving the "same words a different meaning for each category would be to invent a statute rather than interpret one"); Baird 123.

It is nonetheless true, as this Court has observed, that §365 is important "to the basic purpose [of] a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization." *Bildisco*, 465 U.S. at 528. But §365 furthers the broad goal of successful reorganization in a specific way: by ensuring that the estate need not assume the debtor's duty to perform under executory contracts if doing so would cost the estate more than it would receive from the counterparty. In *Bildisco*, for example, §365 en- sured that a reorganizing business was not "saddled auto- matically with the debtor's prior collective-bargaining agreement" that agreed to pay future wages and benefits at levels that changed market conditions might render unsus- tainable. *Id.* at 518, 528.

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

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

The Respondent framed its merits-based argument as one of statutory interpretation; reading section 365 and its express exceptions to the general effect of rejection, leads to the inevitable conclusion that rejection relieves the debtor of its contract obligations and leaves the non-debtor counterparty with a prepetition damages claim absent an express exception that allows for a different result. The summary of the Respondent's merits based argument is set forth below.[1]

Bankruptcy Code Section 365(a) grants a bankruptcy trustee an extraordinary authority that does not exist outside of bankruptcy—the choice to assume or reject the debtor's executory contracts. This Court's construction of Section 365(a) and (g) makes clear that those provisions mean what they say. Upon assumption, the entire contract, with all its benefits and burdens, is enforceable against the estate; by contrast, a rejected contract is "not an enforceable contract." *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 532 (1984). Instead, the Code provides that a rejected contract is deemed breached, and the counterparty's remedy is a pre-petition breach-of-contract claim, 11 U.S.C. 365(g), consistent with the Code's policy to administer and discharge even "contingent" claims against the debtor, 11 U.S.C. 101(5).

Recognizing that this general rule may sometimes be unduly harsh, Congress has established limited statutory "exceptions" that grant counterparties to certain types of contracts, including real estate leases and patent licenses, the choice to treat the contract as terminated, per the general rule, or to retain certain rights specified by the exceptions. Neither trademark licenses nor exclusive distribution rights fall within those exceptions. Indeed, on multiple occasions, Congress has considered but declined to adopt an exception for trademark licenses.

Contrary to the statute's terms and this Court's holding in *Bildisco*, under petitioner's construction, a rejected contract would remain "an enforceable contract" against the debtor, at least insofar as the counterparty could successfully characterize the specific obligation in question as a "property interest" or a "negative covenant." Petitioner's argument is not only inconsistent with the Code's text, it would also violate the canon of *expressio unius est exclusio alterius* and impermissibly render the statutory exceptions superfluous.

Petitioner's arguments also fail based on the express terms of the parties' contract. Consistent with background principles of trademark law that require unity of ownership of

[1] These excerpts are culled from the Respondent's Brief that was drafted by attorneys Douglas Hallward-Driemeier, James Wilton and Jonathan Ferrence at Ropes & Gray, LLP with the assistance on attorneys Lee Harrington, Daniel Sklar and Christopher Desiderio from Nixon Peabody, LLP and Christopher M. Candon of Sheehan Phinney Bass & Green.

trademarks, the contract specifies that petitioner obtained no property interest in respondent's trademarks. Nor is the license a mere "negative covenant." Under state and federal law (and the contract), respondent retained a *duty* to maintain quality control of the mark. If the trademark were severed from respondent's ongoing affirmative obligation, the license would be invalid. Similarly, petitioner's contractual right as exclusive distributor of certain products in a defined territory gives petitioner no property right that distinguishes it from any other contractual rights.

The Respondent's principal substantive argument[2] *was that the text, structure, and purpose of Section 365 and other Bankruptcy Code provisions all confirm that, unless the contract falls within an express statutory exception, the rejected contract is unenforceable against the estate, except by way of a pre-petition claim for breach-of-contract damages. The below excerpted sections from the Respondent's brief provide the general thrust of the Respondent's Section 365 argument.*

First, the Respondent focused the Court's attention on the structure and application of Section 365 and specifically on the impact of rejection of executory contracts under the section.

Section 365 and related provisions make clear that a "rejected" contract is not enforceable against a debtor's estate. The statute gives the trustee a binary choice: either "assume" or "reject" an executory contract. 11 U.S.C. 365(a). By "assuming" the contract, the trustee affirms it as an obligation of the estate, and liabilities under the contract become "actual, necessary costs and expenses of preserving the estate," treated as "administrative" expenses and "afforded the highest priority on the debtor's estate." 11 U.S.C. 503(b)(1)(A); *NLRB* v. *Bildisco & Bildisco*, 465 U.S. 513, 532 (1984). When the trustee "elect[s] to assume the executory contract, * * * it assumes the contract *cum onere*," *i.e.*, in its entirety, with all its burdens and benefits. *Bildisco*, 465 U.S. at 531-532; see, *e.g.*, *Sharon Steel Corp.* v. *National Fuel Gas Distrib. Corp.*, 872 F.2d 36, 40 (3d Cir. 1989) (citing *Bildisco*). If expressly rejected or not assumed within the statutory deadlines, 11 U.S.C. 365(a) and (d)(1), the executory contract is "not an enforceable contract" against the estate, *Bildisco*, 465 U.S. at 532, except as a pre-petition claim, 11 U.S.C. 365(g)(1), 502(g)(1).

The distinct statutory outcomes of rejection and assumption confirm this strict dichotomy. Rejection creates a claim for *pre-petition* breach, 11 U.S.C. 365(g)(1), whereas as-

[2] The Respondent also argued that the case was moot but this panel decided to focus its materials and panel discussion on the merits-based arguments placed before the Court.

sumption causes expenses under the contract to become administrative costs of "the estate," 11 U.S.C. 503(b)(1)(A). In other words, if rejected, the contract never becomes enforceable as an administrative claim against the estate.

Section 365 states that the "contract" must be rejected or assumed, meaning the *entire* contract; apart from specified exceptions, there is no sub-category of provisions of a rejected contract that passes through and remains enforceable. Section 365(a) speaks of assuming or rejecting "any executory contract," and Section 365(g) provides that "the rejection of an executory contract * * * constitutes a breach of such contract." Neither provision contemplates pulling contracts apart. See *Bildisco*, 465 U.S. at 532; *e.g.*, *City of Covington* v. *Covington Landing L.P.*, 71 F.3d 1221, 1226 (6th Cir. 1995) ("Neither the debtor nor the bankruptcy court may excise material obligations owing to the non-debtor contracting party.").

Congress's choice of the term "rejection" shows that it intentionally created a unique power within bankruptcy, rather than adopting (and limiting the trustee's power to) an existing concept from non-bankruptcy law thus misses the mark by comparing rejection and "anticipatory repudiation * * * outside bankruptcy." Indeed, this Court has recognized that the trustee is "empowered by virtue of the Bankruptcy Code to deal with its contracts and property in a manner it could not have employed absent the bankruptcy filing." *Bildisco*, 465 U.S. at 528

Accordingly, petitioner's assertion that rejection "does not give the estate any greater rights than the breaching party * * * would have outside bankruptcy," cannot be squared with the text or this Court's recognition that rejection is a power the debtor "could not have employed absent the bankruptcy filing," *Bildisco*, 465 U.S. at 528.

Upon rejection, the Bankruptcy Code reduces all of a non-debtor counterparty's non-bankruptcy rights, including equitable remedies of specific performance, to a monetary damages claim. The default rule is that "rejection of an executory contract * * * constitutes a breach of such contract * * * immediately before the date of the filing of the petition," 11 U.S.C. 365(g)(1), and all rights under non-bankruptcy law are replaced with a right to a dischargeable pre-petition claim against the estate, 11 U.S.C. 502(g)(1), unless a specific statutory exception applies to give the non-debtor counterparty alternative rights.

* * *[3]

Critically, the Code provision defining "claim," 11 U.S.C. 101(5), is all-encompassing. It sweeps in any conceivable form of breach-of-contract damages, including any "right to payment" or "right to an equitable remedy for breach of performance," whether "unliquidated," "contingent," or "unmatured." *Ibid.* Section 101(5) is the "broadest possible definition" of "claim" because the Code "contemplates that all legal obligations of the debtor, no matter

[3] The excerpts published here from the Respondent's brief have been edited for brevity

how remote or contingent, will be able to be dealt with in the bankruptcy case." S. Rep. No. 989, 95th Congress, 2d Sess. 21-22 (1978); *Ohio* v. *Kovacs*, 469 U.S. 274, 279 (1985) (citing same).

* * *

Petitioner offers no clearly articulated test for determining which "claims" for future losses under rejected contracts must be asserted as pre-petition claims entitled only to pro rata distributions under Sections 365(g)(1), 502(g)(1), and 101(5), and which claims may instead be withheld and asserted as post-petition, priority administrative claims. To the extent petitioner contends that the counterparty can choose to sue for pre-petition breach or retain its contract rights and an option to sue for post-petition breach, Congress specified that such a choice is only available under certain statutory exceptions. 11 U.S.C. 365(g); see pp. 33-41, *infra*. Even in those exceptions, Congress expressly limited non-debtors' ability to assert administrative claims. See 11 U.S.C. 365(h)(1)(B) (limiting claim to a setoff right against rent due), and (n)(2)(c) (requiring waiver of administrative claims and setoff rights).

The Respondent then focused on the specific exceptions embedded in Section 365 that allow non-debtor executory contract counterparties to retain and exploit limited rights post-rejection to underscore that, absent these express exceptions, rejection under Section 365 renders a contract unenforceable in its entirety.

Congress has adopted specific exceptions to the general rule that rejection gives rise to a pre-petition damages claim as the exclusive remedy. When adopted in 1978, Section 365(g) made clear that it establishes the general rule "[e]xcept as provided in subsections (h)(2) and (i)(2)." 11 U.S.C. 365(g) (1976, Supp. III). Those exceptions identified categories of contracts under which a counterparty could retain limited contract rights notwithstanding rejection. No such exception has ever existed for trademark licenses (or exclusive product distribution agreements). It is not the courts' role to adopt exceptions beyond those Congress established.

As originally enacted, Section 365(h)(1) gave non-debtor lessees to rejected real estate leases two options: (1) treat the lease as terminated and assert a damages claim, *i.e.*, the default rule, or (2) "remain in possession" of the property, subject to statutorily prescribed rights and obligations in Section 365(h)(2). 11 U.S.C. 365(h)(1) (1976 Supp. III). For example, a lessee who retained possession could "offset against the rent" damages from the lessor's nonperformance but would have to forego further claims against the estate. 11 U.S.C. 365(h)(2) (1976 Supp. III). Original Section 365(i)(1) and (2) provided a similar choice for certain purchasers of real property. 11 U.S.C. 365(i) (1976 Supp. III). By labeling only Subsections (h)(*2*) and (i)(*2*) as "[e]xcept[ions]" to (g), Congress made clear that "treat[ing] such contract[/lease] as terminated" under (h)(*1*) or (i)(*1*) was *not* an exception, but meant the same thing as the default rule under Section 365(g).

Later-enacted exceptions in Section 365 provide the counterparty with the same binary choice—accept rejection as termination under the general rule, or retain a limited set of statutory rights. For example, when Congress added Subsection (n), it allowed licensees under rejected intellectual property licenses the binary choice to "treat such contract as terminated," or "retain its rights," subject to specified conditions. 11 U.S.C. 365(n)(1)-(3). Those "rights" reflect a careful balance between debtors and non-debtors, including limiting retained rights to those in existence on the petition date, requiring that royalty payments continue, and waiving any administrative claim or setoff rights. *Ibid*.

* * *

Congress's responses to this Court's decision in *Bildisco* and the Fourth Circuit's in *Lubrizol Enterprises, Inc.* v. *Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (1985), cert. denied, 475 U.S. 1057 (1986), confirm the interpretation of Subsections (a) and (g) that those decisions adopted. In each case, Congress did not respond by revising Subsection (g), but by creating an *additional*, *narrowly tailored exception* to Subsection (g)'s general rule.

In both cases, the courts construed Subsections (a) and (g) as providing that a rejected contract is "not an enforceable contract." *Bildisco*, 465 U.S. at 532; see *Lubrizol*, 756 F.2d at 1048. Each court based its construction of Subsections (a) and (g)'s effect in part on the enactment of statutory exceptions to the normal scope of those subsections. *See Bildisco*, 465 U.S. at 522 & n.8.; *Lubrizol*, 756 F.2d at 1048.

In 1984, Congress enacted a new exception, establishing that a trustee "may assume or reject a collective bargaining agreement only in accordance with the provisions of this section," which require making a proposal to the employee representative and presentation to the court to determine whether "the balance of the equities clearly favors rejection." 11 U.S.C. 1113(a), (b), and (c). Tellingly, however, a trustee *may* "terminate * * * provisions" of the agreement after complying with the prerequisites for rejection. See 11 U.S.C. 1113(d)(2) and (f). By confirming that rejection has the effect of "terminat[ing]" the agreement, Congress affirmed this Court's core holding in *Bildisco*.

Congress responded similarly to *Lubrizol*. Rather than amend Subsections (a) or (g), Congress adopted a new exception, providing licensees under a rejected intellectual property license a choice to "treat such contract as terminated" and pursue a pre-petition damages claim, or "retain its rights" in the license subject to limitations. 11 U.S.C. 365(n)(1) and (2).

* * *

Congress consciously chose not to include trademark licenses in the new exception, noting that trademark licenses "raise issues beyond the scope of this legislation" because trademarks "depend to a large extent on control of the quality of the products or services sold by the licensee." *Id.* at 5.

Each amendment confirms the core holdings of *Bildisco* and *Lubrizol*—under the general rule, rejection makes the agreement "not an enforceable contract," *Bildisco*, 465 U.S. at 532, *i.e.*, rejection "terminates" the counterparty's ability to enforce any provision of the contract except by a pre-petition damages claim. Exclusive product distribution agreements and trademark licenses are not within any exception and thus are subject to the general rule.

The Respondents then looked at general rules of statutory interpretation to bolster the argument that the exceptions to the general effect of rejection were just that; exceptions that proved the general rule.

Under the *expressio unius* canon, Congress's adoption of specific exceptions where rights under rejected contracts can be retained precludes courts from creating further exceptions. Relatedly, the rule against superfluities prevents reading the general rule so broadly that the exceptions become superfluous. Petitioner's reading violates both canons.

The *expressio unius* canon confirms that courts should not read Section 365 to create additional exceptions beyond those Congress adopted. "Where Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied, in the absence of evidence of a contrary legislative intent." *Andrus* v. *Glover Constr. Co.*, 446 U.S. 608, 616-617 (1980); see also *Leatherman* v. *Tarrant Cty. Narcotics Intelligence & Coordination Unit*, 507 U.S. 163, 168 (1993). Here, Congress's identification of certain carefully balanced exceptions to the general rule means that it did not intend for courts to create other exceptions. Petitioner's argument would permit an infinite number of exceptions, allowing counterparties to retain rights under many categories of rejected contracts not identified by Congress.

* * *

Similarly, the rule against superfluities requires that effect be given to each clause of a statute so that none is rendered superfluous. *Hibbs* v. *Winn*, 542 U.S. 88, 101 (2004). For similar reasons, exceptions must provide *greater* rights than the general rule, to avoid "the superfluity of a specific provision that is swallowed by the general [rule]." *RadLAX Gateway Hotel, LLC* v. *Amalgamated Bank,* 566 U.S. 639, 645 (2012). Notably, the remedies provided by Section 365's exceptions, under petitioner's construction, are *narrower* than remedies available under non-bankruptcy law. For example, under petitioner's construction, trademark licensees under a rejected contract would retain the non-bankruptcy rights to set off post-rejection damages against royalties and other payments due to a debtor-licensor, and to utilize future versions of a trademark. However, neither setoff rights nor rights to use future versions of intellectual property are available to patent and copyright licensees under Section 365(n). Retained rights are limited "as such rights existed immediately before the [bankruptcy] case commenced." 11 U.S.C. 365(n)(1)(B). Patent licensees must "make all royalty payments" and forego setoff rights. 11 U.S.C. 365(n)(2)(B) and (C). Given that under petitioner's view the "background rule" of Section 365 is more favorable to licensees than the Section 365(n) exception, it is unclear why a patent licensee would *ever* choose the statutory "exception."

Petitioner seeks to avoid these canons by urging that Subsections (h), (i), and (n) are "expressions of the general principle * * * , *rather than exceptions*," *i.e.*, they are "safe harbor[s]" showing particularized application of Section 365(g)'s general rule to "specific concern[s]." Pet. Br. 28 n.8, 47 (emphasis added). The first, and sufficient, response is that petitioner's view is directly contradicted by Congress's express designation of original Subsections (h)(2) and (i)(2) as "[e]xcept[ions]" to the general rule of Subsection (g). 11 U.S.C. 365(g). Alternatively, petitioner makes the counterintuitive argument that Subsection (n) is not superfluous because it "provid[es] additional benefits *to debtors*" beyond the general rule. (Emphasis added). But it is nonsensical to think that Congress would permit the *counterparty* to choose a regime that affords *debtors* additional benefits beyond the background rule: the counterparty would always opt for the broader rights available under petitioner's version of the general rule.

Notably, *RadLAX*, which petitioner cites to support its view that Section 365's exceptions are instead "safe harbor[s]," *rejected* that proposed interpretation of the statute in question, finding it would be a "surpassingly strange manner" of carrying out Congress's intent. 566 U.S. at 647. So too here. Section 365(a) and (g) are better understood as setting forth a broadly applicable general rule, except as provided in specific statutory exceptions.

The Respondent then examined how the Petitioner's arguments threatened two fundamental bankruptcy policies: maximizing value for all stakeholders and equality of distribution among similarly situated creditors.

Core purposes of bankruptcy law confirm that rejection of executory contracts yields just one remedy—a pre-petition damages claim. There are "two recognized policies underlying Chapter 11": "preserving going concerns and maximizing property available to satisfy creditors." *Bank of Am. Nat'l Tr. & Sav. Ass'n* v. *203 N. LaSalle St. P'ship*, 526 U.S. 434, 453 (1999). The Court has likewise recognized that "the authority to reject an executory contract is vital to the basic purpose of a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization." *Bildisco*, 465 U.S. at 528. Petitioner's dramatic curtailing of the trustee's power to reject burdensome contracts would frustrate those policies.

Even before the Code's adoption, the Court recognized that "[a] salient element" of "a reorganization is *the discharge of all demands of whatsoever sort*, executory and contingent, presently due or to mature in the future." *City Bank Farmers*, 299 U.S. at 438-439 (emphasis added). Congress underscored that purpose by adopting the "broadest possible definition" of "claim" in 11 U.S.C. 101(5) because the Code "contemplates that all legal obligations of the debtor, no matter how remote or contingent, will be able to be dealt with in the bankruptcy case." S. Rep. No. 989, at 21-22; *Kovacs*, 469 U.S. at 279 (citing same).

Sections 365(g)(1) and 502(g)(1) further that same policy by establishing that all future damages, including "claims arising after filing" that "result from the rejection of an executory contract" must be "presented through the normal administration process by which claims are estimated and classified" and ultimately discharged. *Bildisco*, 465 U.S. at 530. Complete relief from burdensome contracts is especially important in Chapter 11 business reorganizations "to prevent a debtor from going into liquidation, with an attendant loss of jobs and possible misuse of economic resources." *Id.* at 528.

* * *

"Equality of distribution among creditors" is another "central policy of the Bankruptcy Code" that petitioner's proposal would frustrate. *Begier* v. *IRS*, 496 U.S. 53, 58 (1990). "[C]reditors of equal priority should receive pro rata shares of the debtor's property." *Ibid.* Congress has established a hierarchy for creditors. It respects the rights of secured creditors and priority classes of claims and treats contract rejection claims equally with other pre-petition claims, with specific exceptions for, *inter alia*, real property leases and intellectual property licenses. The Code treats unsecured creditors Congress has not separately addressed equally.

Petitioner's proposed rule would frustrate the policy of equal distribution by creating arbitrary distinctions between contract counterparties, depending on whether the counterparty can characterize its post-petition enforcement of a rejected contract as outside Sections 365(g)(1) and 502(g)(1). This case illustrates the arguments counterparties would make, attempting to characterize even a burdensome obligation to sell products exclusively through the counterparty as a "property right" surviving rejection. There is no reason a licensee's interest should be afforded priority over unsecured creditors who may have invested considerable sums in the licensor's business.

To be sure, a trustee's right to reject executory contracts is not absolute; it is subject to the bankruptcy court's approval. 11 U.S.C. 365(a). Where rejection is unnecessary "to the success of the reorganization," and would impose undue hardship on the counterparty without counterbalancing advantage to the estate, the "Bankruptcy Court [as] a court of equity" must "balanc[e] the equities" in deciding whether to approve rejection. *Bildisco*, 465 U.S. at 527; see, *e.g.*, *In re Petur U.S.A. Instrument Co.*, 35 B.R. 561, 563-564 (Bankr. W.D. Wash. 1983) (declining to approve rejection that would "result[] in the destruction" of the counterparty and cause damages "grossly disproportionate to any benefit derived by the general creditors"). No such issue is presented here.

The Respondent then examined some of the bases asserted by the Petitioner to support its argument that the Petitioner held some form of property interest in the Debtor's trademarks under the subject marketing and distribution agreement. Respondent also challenged the Petitioner's positions that: (i) the agreement created a "negative covenant" as distinct from an "affirmative obligation" that somehow survived rejection; (ii) the rejection of an executory contract under the First Circuit's holding was tantamount to avoidance or revocation of the contract; or (iii) that the Court could invoke and equitable case-by-case approach to addressing the effect of rejection on a trademark license.

Underpinning much of petitioner's argument is the flawed contention that the Agreement "transfer[red] * * * an interest in property," *i.e.*, a property interest in respondent's patents and trademarks. Petitioner asserts that rejection of the Agreement could not deprive petitioner of those "property" rights. Petitioner is mistaken.

First, petitioner's argument proves too much. Rights under any contract constitute a "property interest." But to say that a contract is property is not the same as transferring title or even creating a contingent interest, such as a security interest, in an underlying asset. Any contract rejection that renders a pre-bankruptcy contract "not an enforceable contract," *Bildisco*, 465 U.S. at 532, deprives the counterparty of some "property," broadly defined. Simply denominating a contract right a "property" interest does not exempt that right from the consequences of Section 365(g).

Petitioner's argument regarding its contractual right to be exclusive distributor of respondent's products proves the breadth of its "interest-in-property" rule. Petitioner simply asserts that the exclusive distribution contract provisions constituted "certain sticks in the bundle of sticks that comprised [respondent's] ownership of its intellectual property—the right to sell certain patented and trademarked products and to exclude others, including [respondent], from doing so in the United States." But petitioner's characterization of its contractual distribution rights as "certain sticks" of respondent's property is pure *ipse dixit*. Petitioner attempts to paint a narrow rule about "intellectual property," but its rule is broad and ill-defined. As the court of appeals correctly observed, the contractual exclusive-distribution term "is simply a restriction on the right to sell certain products that, like many products, happen to be made using a patent." If petitioner's exclusive contractual right to distribute respondent's products is a "property interest" in respondent's business, then *all* exclusive distribution rights must likewise survive.

Nor does the "interest-in-property" theory help Petitioner regarding its trademark license rights. Trademarks require unity of ownership and related goodwill, and they impose an ongoing obligation to police quality, which is a *sine qua non* of a valid license. See 15 U.S.C. 1055, 1127; 3 McCarthy §§ 18:2, 18:42; see also pp. 52-56, *infra*. Indeed, in excluding trademarks from the Section 365(n) exception, the Senate Report noted: "trademark * * * licensing relationships depend to a large extent on control of the quality of the products or services sold by the licensee." S. Rep. No. 505, at 5. Moreover, consistent with the background legal rule, the Agreement makes explicit that it conveyed no property interest in respondent's trademarks. J.A. 238; pp. 54-56, *infra*. Petitioner's trademark license is just a right under a rejected contract. Petitioner does not own and has never owned any property interest in respondent's trademarks.

* * *

Petitioner's suggestion of a difference between "negative" and "affirmative" obligations has no statutory support. Affirmative contractual obligations can almost always be recast as negative covenants, and vice versa. For example, a collective bargaining agreement, such as the one deemed unenforceable in *Bildisco,* can easily be reframed as a negative covenant—a promise not to hire anyone *other* than union members or not to provide pay and benefits *other* than those contractually agreed upon. Likewise, an exclusive distribution agreement can be characterized as an obligation *to* sell through the counterparty, or a duty to *refrain* from selling through others.

Congress has recognized that negative covenants in a rejected contract are not enforceable absent a statutory exception. To protect shopping center tenants, Congress enacted Section 365(h)(1)(C) to make enforceable negative covenants in leases "pertaining to radius, location, use, exclusivity, or tenant mix or balance," notwithstanding lease rejection by a debtor-landlord. That exception would be unnecessary if negative covenants remained enforceable post-rejection, as petitioner posits.

The purported distinction between negative covenants and affirmative obligations is not an administrable line. The only proper line is the one that Congress drew in specific exceptions from the general rule of Section 365(a) and (g).

* * *

By repeatedly trying to equate the court of appeals' ruling with the trustee avoiding, revoking, rescinding, or "vaporizing" the contract, Petitioner and amici attack a straw argument. Neither the court of appeals nor Respondent contends that rejection treats a contract as never having existed. Instead, the counterparty's contractual rights are replaced with a claim for "breach of the contract which relates back to the date immediately preceding the filing of [the] petition in bankruptcy." *Bildisco*, 465 U.S. at 530.

The rejection power and the Code's process for allowance of claims are separate and distinct from the power to avoid a transfer under Sections 544 through 553. Avoidance unwinds a contractual obligation or transfer of interest in property, essentially treating that obligation or transfer as void and restoring the debtor to the *status quo ante*. See generally *Merit Mgmt. Grp., LP* v. *FTI Consulting, Inc.*, 138 S. Ct. 883, 888-889 (2018); 5 *Collier on Bankruptcy* § 548.10[1] (Alan N. Resnick & Henry J. Sommer, eds., 16th ed. 2018). By contrast, rejection does not unwind a contract; it limits remedies for rejection to a pre-petition claim for breach-of-contract damages. 11 U.S.C. 365(a) and (g); 11 U.S.C. 502(g)(1). The two powers have distinct purposes. Rejection releases a debtor from burdensome contractual obligations, giving counterparties breach-of-contract claims, *Bildisco*, 465 U.S. at 528, while avoidance helps "recapture the value of * * * avoided transfers for the benefit of the estate," *Merit Mgmt.*, 138 S. Ct. at 888 (citation omitted).

* * *

In his dissent, Judge Torruella suggested that courts reject a "bright-line rule" and instead adopt an "equitable" case-by-case approach to determine the effect of rejection on trademark licenses. Pet. App. 29a-34a. This approach, also endorsed by some amici, directly contradicts the Code and this Court's precedent.

This Court has "long held that whatever equitable powers remain in the bankruptcy courts must and can only be exercised within the confines of the Bankruptcy Code." *Law* v. *Siegel,* 571 U.S. 415, 421 (2014) (internal quotation marks and citation omitted). "Bankruptcy courts are not authorized in the name of equity to make wholesale substitution of underlying law controlling the validity of creditors' entitlements, but are limited to what the Bankruptcy Code itself provides." *Raleigh* v. *Illinois Dep't of Revenue*, 530 U.S. 15, 24-25 (2000). And bankruptcy courts have the "obligation to interpret the Code clearly and predictably using well established principles of statutory construction." *RadLAX*, 566 U.S. at 649.

Section 365 governs, exhaustively, the treatment of executory contracts. There is no statutory authorization for bankruptcy courts to conduct equitable analysis of the consequence of rejection under Subsection (g), as other provisions contemplate. *E.g.*, 11 U.S.C. 552(b) (permitting exception "based on the equities of the case"). It is no surprise that no court has found the Senate Report's ambiguous comment referencing "the development of equitable treatment * * * by bankruptcy courts," S. Rep. No. 505, at 5, to be "a toehold for unfettered 'equitable' dispensations from section 365(a) rejection."

The Respondent then highlighted the fundamental difference between trademarks and other forms of intellectual property, and other property rights generally, that support the distinct treatment of trademark licenses post-rejection and the exclusion of trademarks from the definition of intellectual property in the Bankruptcy Code.

Petitioner's assertion of a property interest in respondent's trademarks depends upon faulty analogies to other types of property that fail to account for a trademark's unique legal characteristics. As the leading treatise observes, "the 'property' parameters of a trademark are defined very differently from any other kind of 'property.'" 1 McCarthy § 2:10. It therefore warns against drawing "[a]nalogies to other forms of 'property,' from real estate to patents and copyrights." *Ibid.* This Court has likewise observed that it is a "fundamental error" to "suppos[e] that a trade-mark right is a right in gross or at large, like a statutory copyright or a patent for an invention," because "[t]here is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed." *United Drug Co.* v. *Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); see *Visa, U.S.A., Inc.* v. *Birmingham Tr. Nat'l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982) ("Unlike patents or copyrights, trademarks are not separate property rights * * * [from] the goodwill of the business or services to which they pertain.").

The Lanham Act requires that a trademark and accompanying goodwill must always be held by a single owner, creating the inseverable tie of unified ownership. See 15 U.S.C. 1060(a)(1) (permitting trademark assignment only "with the good will of the business in which the mark is used"); 3 McCarthy § 18:2; see also, *e.g.*, *Visa*, 696 F.2d at 1375. The rule of unified ownership serves the long-recognized purposes of trademark law. If property interests in a trademark could be allocated to multiple owners, there would be no guarantee of consistent quality, and the trademark would no longer be synonymous with the goodwill of the company's goods or services, harming both the mark's owner and the public. See 1 McCarthy § 2:15; 3 McCarthy § 18:48.

Unified ownership imposes a fundamental restriction on trademark licensing: a trademark owner may license a trademark "*only* if the [owner] exercises control over the nature and quality of the goods and/or services sold by the licensee under the licensed mark." 3 McCarthy § 18:38 (emphasis added); see *Dawn Donut Co.* v. *Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959). The owner must exercise quality control even absent an explicit quality-control provision in the license "because trademark law, rather than the contract itself, confers on the licensor the right and obligation to exercise quality control." *Miller* v. *Glenn Miller Prods.*, 454 F.3d 975, 992 (9th Cir. 2006). The quality-control requirement ensures that all goodwill arising from use of the trademark "inure[s] to the benefit of" the licensor, as federal law requires. 15 U.S.C. 1055. "[T]he grant of [a] license[] without the retention of control" is a "naked licens[e]" and is "invalid." *Dawn Donut*, 267 F.2d at 367.

The consequence of these unique features of trademarks is that a "licensee acquires no ownership rights in the mark itself." 3 McCarthy § 18:52. Rather than confer a property interest in the trademark, a trademark license "confers *only the right to use* the trademark." *Silverstar Enters., Inc.* v. *Aday*, 537 F. Supp. 236, 239 (S.D.N.Y. 1982) (emphasis added) (citation omitted).

* * *

In addition to these background principles, the Agreement itself confirms that the trademark license was merely a nonexclusive contract right, not a conveyance of a property interest. The Agreement states that "[i]t is not the parties' intention to create any jointly owned Intellectual Property Rights hereunder. Rather, the parties intend that all Intellectual Property Rights should be categorized as either [Petitioner's] Property or [Respondent's] Property and licensed pursuant to the terms herein." J.A. 239. With respect to respondent's trademarks in particular, the Agreement provides: "For avoidance of doubt, each party acknowledges that its use of the other party's Marks will not create * * * any right, title, or interest in or to such Marks other than the limited licenses expressly granted herein." J.A. 238.

Trademark licensees are not left without methods to protect themselves from risk of a licensor's bankruptcy. See James M. Wilton & Andrew G. Devore, *Trademark Licensing in the Shadow of Bankruptcy*, 68 Bus. Lawyer 739, 776-780 (May 2013). They could insist that the trademark be owned and controlled by a separate entity shielded against bankruptcy risk. *Id*. at 778-779; Richard M. Cieri & Michelle M. Morgan, *Licensing Intellectual Property and Technology from the Financially-Troubled or Startup Company: Prebankruptcy Strategies to Minimize the Risk in a Licensee's Intellectual Property and Technology Investment*, 55 Bus. Lawyer 1649, 1687-1690 (2000). Or they could insist on a security agreement, giving the licensee a secured claim and priority if the license agreement is rejected. Wilton & Devore at 779-780; Cieri & Morgan at 1691-1692; 11 U.S.C. 506. In other words, trademark licensees, similar to other pre-petition creditors, can negotiate for contract rights that minimize credit risk, discourage rejection, or afford priority in the event of bankruptcy.

* * *

Even if the Court were to adopt petitioner's proposal that "*negative* covenants" in an executory contract survive rejection and remain enforceable against the estate, the Agreement's trademark license was not a mere "negative covenant." Rather, consistent with background trademark law, the Agreement contemplated an ongoing bilateral relationship and required respondent to maintain quality control of the marks.

As is typical of trademark licenses, the Agreement required close coordination between respondent and petitioner regarding use of respondent's trademarks. Petitioner was required to follow respondent's trademark guidelines, and respondent could review and approve petitioner's uses of respondent's trademarks. The parties were to agree on the exact placement, size, and treatment of Coolcore branding on products. Further, the parties agreed "to work together on determining the appropriate branding for cooling accessories manufactured at [petitioner's] factory." *Ibid.* The parties also agreed "to finalize the structure, commission, plan, and process associated with [petitioner's] representation of [Coolcore]-branded apparel products" in certain sales channels. Respondent agreed to give petitioner at least 120 days' advance notice and obtain prior written approval for "any proposed changes in Cooling Accessories or other products that would materially alter the nature, quality, durability, size, composition, style, performance, functionality, or character of such products." Thus, the Agreement's quality-control provisions require a close and collaborative relationship between respondent and petitioner to develop the brand and to market products, with the goodwill accruing solely to respondent.

Petitioner and some amici attempt to downplay the crucial role of quality control in maintaining the integrity of trademarks in the marketplace, arguing that quality control is a legal requirement separate from the trademark license. The issue is not the precise source of these requirements, but that the unified ownership unique to trademarks means there is no license without quality control and that a license without quality control risks abandonment of the mark. See 3 McCarthy § 18:42; 15 U.S.C. 1127; see, *e.g.*, *Dawn Donut*, 267 F.2d at 367.

Consistent with the background principles of trademark law, the Agreement's trademark license imposes substantial quality-control burdens and bears little likeness to patent licenses. This is precisely why Congress omitted trademarks from Section 365(n).

Finally, Respondent considered the adverse impact the Petitioner's position would have on the ability for trademark licensors to reorganize when burdened with on-going trademark obligations post-rejection.

The *Sunbeam* rule petitioner advocates would severely frustrate the ability of trademark owners to reorganize in bankruptcy and, in many cases, would make reorganization impossible. For many trademark owners, a successful reorganization or going-concern sale will depend on using the tools the Code affords debtors, including the power to reject burdensome licenses under Section 365(a) to maximize the value of their trademarks. Failure to reorganize would result in piecemeal liquidation at significantly reduced values, harming creditors, employees, and customers.

There are numerous examples of trademark owners whose attempts at reorganization ended in failure and liquidation due, in part, to their inability under *Sunbeam* to terminate pre-petition trademark licenses following rejection. See, *e.g.*, Mem. L. Supp. Mot. TRO at 24, *In re Aerogroup Int'l, Inc.*, No. 17-51889-KJC (Bankr. D. Del. Dec. 22, 2017), ECF No. 7;

Order at 1, 17-11962-KJC, *In re Aerogroup Int'l, Inc*. (Bankr. D. Del. Feb. 21, 2018), ECF No. 671.

Petitioner's rule is particularly fraught with peril for hotel and restaurant franchisors. Franchise agreements require intensive and rigorous enforcement of detailed contractual quality-control covenants addressing issues ranging from national or regional advertising, approved vendors, maintenance and upkeep, and requirements for standardized menus and services. To reorganize, a restaurant or hotel franchisor may need to modernize or revitalize its brand. See Bonnie M. Rubin, *They Were Huge Franchises. Why Did They Collapse?*, Wall St. J. (Nov. 25, 2018) (describing "rebranding" of three distressed restaurant brands, including the Ground Round trademark acquired from a Chapter 11 bankruptcy case); see also Wilton & Devore at 773 n.210. Reorganization may require rejection of franchise agreements with onerous contract terms or agreements with substandard or litigious licensees. See, *e.g.*, *Gorenstein Enters., Inc.* v. *Quality Care-USA, Inc*., 874 F.2d 431, 435-436 (7th Cir. 1989) (Posner, J.) (noting protracted litigation where franchisees "were holding the trademark hostage as a bargaining tactic to pressure [the franchisor] into renegotiating the franchise or settling the suit"). If the *Sunbeam* rule applies and licensees can continue to use licensed brands under the failed franchise business plans that yielded bankruptcy, reorganization will often be impossible. And as the court of appeals correctly observed, the *Sunbeam* rule would force licensors to choose between (1) retaining burdensome obligations associated with monitoring quality control and continuing relationships with adversarial franchisees, or (2) abandoning a valuable trademark to the public domain. Pet. App. 24a. Either choice would impede a franchisor's ability to reorganize or maximize creditor recoveries through a going-concern sale in bankruptcy, undermining a fundamental purpose of the Code.