PREVIEW

OF UNITED STATES SUPREME COURT CASES

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Previewing the Court's Entire February Calendar of Cases, including…

United States v. Haymond

Respondent Andre Haymond was convicted of both possession and attempted possession of child pornography and was sentenced to 38 months incarceration and a period of 10 years of supervised release. While on release, Haymond was found to have again possessed child pornography and was sentenced to a requisite 5 years reimprisonment under 18 U.S.C. § 3583(k). The Tenth Circuit vacated his sentence on the grounds that Section 3583(k) infringes the Fifth and Sixth Amendments of the United States Constitution. The Supreme Court now considers the constitutionality of Section 3583(k).

American Legion v. American Humanist Association

Maryland-National Capital Park and Planning Commission v. American Humanist Association

The Establishment Clause of the First Amendment, "Congress shall make no law respecting an establishment of religion," prohibits the creation of a national church and the government favoring certain religious sects over others. But that is where general agreement of these ten words ends. In this case, the Court has an opportunity to clarify the meaning of the Establishment Clause in the context of a 40-foot cross erected as a memorial to fallen World War I soldiers. Is the monument a permissible civic recognition of fallen war veterans or an impermissible advancement and promotion of Christianity?

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Fear of Rejection: When a Trademark License Is Rejected in Bankruptcy, Does the Licensee Lose Its Trademark License Rights?

CASE AT A GLANCE

Tempnology LLC granted Mission Product Holdings Inc. a nonexclusive trademark license. Tempnology filed bankruptcy and rejected the parties' agreement. The First Circuit held that rejection terminated Mission's trademark license, leaving it with only a pre-petition damages claim. Tempnology's breach would not have terminated Mission's license rights outside of bankruptcy, and Mission asks the Supreme Court to hold that rejection constitutes a breach that only relieves Tempnology from future affirmative performance obligations but does not revoke Mission's license rights.

Mission Product Holdings, Inc. v. Tempnology, LLC n/k/a Old Cold LLC
Docket No. 17-1657

Argument Date: February 20, 2019
From: The First Circuit

by Robert L. Eisenbach III
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ISSUE

Under Section 365 of the Bankruptcy Code, does a debtor-licensor's rejection of a license agreement—which "constitutes a breach of such contract," 11 U.S.C. § 365(g)—terminate rights of the licensee that would survive the licensor's breach under applicable nonbankruptcy law, or instead does rejection only relieve the debtor-licensor or trustee of future affirmative performance obligations under the agreement but leave granted license rights intact?

INTRODUCTION

The impact of a licensor's bankruptcy on a licensee's rights has been at the intersection of intellectual property and bankruptcy law for more than 30 years. Many companies spend millions of dollars on research, development, and commercialization of products incorporating patents and other intellectual property licensed from third parties. Trademark licensees also often make significant investments to market and sell licensed products. However, if the licensor files bankruptcy, the question arises whether the license rights will survive.

Driving that uncertainty is the fact that, in bankruptcy, a debtor (or its bankruptcy trustee) has the right to assume or reject executory contracts. License agreements typically are held to be executory contracts because both licensor and licensee have material, unperformed obligations. If the benefits of the agreement outweigh the burden of continued performance, the license agreement will likely be assumed or potentially assigned to a third-party purchaser. If not, the agreement will likely be rejected. Upon rejection, the debtor-licensor or trustee will no longer be required to perform the debtor's obligations under the agreement.

The key question before the Supreme Court is whether rejection also results in the termination of the licensee's intellectual property rights. The issue has its roots in the 1985 decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.,* 756 F.2d 1043 (4th Cir. 1985). There, debtor-licensor Richmond Metal Finishers filed bankruptcy and rejected as an executory contract a nonexclusive patent license it had granted to Lubrizol. The Fourth Circuit held that Lubrizol could not "rely on provisions within its agreement with [the debtor] for continued use of the technology." The *Lubrizol* court held that Congress enacted Section 365(g) of the Bankruptcy Code, governing the effect of an executory contract rejection, and "the legislative history of § 365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party," with no specific performance remedy. The court held that when the debtor-licensor rejected the contract, the patent licensee lost its rights under the license.

In reaction to *Lubrizol,* Congress enacted the Intellectual Property Bankruptcy Protection Act (IPBPA) in 1988. The IPBPA added Section 365(n) to the Bankruptcy Code, expressly permitting licensees of intellectual property to elect to retain their rights to the intellectual property, including under any exclusivity provision. In return, the licensee would have to continue making any required royalty payments. A licensee under a rejected license may also retain rights under any agreement supplementary to the license, for example, a source code or technology escrow agreement. However, rejection would relieve the debtor-licensor or trustee of an obligation to update or continue to develop the intellectual property or to make available any updates later developed. Taken together, Section 365(n) protects a licensee from being stripped of its rights to continue to use the licensed

intellectual property as they existed when the bankruptcy case was filed.

The IPBPA did not cover all intellectual property, adding a special, limited definition of "intellectual property" for Section 365(n) purposes in Section 101(35A) of the Bankruptcy Code. The definition includes trade secrets, U.S. patents and patent applications, copyrights, and mask works, but not trademarks or trade names. The Senate Report on the IPBPA explained that "the bill does not address the rejection of executory trademark" licenses, even though "such rejection is of concern because of the interpretation of section 365 by the *Lubrizol* court," because trademark relationships "depend to a large extent on control of the quality of the products or services sold by the licensee." Concluding that "these matters could not be addressed without more extensive study," Congress "determined to postpone congressional action in this area and to allow the development of equitable treatment of this situation by bankruptcy courts."

Given the exclusion of trademarks from Section 101(35A), courts have consistently held that Section 365(n)'s special protections do not apply to trademark licenses. Courts following *Lubrizol* have further ruled that trademark licensees lose their trademark license rights upon rejection. However, in a 2012 decision in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC,* 686 F.3d 382 (7th Cir. 2012), the Seventh Circuit expressly rejected *Lubrizol* and held that rejection of a trademark license did not terminate the licensee's rights to use the trademarks. The court held that under Section 365(g) of the Bankruptcy Code, rejection operates as a breach by the debtor but not as a termination of the contract or the trademark licensee's rights. The First Circuit's decision below followed *Lubrizol* and rejected the *Sunbeam* decision, reinforcing the circuit split regarding the effect of rejection on a trademark license agreement created after the *Sunbeam* decision.

FACTS

Tempnology, LLC, n/k/a Old Cold LLC (respondent or Tempnology), designed chemical-free cooling fabrics, on which it held issued and pending patents, and marketed them under the "Coolcore" and "Dr. Cool" brands. In November 2012, Tempnology entered into a Co-Marketing and Distribution Agreement (Agreement) with Mission Product Holding, Inc. (petitioner or Mission).

The Agreement granted Mission "exclusive distribution rights" in the United States and an opportunity to obtain similar rights in other countries. The Agreement also granted Mission a "Non-Exclusive License" in "Intellectual Property Rights," defined to include, among others, Tempnology's copyrights, patentable and unpatentable inventions, discoveries, designs, technology, trademarks, and trade secrets, as follows:

> Excluding those elements of the CC Property consisting of Marks, Domain Names, [Tempnology] hereby grants to [Mission] and its agents and contractors a non-exclusive, irrevocable, royalty-free, fully paid-up, perpetual, worldwide, fully-transferable license, with the right to sublicense (through multiple tiers), use, reproduce, modify, and create derivative work based on and otherwise freely exploit the CC Property in any manner for the benefit of [Mission], its licensees and other third parties.

The "CC Property" covered all products developed or provided by Tempnology and all intellectual property rights with respect to those products.

Critical to this case, under the Agreement, Tempnology also granted Mission "a non-exclusive, non-transferable, limited license…to use its Coolcore trademark and logo (as well as any other Marks licensed hereunder) for the limited purpose of performing its obligations hereunder" during the Agreement's term. If the Agreement were terminated, it would trigger a two-year wind down period during which Mission would retain the right to purchase, distribute, and sell the relevant products, including use of the trademark rights.

In June 2014, Mission terminated the Agreement without cause, triggering the two-year wind down period set to expire in June 2016. In July 2014, Tempnology asserted a termination of the Agreement for cause, refused to fill Mission's purchase order, and demanded that Mission cease using the trademarks. In response, Mission filed a demand for arbitration. In June 2015, the arbitrator ruled that Tempnology's termination grounds were improper and that the wind down period continued until June 2016. While the arbitration was pending, Tempnology granted other trademark licenses to third parties.

On September 1, 2015, Tempnology filed a Chapter 11 bankruptcy petition in the U.S. Bankruptcy Court for the District of New Hampshire. One of its first motions in the bankruptcy case was to reject the Agreement. In response, Mission elected to exercise its rights pursuant to Section 365(n) of the Bankruptcy Code to retain the licensed intellectual property. Tempnology filed a second motion seeking a determination that Mission's Section 365(n) rights were limited only to the grant of the nonexclusive copyright, patent, and trade secret license and did not extend to either the trademark license or the exclusive distribution rights.

The bankruptcy court held that the nonexclusive copyright, patent, and trade secret license was a license of "intellectual property" as defined in Section 101(35A) of the Bankruptcy Code, and that Mission's rights to use that intellectual property were protected under Section 365(n). However, neither trademarks nor the exclusive distribution rights were "intellectual property" under Section 101(35A) and thus Mission's trademark license and distribution rights were not protected under Section 365(n). As a result, the bankruptcy court held that rejection of the Agreement effectively terminated both the trademark license and the exclusive distribution rights.

Mission appealed to the First Circuit's bankruptcy appellate panel (BAP). The BAP affirmed the bankruptcy court's decision that Mission's Section 365(n) rights did not extend to the trademark license but, rejecting *Lubrizol* and adopting the *Sunbeam* approach, reversed the ruling that Mission's rights in the trademark license terminated on rejection of the Agreement.

Tempnology appealed to the First Circuit. The court of appeals agreed with the courts below that neither trademarks nor

exclusive distribution rights are "intellectual property" under Section 101(35A) and that therefore neither has Section 365(n) protections. The only exclusivity rights protected by Section 365(n) according to the First Circuit are intellectual property license rights and not distribution rights. The First Circuit also held that a licensee's right to the "embodiment of such intellectual property" in Section 365(n)(1)(B) is a limited concept (and a term of art); it does not extend to all goods Mission sought to distribute under the exclusive distribution arrangement.

The First Circuit, however, affirmed the bankruptcy court's decision on the effect of rejection under Section 365(g), endorsing *Lubrizol* and refusing to follow *Sunbeam.* The court's main rationale was that the *Sunbeam* approach would burden the debtor, as trademark owner, with obligations to monitor and control the quality of the trademarked goods despite having rejected the trademark license. The First Circuit dismissed *Sunbeam's* reasoning that rejection did not terminate rights with the following comment: "And the logic behind that approach (no rights of the counterparty should be 'vaporized' in favor of a damages claim) would seem to invite further leakage. If trademark rights categorically survive rejection, then why not exclusive distribution rights as well? Or a right to receive advance notice before termination of performance? And so on."

Mission filed a petition for a writ of *certiorari* posing two questions. The first centered on the effect of a trademark license rejection on the licensee's rights and the second on whether the agreement's exclusive distribution rights constituted a "right to intellectual property" subject to the protections of Section 365(n). The Supreme Court granted review to consider only the first issue.

CASE ANALYSIS

The *Mission Products v. Tempnology* case presents the Supreme Court an opportunity to define what effect rejection of a trademark license has on the licensee's continued use of the trademark. At issue is whether rejection merely functions as a breach of contract by the debtor-licensor or instead results in the termination of the licensee's contractual rights to use the trademarks.

Petitioner argues that rejection of an executory contract neither rescinds the contract nor revokes the licensee's interests in property rights granted under the contract, here specifically trademark license rights. Quoting from Section 365(g), petitioner asserts instead that rejection "constitutes a breach of such contract…immediately before the date of the filing of the petition." It contends that rejection, similar to an anticipatory repudiation outside of bankruptcy, is only a breach of contract and not a special bankruptcy "power." According to petitioner, rejection is not a form of rescission and "cannot terminate the counterparty's rights under a contract" if the counterparty, as a treatise explained, "'would have been entitled to these benefits had the breach occurred outside of bankruptcy.'"

Petitioner contrasts rejection of an executory contract with the avoidance powers in bankruptcy. "[R]ejection of the contract that transferred [an] interest is not avoidance and cannot expand the estate's rights in the underlying asset." Unlike an avoidance power, which allows a bankruptcy estate to recover property previously transferred to third parties, "rejection is merely a breach of the debtor's future performance obligations under the contract." When a debtor-licensor has conferred a license grant in intellectual property prior to bankruptcy, it "gives the licensee an interest in the licensor's intellectual property. Typically, that interest is not ownership of the entire bundle of rights to the property, but particular sticks in the bundle: the right to use the property and/or to exclude others from using it." Petitioner argues that the estate created upon the commencement of a bankruptcy simply does not include interests already granted to third parties, including under licenses. Instead, the estate takes that property "subject to" existing licenses.

Petitioner argues that the First Circuit's decision below, and the Fourth Circuit's in *Lubrizol,* fundamentally misunderstands the effect of rejection. As a breach, rejection does not allow the breaching party—the debtor-licensor or trustee—to avoid and recover granted license rights. Petitioner asserts that these decisions mistakenly relied 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." Petitioner contends that a licensee's retention of granted license rights is not a form of specific performance because rejection cannot revoke granted rights. Even if it were, respecting a negative covenant not to sue or interfere with a licensee's granted rights is consistent with the bankruptcy principle of equality among creditors. It also aligns with the core purpose of rejection, which is to free the estate from affirmative performance obligations and administrative priority claims for breach.

Applying these principles, petitioner argues that neither its nonexclusive trademark rights nor its exclusive distribution rights was revoked upon respondent's rejection of the Agreement. In granting the license, respondent gave up its right to exclude petitioner from using the licensed trademarks, and they entered the bankruptcy estate subject to that limitation. Outside of bankruptcy, respondent's breach of the Agreement would not terminate petitioner's license rights. Rejection in bankruptcy, statutorily defined as a pre-petition breach, likewise does not terminate those rights. As for petitioner's exclusive rights to sell products incorporating respondent's patents, even if they were not "rights to intellectual property" protected under Section 365(n), those rights similarly could not be revoked by respondent's breach through rejection. When respondent entered bankruptcy, it had already conveyed those particular "sticks in the bundle of sticks" to petitioner and could not recover them by breaching the Agreement through rejection.

Petitioner contends that Congress's decision to enact Sections 101(35A) and 365(n) without including trademarks did not give rise to a "negative inference" that rejection terminates trademark rights. Petitioner argues that those statutes simply created a safe harbor. Further, Congress did not endorse the *Lubrizol* decision's interpretation of Section 365(g), a point petitioner contends is confirmed by the IPBPA's legislative history.

Petitioner next addresses the First Circuit's view that a debtor-licensor or trustee would remain burdened by the requirement to exercise control over the quality of the goods unless rejection

terminated the trademark license rights. Petitioner highlights that respondent licensed multiple other distributors and argues that it rejected the Agreement not to free itself of monitoring obligations but to relicense the trademarks on more advantageous terms. Further, petitioner contends that the quality-control burden is imposed not by the Agreement but by trademark law itself. As such, a trademark owner's decision to engage in monitoring, which is at most a minor undertaking under current trademark law, is motivated by a desire to preserve the value of its own trademark. Finally, petitioner disputes the First Circuit's reasoning that the reorganization objective of Chapter 11 justifies using rejection as the equivalent of an avoidance power, contending that Section 365 provides only limited aid for reorganizations by relieving debtors of burdensome affirmative performance obligations.

Six amicus briefs have been filed, ranging from the United States to intellectual property organizations to law professors, four supporting petitioner and two supporting neither party. However, all six argue on various grounds that the First Circuit's decision should be reversed in favor either of the *Sunbeam* approach or one similar to it, and that the Supreme Court should hold that rejection does not terminate a licensee's trademark rights.

The United States argues that the *Sunbeam* decision correctly interpreted Section 365(g) by holding that rejection cannot revoke a trademark license. A breach by respondent outside of bankruptcy would not enable it to revoke petitioner's trademark rights. Rejection functions as such a breach, permitting the trustee to cease future performance but not to terminate previously granted license rights. For historical context, the United States cites case law interpreting the pre-Bankruptcy Code rejection power, later codified in Section 365. Rejection permitted trustees, assignees, and receivers to elect whether or not to perform under contracts or leases but did not result in termination of a tenant's rights when the debtor was a landlord. The United States disputes the First Circuit's heavy reliance on quality-control obligations under trademark law as a reason to permit termination of a licensee's rights. It argues that if monitoring obligations are left unperformed, the licensee should be the party to decide whether that breach justifies termination. Similarly, the United States asserts there are strong reliance interests on the part of trademark licensees, who often invest in businesses and purchase inventories of branded goods based on the license grant.

An amici group of seven law professors argues that rejection is a breach and not an avoidance power. They also assert that there is an academic consensus that *Lubrizol*—and thus the First Circuit's approach—fundamentally misunderstands the role of rejection and was wrongly decided.

The International Trademark Association points to the huge economic value of trademark licensing and argues that the *Sunbeam* approach would promote the strength and stability of the trademark system. It also contends that a trademark owner's quality-control obligations arise under the Lanham Act and not license agreements. It further asserts that both trademark owners and licensees would be harmed by adopting the First Circuit's rule because licensees would pay less to compensate for the risk of losing the license through rejection in bankruptcy.

The Intellectual Property Owners Association argues that the Supreme Court should start with the *Sunbeam* analysis but allow a case-by-case equitable approach, including through application of nonbankruptcy law, pending congressional action.

The American Intellectual Property Law Association contends that the First Circuit's decision to follow *Lubrizol* was based on a misreading of trademark law and a failure to recognize that Congress did not endorse *Lubrizol* when enacting the IPBPA.

In its amicus brief, the New York Intellectual Property Law Association argues that the enactment of the IPBPA and other exceptions to Section 365(g), which use the word *terminate,* in contrast to Section 365(g)'s use only of the word *breach,* show that Congress never intended rejection to permit a debtor or trustee to terminate the agreement, just the nondebtor counterparty.

Respondent takes issue with all of petitioner's arguments but first asserts that the main question presented, the effect of rejection on the Mission trademark license, is moot because those license rights have expired. It also argues that petitioner's arguments to reinstate the exclusive distribution rights are both outside of the single question on which the Supreme Court granted review and moot.

On the main question, respondent argues that once rejected, an executory contract is unenforceable against the debtor's estate, other than as a pre-petition damages claim under Sections 365(g) and 502(g)(1), absent a statutory exception. Quoting *NLRB v. Bildisco & Bildisco,* 465 U.S. 513 (1984), respondent asserts that once rejected, "the executory contract is 'not an enforceable contract' against the estate" except as a pre-petition claim. Moreover, "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," such as anticipatory repudiation. "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,'" quoting from *Bildisco.*

Respondent further argues that upon rejection the counterparty's sole remedy is to file a pre-petition damages claim. The Bankruptcy Code "reduces all of a non-debtor counterparty's non-bankruptcy rights, including equitable remedies of specific performance, into a monetary damages claim." Coupled with Section 101(5)'s broad definition of "claim," the Section 502(g) damages claim remedy means that all the debtor's legal obligations under a contract are to be dealt with as bankruptcy claims, not through other remedies such as retention of license rights.

Respondent asserts that the existence of statutory exceptions to Section 365(g) confirms that, upon rejection, an executory contract is otherwise entirely unenforceable. Respondent contends that the statement "[e]xcept as provided in subsections (h)(2) and (i)(2)" in Section 365(g), as originally enacted, shows that Section 365(g)'s general rule of unenforceability applies other than as statutorily excepted. "No such exception has ever existed for trademark licenses (or exclusive product distribution agreements)." Later-enacted statutory exceptions, respondent

argues, provide a rejected counterparty "the same binary choice—accept rejection as termination under the general rule, or retain a limited set of statutory rights."

Respondent also argues that Congress's response to *Bildisco* and *Lubrizol,* enacting narrowly tailored statutory exceptions but not revising Section 365(g) itself, "confirm[s] the interpretation of Subsections (a) and (g) that those decisions adopted." After *Bildisco,* Congress enacted Section 1113, addressing collective bargaining agreements. Respondent argues that Section 1113 "[t]ellingly" permits a trustee to "terminate" an agreement, which reflects Congress's view of the effect of Section 365(g) rejection. In the IPBPA, Congress added Sections 101(35A) and 365(n) and, quoting from Section 365(n)(1) and (2), offered a rejected intellectual property licensee a choice to "treat such contract as terminated" and pursue a pre-petition damages claim or "retain its rights" subject to Section 365(n)'s limitations. Respondent argues that each amendment "confirms the core holdings of *Bildisco* and *Lubrizol*—under the general rule, rejection makes the agreement 'not an enforceable contract'" while rejection "'terminates' the counterparty's ability to enforce any provision of the contract except by a pre-petition damages claim."

Pointing to the *expressio unius* canon, respondent asserts that Congress's enactment of specific statutory exceptions in which a counterparty retains rights under rejected contracts "precludes courts from creating further exceptions." A contrary decision would violate that canon and also the rule against superfluities. Interpreting Section 365(g) to allow a trademark licensee under a rejected trademark license to retain its rights would render superfluous Congress's detailed statutory requirements in Section 365(n). Respondent also argues that the Supreme Court's decision in *RadLAX Gateway Hotel, LLC v. Amalgamated Bank,* 566 U.S. 639 (2012), shows that petitioner's characterization of statutory exceptions such as Section 365(n) as "expressions of the general principle" and "safe harbors" is flawed. Further, petitioner's argument that Section 365(n) is not superfluous because it provides debtors with additional benefits makes no sense: those benefits are only at the election of the counterparty, not the debtor, and "the counterparty would always opt for the broader rights available under petitioner's version of the general rule."

Respondent also argues that "[c]omplete relief from burdensome contracts is especially important in Chapter 11 business reorganizations," which "often require new investment." Leaving an unfavorable trademark license and exclusive distribution rights in the hands of an "antagonistic counterparty" would jeopardize those efforts. Respondent asserts that petitioner's proposed rule would frustrate the central bankruptcy policy of equality of distribution among creditors by allowing a counterparty like petitioner to argue for post-rejection retention of a burdensome exclusive distribution provision as a granted property right. Respondent argues that a rule requiring trademark owners to continue honoring licenses could cause particular damage in restaurant and hotel franchise restructurings. There, rebranding or other business repositioning, unfettered by burdensome licenses, may be needed for the debtor to survive.

Respondent also disputes that the trademark license granted to petitioner is an "interest in property," arguing it is merely a contractual right. The Agreement "makes explicit that it conveyed no property interest in respondent's trademarks," just a license right under a now-rejected contract. Further, a trademark licensor's retention of full ownership is appropriate because trademark law requires a unity of ownership and related goodwill, together with an obligation to police quality.

Respondent also asserts that petitioner's attempt to draw a distinction between negative and affirmative covenants has no statutory support. Further, virtually any affirmative obligation could be recast as a negative one, such as an exclusive distribution agreement. That could be characterized as an obligation to sell through the counterparty or to refrain from selling through others. Absent a specific statutory exception, petitioner's "purported distinction between negative and affirmative covenants is not an administrable line."

Addressing one of petitioner's main arguments, respondent disputes that its interpretation of rejection would be tantamount to avoidance, revocation, or rescission of the granted trademark license rights. Respondent contends that rejection is distinct and does not unwind a contract but instead "limits remedies for rejection to a pre-petition claim for breach-of-contract damages." Respondent also argues that the Bankruptcy Code does not authorize a case-by-case equitable approach to the effect of rejection as advanced by some amici. It also challenges the claim by other amici that there is an academic consensus in support of the *Sunbeam* decision.

Respondent contests petitioner's assertion of entitlement to an enforceable administrative claim if the Supreme Court agrees that the nonexclusive trademark license or exclusive distribution rights survived rejection. Respondent also argues that petitioner's property-interest theory fails as a matter of trademark and bankruptcy law, particularly because a nonexclusive trademark license has an established legal meaning, which is only a "bare right" to use a trademark. To the extent the Supreme Court accepts the "negative covenant" argument, respondent argues that the license agreement here involved mutual obligations, such as branding coordination and a requirement to follow respondent's trademark guidelines, going well beyond a mere negative covenant not to sue for infringement.

SIGNIFICANCE

If the Supreme Court affirms the First Circuit and endorses the *Lubrizol* approach that rejection terminates a licensee's trademark rights, trademark licensees would be at great risk of losing all trademark rights upon a licensor's bankruptcy. However, trademark licensees have had to operate under that premise starting with the 1985 *Lubrizol* decision and then Congress's decision not to include trademarks in the 1988 IPBPA, at least until the Seventh Circuit's *Sunbeam* decision in 2012 reopened the question. A Supreme Court opinion affirming the First Circuit therefore would settle the issue but not break significant new ground.

In contrast, if the Supreme Court reverses the First Circuit and adopts the *Sunbeam* approach, the decision could have significant consequences. Trademark licensees of course would assert the right to retain license rights despite rejection. Moreover, such

a decision would raise a number of questions, likely leading to additional litigation, including:

1. If royalties are required under a trademark license, must the trademark licensee continue to pay them post-rejection to use the licensed trademarks, as a licensee is required to do under Section 365(n), or can the trademark licensee argue that rejection is a material breach excusing that performance?

2. Are licensees of patents, copyrights, or trade secrets that are protected by Section 365(n) required to follow Section 365(n)'s statutory scheme to retain their rights, or is Section 365(n) just a safe harbor such that licensees could opt out of its provisions and assert generally that rejection does not terminate their rights?

3. Aside from the right to use the licensed trademarks, does the licensee keep other rights under its agreement, such as exclusivity if applicable?

4. How long do the trademark license rights continue, the full term of the license agreement plus any extensions, or some other period?

5. After rejection, can a debtor-licensor still attempt to terminate the license on other grounds, or is rejection a material breach that precludes that option?

6. Will purchasers of trademarks and other assets in bankruptcy cases offer less because of the continued use of the marks by licensees under rejected trademark licenses?

In addition, the case could have an even more significant impact, extending beyond the trademark and intellectual property area, if the Supreme Court adopted petitioner's argument that rejection does not terminate exclusive distribution rights. If such distribution rights survive rejection as negative covenants, counterparties would likely contend that similar provisions in many executory contracts are also negative covenants and not affirmative obligations that terminate on rejection. Such a decision on the effect of rejection could have major consequences on a wide range of executory contracts and leases.

Robert L. Eisenbach III is Of Counsel in Cooley LLP's Business Restructuring & Reorganization group. He has developed a national reputation for helping clients deal with the intersection of intellectual property and bankruptcy law, representing licensors, licensees, and others on these complex issues. He has testified on intellectual property issues before the American Bankruptcy Institute's Commission to Study the Reform of Chapter 11, is a frequent speaker on the subject, and publishes *In The (Red)®: The Business Bankruptcy Blog.* For more than 30 years, he has guided companies and their boards of directors through Chapter 11, out-of-court restructurings, and recapitalizations. He often brings his distressed M&A expertise to bear in buying or selling assets of financially troubled or bankrupt companies, and represents official committees of unsecured creditors in a number of industries. He can be reached at reisenbach@cooley.com and 415.693.2094.

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