No. 17-1657

IN THE
Supreme Court of the United States

MISSION PRODUCT HOLDINGS, INC.,

Petitioner,

v.

TEMPNOLOGY, LLC, N/K/A OLD COLD LLC,

Respondent.

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

BRIEF OF NEW YORK INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF THE PETITIONER

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QUESTION PRESENTED

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

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STATEMENT OF INTEREST OF *AMICUS CURIAE*

This amicus curiae brief is submitted on behalf of the New York Intellectual Property Law Association ("the NYIPLA"). The NYIPLA is a professional membership association of approximately 1,000 attorneys in the New York City metropolitan area whose interests and practices lie in the areas of patent, trademark, copyright, trade secret, and other intellectual property law.[1]

The NYIPLA's members include a diverse array of attorneys specializing in trademark law, including in-house counsel for businesses that own, license, enforce, and challenge trademarks, as well as attorneys in private practice who advise a wide array of clients on trademark matters, including trademark licensing, and procurement of trademark registrations through the U.S. Patent and Trademark Office. Many of the NYIPLA's member attorneys participate actively in trademark litigation, representing both owners and alleged infringers. The NYIPLA, its members, and the clients of its members, share an interest in having the standards governing the enforceability of trademark licenses be reasonably clear and predictable.

The arguments in this brief were approved on December 6, 2018 by an absolute majority of the total number of officers and members of the Board of the NYIPLA (including such officers and Board members who did not vote for any reason including recusal), but

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[1] No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae*, or its counsel, made a monetary contribution to its preparation or submission. The parties have consented to the filing of this brief.

do not necessarily reflect the views of a majority of the members of the Association or of the firms or other entities with which those members are associated.

No party's counsel authored this brief in whole or in part. No party or party's counsel contributed money that was intended to fund the preparation or submission of this brief. No person other than amicus curiae, its members, or its counsel contributed money that was intended to fund the preparation or submission of this brief.

After reasonable investigation, the NYIPLA believes that no member of the Board or Amicus Briefs Committee who voted to prepare this brief on its behalf, or any attorney in the law firm or corporation of such a Board or Committee member, or attorney who aided in preparing this brief, represents either party to this litigation. Some Committee or Board members or attorneys in their respective law firms or corporations may represent entities that have an interest in other matters which may be affected by the outcome of this litigation.

SUMMARY OF ARGUMENT

Section 365(a) of the Bankruptcy Code allows a debtor to assume or reject an executory contract. 11 U.S.C. §365(a). Typically, rejection is undertaken by a trustee or debtor in possession where such action will benefit the bankruptcy estate and assist the debtor in achieving the benefits of bankruptcy. When a debtor rejects an executory agreement, then under Section 365(g), it is treated as a pre-petition breach of that agreement and allows the non-breaching party to file a claim for pre-petition damages.

Section 365(g), however, does not provide that the rejected executory agreement is terminated. Where Congress wanted to authorize the termination of executory agreements upon their rejection, it expressly provided for such termination in the Bankruptcy Code. Congress did no such thing with respect to trademark license agreements. Accordingly, the application of well-established rules of statutory construction requires the conclusion that the rejection of an executory trademark licensing agreement under Section 365(g) does not result in its termination.

Only executory contracts can be rejected under Section 365(a). A contract is executory when both parties have unperformed obligations, measured as of the commencement of the bankruptcy case, that would constitute a material breach if such obligations are not performed. *N.L.R.B. v. Bildisco & Bildisco,* 465 U.S. 513, 522 n.6 (1984). This Court has long recognized, since its decision in *Waterman v. Mackenzie*, 138 U.S. 252 (1891), that a determination of whether an intellectual property interest has been assigned must be based on the legal effect of the assignment or license - not on the name of the document. Where, in a trademark license agreement, all substantial rights in a trademark are transferred to the licensee, the license agreement is an assignment of the trademark. In that case, the license agreement is not an executory agreement subject to rejection under Section 365(a) because the licensor, post-assignment, has no remaining unperformed obligations.

Finally, regardless of any provision in the license agreement, the owner of a trademark is under an obligation to monitor and police the use of the trademark. Allowing the licensee to continue to use the licensed trademarks post-rejection does not raise any quality control concerns. At the outset, the licensee would have to comply with any quality control obligations set forth in the license agreement. Further, while the licensor may reject the license agreement, the licensor cannot avoid its obligation to maintain quality control over the licensor's trademarks. In all events, maintaining quality control over the licensed trademarks post-rejection is in the licensor's best interest, as it will preserve, for the benefit of the bankruptcy estate, the value of the licensor's intellectual property.

BACKGROUND

On November 21, 2012, Petitioner Mission Product Holdings, Inc. ("Mission") entered into a Co-Marketing and Distribution Agreement ("the Agreement") with Respondent Tempnology LLC ("Tempnology") to source, co-market, and distribute a series of cooling products ("the Cooling Accessories") produced by Tempnology. *Mission Prod. Holdings, Inc. v. Tempnology, LLC (In re Tempnology, LLC)*, 879 F.3d 389, 392 (1st Cir. 2018). The Agreement granted Mission a non-exclusive, worldwide, perpetual license to use Tempnology's products, inventions, and designs, and the rights to Tempnology's intellectual property with respect to those products, excluding trademarks and domain names ("the Worldwide License"). *Id.* at 393. The Agreement also gave Mission a non-exclusive, worldwide license to use Tempnology's trademarks on the products Mission distributed. *Id.*

Additionally, the Agreement granted Mission an exclusive license ("the Exclusive License") to sell a subset of the products ("the Exclusive Cooling Accessories") by preventing Tempnology from selling or licensing them to others within a narrower territory - primarily, the United States. *Id.* Effectively, the Agreement as a whole gave Mission the non-exclusive right to sell certain Tempnology products throughout the world, and the exclusive right to sell a subset of those products within the United States. *Id.* at 392-93.

The Agreement allowed either party to terminate the contract without cause, triggering a two-year Wind-Down Period during which the Agreement would remain in full effect. *Id.* at 393. On June 30, 2014, Mission terminated the Agreement, triggering the two-year Wind-Down Period. *Id.* A month later, Tempnology issued a notice of termination for cause on July 22, 2014, alleging Mission's violation of the Agreement and failure to perform its obligations. *Id.*

The parties then entered into arbitration. *Id.* The arbitrator determined that the Agreement would remain in full force and effect until its termination on July 1, 2016 at the conclusion of the Wind-Down Period. *Id.*

Prior to the termination of the Wind-Down Period, on September 1, 2015, Tempnology filed a Chapter 11 petition and sought to reject the Agreement. *Id.* at 393-94. Mission objected to Tempnology's motion to reject the Agreement, arguing that Mission should be allowed to retain both its intellectual property license and exclusive distribution rights. *Id.* at 394.

The Bankruptcy Court ultimately granted Tempnology's rejection motion, "subject to Mission Product Holdings' election to preserve its rights under 11 U.S.C. §365(n)." *Id.* After seeking further clarification, the Bankruptcy Court concluded that the trademark license was not protected from rejection. *Id.*

Mission then filed a notice of appeal to the Bankruptcy Appellate Panel for the First Circuit ("the BAP"). *Id.* at 395. On November 18, 2016, the BAP affirmed in part and reversed in part the Bankruptcy Court Opinion and Order. *Mission Prod. Holdings v. Tempnology, LLC (In re Tempnology, LLC)*, 559 B.R. 809, 811 (B.A.P. 1st Cir. 2016). The BAP concluded that "[Tempnology's] rejection of the Agreement did not vaporize Mission's trademark rights under the Agreement. Whatever post-rejection rights Mission retained in the Debtor's trademark and logo are governed by the terms of the Agreement and applicable non-bankruptcy law." *Id.* at 822-23.

On appeal, the First Circuit disagreed with the BAP in part and affirmed the Bankruptcy Court in full, holding that Section 365(n) "[did] not apply to Mission's right to be the exclusive distributor of Debtor's products, or to its trademark license." *In re Tempnology, LLC*, 879 F.3d at 395. The court held that Tempnology's rejection terminated Mission's trademark rights, recognizing that the omission of trademarks from the Bankruptcy Code's definition of "intellectual property" in Section 365(n) was not dispositive of the question, which turned on "exactly what rejection means" under section 365. *Id.* at 401-02. On that issue, the opinion parted ways with *Sunbeam Prods., Inc. v. Chicago Mfg., LLC*, 686 F.3d

372 (7th Cir. 2012) and instead endorsed the Fourth Circuit's reasoning in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985), holding that rejection stripped Mission of its right to use Tempnology's trademarks, leaving it with only a pre-petition damages claim. *Id.* at 402-05.

On October 26, 2018, the Supreme Court granted Mission Products Holdings, Inc.'s Petition for a Writ of Certiorari in the above matter to answer the question:

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

ARGUMENT

I. The Plain Language Of Sections 365(g) And 365(n) Precludes A Construction Of "Rejection" Of Trademark Licenses As The Equivalent Of Termination Under Which Licensees Would Lose Their Rights To Use The Licensed Marks

Where trademark license agreements are executory, under Section 365 of the Bankruptcy Code, 11 U.S.C. §365, they are subject to assumption or rejection by the trustee (or a debtor in possession holding the rights of a trustee). The statute expressly states that rejection is treated as a *breach* of the license. Except for five subsections where the word "terminate" appears for limited purposes, Section 365 nowhere, directly or indirectly, equates rejection with termination as it relates to contracts generally, including a trademark license under which a debtor is the licensor.

By treating rejection of a trademark license, under which the debtor is the licensor, as the legal or functional equivalent of termination, the First Circuit misread the statute, defied its plain language, ignored Congress' explicit intentions, and incorrectly deprived the licensee of its non-bankruptcy rights as the aggrieved party harmed by the debtor's rejection - breach - of the license. The court wrongly engrafted onto Section 365(g) a wholly implied concept of "termination" favoring the trustee or debtor - notwithstanding that rejection is statutorily deemed to be a breach by that party - to justify recovery of the licensed rights solely to realize pecuniary benefit for the bankruptcy estate through a sale or new license to a third party. That holding should be reversed.

A. The Plain Language Of Section 365 Treats Rejection Of An Executory Contract As A Breach, Not Termination, Of The Contract

Section 365(a) of the Bankruptcy Code permits the trustee (or debtor in possession), subject to the bankruptcy court's approval, to "assume or reject any executory contract or unexpired lease of the debtor." 11 U.S.C. §365(a). Section 365(g) provides, as a general matter in bankruptcy cases, that "the *rejection of an executory contract* or unexpired lease of the debtor *constitutes a breach of such contract* or lease . . . immediately before the date of the filing of the petition." *Id.* at §365(g)(1) (emphasis added). Section 365(g) does not contain any reference to a "termination;" four other subsections of Section 365, however, do include the term "terminate" in the specific context of affording to non-debtor parties to rejected contracts the right either to treat their contracts as terminated, or to retain their bargained-for rights for the remaining duration of the contracts. *See* Point I(B) below.[2]

Section 365(g) neither expressly terminates the contract nor gives the trustee (or debtor in possession) any right to terminate the contract. Further, Section 365(g) nowhere requires the non-debtor party to surrender all rights held under the rejected (breached) contract. The text of Section 365 signifies that, because it does not use the word "terminate" or "termination" to specify the effect of rejection, the court-approved act of rejection cannot be treated as anything more than a breach of contract. Rejection cannot divest the non-debtor party of its rights unless that party obtains relief from the automatic bankruptcy stay and then elects, of its own volition, to terminate the contract.

"The task of resolving the dispute over the meaning of [a statute] begins where all such inquiries must begin: with the language of the statute itself . . . . [Where] the statute's language is plain, 'the sole function of the courts is to enforce it according to its terms.'" *United States v. Ron Pair Enters., Inc.*, 489 U.S. 235, 241 (1989) (citations

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[2] The fifth subsection, in which the word "terminate" appears, Section 365(e), renders unenforceable a so-called *ipso facto* clause that would otherwise operate to terminate a contract because of the debtor's filing of a bankruptcy petition.

omitted). Thus, when the statute has a straightforward interpretation, a court should not change its meaning by injecting additional terms. *See, e.g., Connecticut Nat'l Bank v. Germain*, 503 U.S. 249, 253-54 (1992) ("[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there. When the words of a statute are unambiguous, then, this first canon is also the last: 'judicial inquiry is complete.'") (citations omitted); *Lamie v. United States Trustee*, 540 U.S. 526, 537-38 (2004) (courts should not add "absent words" to a statute, especially where there is a "plain, non-absurd reading in view"). Moreover, "[w]here Congress included particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion." *Bates v. United States*, 522 U.S. 23, 29-30 (1997).

The terms "reject" and "rejection" in Sections 365(a) and (g) are terms of bankruptcy art; neither section speaks about "termination" of an executory license. Rejection simply relieves the debtor's estate of its obligations under the contract, and "does not embody the contract-vaporizing properties so commonly ascribed to it . . . . Rejection merely frees the estate from the obligation to perform; it does not make the contract disappear." *Thompkins v. Lil' Joe Records, Inc.*, 476 F.3d 1294, 1306 (11th Cir. 2007) (*quoting Cohen v. Drexel Burnham Lambert Grp., Inc. (In re Drexel Burnham Lambert Grp., Inc.)*, 138 B.R. 687, 703 (Bankr. S.D.N.Y. 1992)); *see* M. Andrew, *Executory Contracts in Bankruptcy: Understanding "Rejection,"* 59 U. COLO. L. REV. 845, 931 (1988) ("rejection is a bankruptcy estate's election to decline a contract or lease asset . . . . That decision leaves the non-debtor in the same position as all others who have dealt with the debtor, by giving rise to a presumption that the debtor has 'breached' - i.e., will not perform - its obligations. The debtor's obligations are unaffected, and provide the basis for a claim.").

To our knowledge, the First Circuit, in its decision below, is the only circuit to reach a contrary conclusion on the effect of rejection since the statutorily-discredited 1985 decision of the Fourth Circuit in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In *Lubrizol*, the Fourth Circuit ruled that a debtor-licensor's rejection of a patent license terminated the licensee's right to continue to practice the patent. That decision no longer carries persuasive weight inasmuch as Congress, in adopting Section 365(n) of the Bankruptcy Code, specifically intended to reverse the effect of the ruling as it related to patents, in particular, and certain other classes of intellectual property. S. REP. No. 100-505, 100th Cong., 2d Sess. at 2-3 (1988).[3]

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[3] Nevertheless, some courts continue to hold, through negative inference, that the omission of trademarks from the definition of intellectual property contained in 11 U.S.C. §101(35A) reflected Congress' intention for *Lubrizol* to control the rejection of a trademark license. *E.g., In re HQ Global Holdings, Inc.,* 290 B.R. 507, 513 (Bankr. D. Del. 2003); *Raima UK Ltd. v. Centura Software Corp. (In re Centura Software Corp.)*, 281 B.R. 660 (Bankr. N.D. Cal. 2002) (under the plain language of the statute, trademark licenses are not included in section 365(n); as a result of rejection, the debtor's affirmative obligation to allow the licensee to use the mark is excused, and the counterparty is left only with a damage claim under Section 365(g)).

Those courts overlooked the overall structure and meaning of Section 365 and its exceptions, and analyzed only the equities

The majority of the circuits that have addressed the question agree that rejection of a contract under Sections 365(a) and (g) operates simply as a material breach and not as termination altogether. Rejecting a contract is not "'the functional equivalent of a rescission, rendering void the contract and requiring that the parties be put back in the positions they occupied before the contract as formed.' It 'merely frees the estate from the obligation to perform' and 'has absolutely no effect upon the contract's continued existence.'" *Sunbeam Prods., Inc.,* 686 F.3d at 376 (*quoting Thompkins*, 476 F.3d at 1306); *accord Miller v. Chateau Cmtys. Inc. (In re Miller)*, 282 F.3d 874, 877-78 (6th Cir. 2002); *Medical Malpractice Ins. Ass'n v. Hirsch (In re Lavigne)*, 114 F.3d 379, 386-87 (2d Cir. 1997) ("While rejection is treated as a breach, it does not completely terminate the contract."); *Enterprise Energy Corp. v. United States (In re Columbia Gas Sys. Inc.),* 50 F.3d 233, 239 n.8 (3d Cir. 1995) (rejection "is equivalent to a nonbankruptcy breach"); *Eastover Bank for Sav. v. Sowashee Venture (In re Austin Dev. Co.)*, 19 F.3d 1077, 1082 (5th Cir. 1994) ("the terms rejection, breach and termination are used differently [in Section 365], but not inconsistently or interchangeably, as some courts have suggested."); *Koplow v. P.M. Holding, Inc. (In re Modern Textile,*

from the perspective of the bankruptcy estate without coming to grips with the general rule of Section 365(g) - as recognized by the Courts of Appeals without exception other than *Lubrizol* and the decision on review here - that rejection under Section 365(a) is not termination.

Inc.), 900 F.2d 1184, 1191 (8th Cir. 1990).[4] *See also In re Exide Techs.,* 607 F.3d 957, 965-68 (3d Cir. 2010) (Ambro, J., concurring) (reasoned discussion of proposition that rejection is only a breach, not a termination, of the contract or license).

Leading commentaries on the Bankruptcy Code endorse this view. *See* 3 COLLIER ON BANKRUPTCY ¶ 365.10[3] (A. Resnick & H. Sommer eds. 16th rev. ed. 2018); 2 NORTON BANKR. L. & PRAC. 3D §46:7 (W. Norton Jr. & W. Norton III eds. 2018).

B. Congress Recognized How To Treat Rejection As Termination In Four Subsections Of Section 365, None Of Which Applies To Trademark Licenses Or Grants A Right Of Termination To The Bankruptcy Trustee Or Debtor

Over the years, Congress enacted four exceptions to the general effect of rejection in Section 365. Each exception provides special protection to a limited range of non-debtor counterparties by giving them (but not the trustee or debtor in possession) rights either to terminate the rejected contracts or to

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[4] *See also COR Route 5 Co. v. Penn Traffic Co. (In re Penn Traffic Co.)*, 524 F.3d 373, 378 (2d Cir. 2008) ("Rejection is not the equivalent of rescission because rejection under 11 U.S.C. §365(a) simply means that the court will permit the debtor to breach the contract, with the result that the contractual obligations will be reduced to general unsecured claims for prepetition damages pursuant to 11 U.S.C. §365(g)(1)." (*quoting In re Child World, Inc.*, 147 B.R. 847, 852 (Bankr. S.D.N.Y. 1992)); *O'Neill v. Continental Airlines, Inc. (In re Continental Airlines)*, 981 F.2d 1450, 1459 (5th Cir. 1993) ("To assert that a contract effectively does not exist as of the date of rejection is inconsistent with deeming the same contract breached.").

retain their rights for the remaining contract term:

- Section 365(h)(1): "If the trustee rejects an unexpired lease of real property under which the debtor is a lessor and . . . if the rejection by the trustee amounts to such a breach as would entitle the lessee to treat such lease as terminated . . ., the lessee may treat the lease as terminated by the rejection" or remain in possession for the remaining term. *Id.* at §365(h)(1)(A)-(B).

- Section 365(h)(2): "If the trustee rejects a timeshare interest under a timeshare plan under which the debtor is the timeshare interest seller and . . . if the rejection amounts to such a breach as would entitle the timeshare interest purchaser to treat the timeshare plan as terminated . . ., the timeshare interest purchaser under the timeshare plan may treat the timeshare plan as terminated by such rejection" or retain its rights for the remaining term. *Id.* at §365(h)(2)(A)-(B).

- Section 365(i): "If the trustee rejects an executory contract of the debtor for the sale of real property . . . under which the purchaser is in possession, such purchaser may treat such contract as terminated" or remain in possession. *Id.* at §365(i)(1).

- Section 365(n): "If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect . . . to treat such contract as terminated by such

> rejection if such rejection by the trustee amounts to such a breach as would entitle the licensee to treat such contract as terminated" or retain its rights for the remaining term. *Id.* at §365(n)(1)(A).

In each case, if the non-debtor elects to retain its rights, it must continue to pay royalties or other amounts coming due to the licensor, and the trustee (or its successor) may not interfere with the non-debtor's continued rights, but the estate is freed from further obligations to the non-debtor.

These exceptions demonstrate that Congress clearly intended to differentiate: (i) rejection under Sections 365(a) and (g) - *i.e.*, relieving the estate of the contracts <u>without</u> terminating them; from (ii) rejection of the four types of contracts summarized above - *i.e.,* relieving the estate of the contracts and *giving the non-debtor the option to terminate them*.

The fact that the Bankruptcy Code uses the word "terminate" in these subsections while conspicuously omitting it from Sections 365(a) and (g) buttresses the conclusion that rejection is not termination: "when the legislature uses certain language in one part of the statute and different language in another, the court assumes different meanings were intended." *O'Gilvie v. United States*, 516 U.S. 79, 96 (1996) (*quoting* 2A N. Singer, SUTHERLAND ON STATUTORY CONSTRUCTION §46.07 (5th ed. 1992 & Supp. 1996)); *see also Tafoya v. U.S. Dep't of Justice,* 748 F.2d 1389, 1391-92 (10th Cir. 1984) ("We presume that this clear use of different terminology within a body of legislation is evidence of an intentional differentiation.").

Any other interpretation would result in discord among the provisions of Section 365 relating to interpretation of the word "breach." It is a fundamental rule of statutory interpretation that "[a] word or phrase is presumed to bear the same meaning throughout the text . . . ." A. SCALIA & B. GARNER, READING LAW: THE INTERPRETATION OF LEGAL TEXTS at 170 (2012); *see Mohasco Corp. v. Silver*, 447 U.S. 807, 826 (1980) ("In the end, we cannot accept respondent's position without unreasonably giving the word 'filed' two different meanings in the same section of the statute.").

If a "breach" under Section 365(g) is a statutory authorization for a licensor to terminate, then a "breach" under Sections 365(h)(1), 365(h)(2), and 365(n), likewise, would allow the licensor to terminate. The latter provisions, however, plainly do not authorize the licensor to terminate; they only allow the licensee to terminate when the breach is such that would allow the license to terminate.

It is also a fundamental rule of statutory construction that provisions in a statute should, if possible, be read in harmony: "[t]he provisions of a text should be interpreted in a way that renders them compatible, not contradictory." A. SCALIA & B. GARNER at 180.

The authorization in Section 365(g) to "breach" by rejection, read in harmony and compatible with the "breach" authorized by Sections 365(h)(1), 365(h)(2), and 365(n), does not permit termination by the licensor.

That Congress purposely omitted "terminate" from Section 365(g) in describing the effect of rejection, while using that term in other subsections, demonstrates that it knew how to make rejection a basis for termination – but only by the non-debtor counterparty – and declined to do so for trademark licenses or other non-excepted executory contracts.

C. Absent Treatment Specifically Mandated Under Another Provision, The Effect Of Rejection Of A Trademark License Is Determined Under Section 365(g)

Rejection of a trademark license falls only within the general rule of Sections 365(a) and (g), not within any of the exceptions in Sections (e), (h), (i) or (n). Statutory exceptions are read narrowly to preserve the primary function of the provision. *Commissioner v. Clark*, 489 U.S. 726, 739 (1989) ("In construing [statutes] in which a general statement of policy is qualified by an exception, we usually read the exception narrowly in order to preserve the primary operation of the provision."). Similarly, exceptions "must not be interpreted so broadly as to swallow the rule." *Id.* (*citing Cuomo v. Clearing House Ass'n, L.L.C.*, 557 U.S. 519, 530 (2009)).

A broader judicially-created exception is inappropriate. *See Andrus v. Glover Constr. Co.*, 446 U.S. 608, 616-17 (1980) ("[W]here Congress explicitly enumerates certain exceptions to a general prohibition, additional exceptions are not to be implied . . . ."); *Butner v. United States*, 440 U.S. 48, 55-56 (1979); *see also United States v. Noland*, 517 U.S. 535, 543 (1996). This comports with a controlling canon of statutory interpretation: "[I]t is not, and cannot be, our practice to restrict the unqualified language of a statute to the particular evil that Congress was trying to remedy - even assuming that it is possible to identify that evil from something other than the text of the statute itself." *Brogan v. United States*, 522 U.S. 398, 403 (1998). Absent a compelling reason, the literal language of a federal statute applies even if it would produce a harsh result for one party in a case. *Burgo v. General Dynamics Corp.*, 122 F.3d 140, 145 (2d Cir. 1997).

Absent explicit inclusion in one or more of the exceptions identified above, rejected trademark licenses fall within the general rejection rule in Section 365(g). "An exception to a 'general statement of policy' is 'usually read . . . narrowly in order to preserve the primary operation of the provision.'" *Maracich v. Spears*, 570 U.S. 48, 61 (2013) (*quoting Clark*, 489 U.S. at 739); *accord United States v. Johnson*, 529 U.S. 53, 58 (2000) ("When Congress provides exceptions in a statute, it does not follow that courts have authority to create others. The proper inference . . . is that Congress considered the issue of exceptions and, in the end, limited the statute to the ones set forth."); *Contreras-Bocanegra v. Holder*, 678 F.3d 811, 817 (10th Cir. 2012) ("As a general principle of statutory interpretation, if a statute specifies exceptions to its general applications, other exceptions not explicitly mentioned are excluded." (citation omitted)).

Accordingly, Congress' specific omission of trademarks from the definition of "intellectual property" covered by the exception in Section 365(n) (*see* Point I(D) below) means that the effect of rejection of such trademark contracts is established only by Section 365(g). Where the breach would entitle them to terminate, licensees of "intellectual property" rights, as defined by Section 365(n), have the option to terminate the license agreement upon rejection by the debtor. Licensees of trademark rights do not have the statutory option to terminate the license agreement upon rejection by the debtor.

As a matter of statutory interpretation, therefore, the First Circuit's holding was wrong.

D. Judicial Equation Of Rejection Of A Trademark License With Termination Improperly Engrafts A New Exception Onto The Statutory Effect Of Rejection Of Such Licenses

When, in 1988, Congress passed the Intellectual Property Bankruptcy Protection Act that codified Section 365(n) for the rejection of "intellectual property" licenses, it considered the possibility of including "trademarks" within that provision but ultimately declined to do so.[5] The Senate Report on the legislation observed that "the bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor-licensors . . . . Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this area and to allow the development of equitable

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[5] As amended by the 1988 legislation, the Bankruptcy Code defines the term "intellectual property" as "(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law." 11 U.S.C. §101(35A).

treatment of this situation by bankruptcy courts." S. REP. NO. 100-505, 100th Cong., 2d Sess. at 5 (1988).

The Senate Report evidences three crucial realities regarding trademark licenses and how they fare under Section 365. The first, explicitly addressed by the statute, is that trademark licenses are not covered by Section 365(n).[6] Second, as the drafters expressly recognized, "[n]or does the bill address or intend any inference to be drawn concerning the treatment of executory contracts which are unrelated to intellectual property." *Id.* Trademarks are not "intellectual property" included in Section 365(n). Absent any manifest intention to the contrary, where they are executory, trademark licenses should be treated in the general fashion of any other executory contract. The final consideration, albeit more subtle but equally important, is that trademark licenses are not specifically addressed by any other exception in Section 365. If they had been, Congress either would have said so or would have omitted the reference to trademarks in the Senate Report. Accordingly, rejection of trademark licenses falls squarely under the general provision where the Code unambiguously treats a rejected contract as having only been breached, not terminated.

Although Congress contemplated the development of equitable treatment for trademark licenses by the bankruptcy courts, the statute in no

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[6] *But see In re Crumbs, Inc.*, 522 B.R. 766, 780 (Bankr. D.N.J. 2014) (concluding, on equitable grounds, that a trademark license is not abrogated upon rejection, but further stating that "[t]rademark [l]icensees can be protected by §365(n), notwithstanding the omission of 'trademarks' from the Bankruptcy Code").

way created or authorized the courts to create treatments wholly inconsistent with Section 365 in general. "While the Bankruptcy Court is a court of equity, the Bankruptcy Code 'does not authorize freewheeling consideration of every conceivable equity.'" *Midlantic Nat'l Bank v. New Jersey Dep't of Env't Prot.*, 474 U.S. 494, 514 (1986); *accord RadLAX Gateway Hotel, LLC v. Amalgamated Bank*, 566 U.S. 639, 649 (2012) ("[I]t is our obligation to interpret the Code clearly and prudently using well-established principles of statutory construction."). "Equitable treatment" of trademark licenses that results in divestiture of the licensee's rights following the debtor's deemed breach (through rejection) departs entirely from the historical understanding and operation of rejection. *See In re Exide Techs.,* 607 F.3d at 967-68 (Ambro, J., concurring) (because rejection only constitutes a breach under Section 365(g), "rather than reasoning from negative inference to apply [*Lubrizol*] to this dispute, the Courts here should have used, I believe, their equitable powers to give [the debtor] a fresh start without stripping [the licensee] of its fairly procured trademark rights."); *accord Sunbeam Prods., Inc.*, 686 F.3d 372*; see also* 3 COLLIER ON BANKRUPTCY ¶ 365.10[3] (A. Resnick & H. Sommer eds., 16th rev. ed. 2018) ("If rejection terminates the contract or lease, such termination may have consequences that affect parties other than the debtor and the other party to the contract or lease . . . . 'Rejection' constitutes a 'breach' pursuant to section 365(g), except to the extent that a contract or lease is 'terminated' pursuant to section 365(h) or (i).").

II. Rejection Of A License Agreement That Has Granted The Licensee All Substantial Rights In A Trademark Cannot Prevent The Licensee From Using That Trademark

Some trademark licenses are executory and some are not. Where a trademark license agreement grants the licensee all substantial rights to the trademark, the license agreement operates as an assignment of the trademark to the licensee. In that case, the licensee has a right to use the trademark that has been assigned to it, and the debtor's rejection of the license agreement is of no consequence to the licensee's continued use.

Whether a licensee has been granted all substantial rights under a license agreement is an assessment made on a case-by-case basis under applicable state law. As the Federal Circuit recognized in the context of patent license agreements:

> [t]o determine whether an assignment of patent rights was made, we must "examine whether the agreement transferred all substantial rights" to the patents and "whether the surrounding circumstances indicated an intent to do so."

AsymmetRx, Inc. v. Biocare Med., LLC, 582 F.3d 1314, 1319 (Fed. Cir. 2009) (*citing Vaupel TextilmaschinenKG v. Meccanical Euro Italia S.P.A.,* 944 F.2d 870, 875 (Fed. Cir. 1991)); *see WiAV Solutions LLC v. Motorola, Inc.*, 631 F.3d 1257, 1259 (Fed. Cir. 2010) ("If the patentee transfers all substantial rights under the patent, it amounts to an assignment and the assignee may be deemed the effective patentee. . . ."). And as this Court held over a century ago, "[w]hether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions." *Waterman*, 138 U.S. at 256.

To that end, in determining whether a patent license agreement transfers all substantial rights to a licensee and, thus, renders the licensee an "effective patentee," courts examine, for example:

- the licensee's right to make, use, and sell or service a product under the patent;
- the licensee's right to sue and recover damages for infringement;
- whether the licensor can retain damages for any infringement suits brought by the licensee;
- the ability to sub-license;
- the ability of a licensor to supervise and control the licensee's activities; and
- the obligation to pay statutory maintenance fees.

Alfred E. Mann Found. for Sci. Research v. Cochlear Corp., 604 F.3d 1354, 1360-61 (Fed. Cir. 2010).

Likewise, certain District Courts have analyzed the same factors to determine whether a trademark licensee has been granted all substantial rights in a trademark such that the licensee is the "effective registrant" with standing to sue for infringement under 15 U.S.C. §1114. *Kroma Makeup EU, LLC v. Boldface Licensing + Branding, Inc.*, 264 F. Supp. 3d 1294, 1300 n.3 (M.D. Fla. 2017) (observing that a trademark licensee may have all substantial rights where the license granted the licensee the right of exclusivity, the right to transfer, and the right to sue infringers); *see also Aceto Corp. v. TherapeuticsMD, Inc.*, 953 F. Supp. 2d 1269, 1279 (S.D. Fla. 2013).

At bottom, this Court's decision in *Waterman* provides the test for determining whether a patent licensee or trademark licensee is the owner by assignment of the patent or trademark. If the license agreement is, upon proper examination, an assignment because it transfers all substantial rights to the licensee, then the license agreement is not an executory contract because, as a result of the assignment, there would be no further material performance obligations due and owing from the debtor-licensor.

An executory contract requires that each party have an ongoing obligation under the contract as of the commencement of the bankruptcy case. *In re Exide Techs.,* 607 F.3d at 962 (a contract is executory when both parties have unperformed obligations that would constitute a material breach if such obligations are not performed; no material obligations remain under trademark license); *United States Bank Trust Nat'l Ass'n v. AMR Corp., (In re AMR Corp.),* 730 F.3d 88, 106 (2d Cir. 2013); *Gencor Indus., Inc. v. CMI Terex Corp. (In re Gencor Indus., Inc.),* 298 B.R. 902, 913 (Bankr. M.D. Fla. 2003)

("Because neither party had any on-going affirmative duty that would cause a material breach if unperformed, the Court finds that. . . . the settlement agreement and the related irrevocable [patent] license were not executory contracts within the meaning of Section 365 of the Bankruptcy Code."). And if it is not executory, then the license agreement cannot be rejected by the debtor because Section 365(a) allows rejection of only executory contracts.

But if the license agreement transfers only some, but not all, substantial rights, then the licensee is not an assignee of the trademark and the license agreement may qualify as an executory contract because both licensor and licensee will have continuing obligations under the license agreement.

If, however, the rights that are transferred to the licensee rise to the level of a property interest, such interest cannot be divested by operation of bankruptcy law. *Abboud v. Ground Round, Inc. (In re Ground Round, Inc.),* 482 F.3d 15 (1st Cir. 2007) ("Where a claimant holds something akin to a property right in something held by the debtor, that right survives bankruptcy and remains enforceable to recover the property from the estate, except where that right is cut off by provisions of the Bankruptcy Code."); *see also Trade-Mark Cases*, 100 U.S. 82, 92 (1879) ("The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized . . . . [as] a property right for the violation of which damages may be recovered in an action at law. . . . ").

To determine the nature of a non-debtor's interest, courts will examine the applicable state law.

Butner, 440 U.S. at 55 ("Property interests are created and defined by state law."). Thus, a court should conduct a case by case analysis to determine whether the rights transferred to a licensee are akin to a property interest such that the licensee is entitled to the continued use of the trademarks post-rejection.

III. The Quality Control Requirements Of Trademark Licensing Law Do Not Preclude The Non-Debtor's Continued Use After Rejection By The Licensor

The law governing trademark licensing requires that the quality of the goods or services provided under the licensed mark be subject to the licensor's reasonable control in order to ensure the validity of the license and of the mark itself as a consistent source-indicator. *See Draeger Oil Co., Inc. v. Uno-Ven Co.*, 314 F.3d 299, 300-01 (7th Cir. 2002) ("[F]or a trademark to remain enforceable . . . the owner must, through monitoring, testing, and other means, maintain the quality and uniformity of the trademarked product . . . so that consumers are not deceived by the identity of names into buying a product different from what they reasonably expected.") (citations omitted).

The requirement of quality control, originally developed in pre-Lanham Act decisional law, was "carried forward" into the provisions of the Lanham Act (the current federal statute governing federally registered marks). *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) (tracing the pre-Lanham Act development of the doctrine and its implementation in Sections 5 and 45 of the Lanham Act (15 U.S.C. §§1055, 1127)); *see also* 15

U.S.C. §1055 (use of a mark by a "related company" of the owner will not affect the mark's validity) and §1127 (defining "related company" as "any person whose use of the mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services . . . .").

In the present case, the license agreement provides that certain uses of the trademarks by the licensee are pre-approved, and that the debtor-licensor has "the right to review and approve" other uses. *In re Tempnology, LLC*, 879 F.3d at 402. Regardless, a licensor's obligation to monitor and, if necessary, police product quality, exists under trademark law whether or not such provisions are expressly included within the terms of a written license agreement. *See* 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §18:59 (5th ed. Nov. 2018) ("A contractual provision giving the licensor the right to supervise and control the nature and quality of the licensee's goods and services is not an essential element if adequate quality control was in fact exercised.") (*citing Dawn Donut,* 267 F.2d at 367).

A licensor's quality control obligation, which originates outside of bankruptcy law, is still present in the event of a debtor-licensor's rejection of a trademark license under Section 365. The general rule under Section 365(g) that a "rejection" does not equate to a "termination" of the agreement pertains for two reasons.

First, if the non-debtor licensee chooses to continue to exercise his right under the agreement to use the trademark, that decision will not relieve the licensee of any obligation contained in the license agreement to satisfy quality standards. Such obligation will continue pursuant to the terms of the license agreement.

Second, to maximize the benefits of the relief afforded by the bankruptcy court, a debtor-licensor will make reasonable efforts to preserve the value of the assets of the bankruptcy estate including the trademark and related goodwill. One of those efforts within the licensor's control is, consonant with the licensor's obligation under trademark law, to monitor and police the licensee's product quality. The licensor's actions in monitoring product quality, however, are not the result of any contractual obligations owed by the licensor to the licensee, but, rather result from the very practical undertaking to preserve the value of the assets of the bankruptcy estate. *In re SIMA Int'l, Inc.*, 2018 Bankr. Lexis 1455 at *19 n.24 (Bankr. D. Conn. 2018) (the debtor-licensor's burden of maintaining quality under the license is required by "the legal rigors of trademark policing, <u>not</u> contractual obligations . . . .") (emphasis in original).

The Bankruptcy Code includes provisions designed to enable the debtor or trustee to preserve or enhance the value of the estate assets. *In re Satcon Tech. Corp.,* 2012 Bankr. Lexis 5812, *16 (Bankr. D. Del. 2012) (recognizing "the Debtors' obligation to seek to maximize the value of its assets for the benefit of their constituents."). For example, the automatic stay under 11 U.S.C. §362(a)(1) expressly addresses actions "against the debtor." Actions commenced by the debtor may continue, and often are continued, in order to preserve or enhance the value of assets. *See, e.g., Haag v. United States*, 485 F.3d 1, 4 (1st Cir. 2007) (automatic stay did not prevent debtor from continuing his appeal challenging a federal tax lien).

Acting to maintain product quality within a trademark licensing situation is but one example of asset-protective action that the debtor may take within the permissive ambit of bankruptcy law.

CONCLUSION

For the above stated reasons, the NYIPLA respectfully requests that the Court: (1) conclude that the rejection of a trademark license agreement by a debtor-licensor under Section 365(g) does not authorize the debtor-licensor to terminate the trademark license agreement; and (2) in the event that it decides that Section 365(g) does allow for termination, apply the analysis outlined above to determine whether the legal effect of the transfer of any right or interest under the license agreement precludes termination.

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December 17, 2018