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US Supreme Court Clarifies Treatment of Rejected Trademark Licenses and Other Executory Contracts in Bankruptcy

The Supreme Court holds that a debtor's rejection of an executory contract in bankruptcy constitutes a breach.

Introduction

In *Mission Product Holdings, Inc. v. Tempnology, LLC* (*Tempnology*),[1] the US Supreme Court overruled a decision by the First Circuit Court of Appeals and clarified the treatment of trademark licenses and other executory contracts after such agreements are rejected under Section 365 of the US Bankruptcy Code.[2] The Supreme Court held that:

> under Section 365, a debtor's rejection of an executory contract in bankruptcy has the same effect as a breach outside of bankruptcy. Such an act cannot rescind rights that the contract previously granted. Here, that construction of Section 365 means that the debtor-licensor's rejection cannot revoke the trademark license.[3]

In so holding, the Supreme Court confirmed the interpretation of many bankruptcy practitioners and scholars and resolved a circuit split between the Seventh Circuit and the First Circuit (following the Fourth Circuit's decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.* (*Lubrizol*))[4] regarding whether a trademark licensee's right to use a trademark survives rejection of the license by a debtor-licensor. In *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC* (*Sunbeam*),[5] the Seventh Circuit held that rejection of a trademark license constitutes a "breach" by the debtor-licensor that does not terminate the licensee's rights (or otherwise void the underlying contract). Instead, rejection gives the licensee the rights of a non-breaching license counterparty under non-bankruptcy law.[6] On the other hand, the First Circuit in *In re Tempnology, LLC* aligned itself with the Fourth Circuit and its often-criticized decision in *Lubrizol*,[7] finding that trademark licensees retain no right to use trademarks following a debtor's rejection of the underlying license agreement.[8] In siding with *Lubrizol*, the First Circuit broke from a series of post-*Lubrizol* cases that found ways to protect trademark licensees from complete termination of the licensee's rights,[9] and created further uncertainty as to what protections (if any) courts would provide to trademark licensees post-rejection.[10]

The Supreme Court's decision in *Tempnology* resolves the circuit split and provides guidance as to the rights and protections afforded to non-debtor counterparties to executory contracts (including trademark licensees) following rejection under Section 365 of the Bankruptcy Code. Specifically, the Supreme Court found that rejection is a "breach" (consistent with a plain reading of Section 365(g)) rather than a "rescission." This decision validates the understanding of Section 365 articulated by the Seventh Circuit in *Sunbeam* and shared by many bankruptcy practitioners and scholars (as reflected in many *amicus* briefs submitted to the Supreme Court). However, the decision leaves open a number of thorny issues that arise when applying Section 365(g) and Section 365(n) to specific agreements, which will likely require further development in the courts. For instance:

- Is a non-debtor licensee of "intellectual property" (as defined in the Bankruptcy Code) required to operate within the Section 365(n) framework? Or can a non-debtor licensee elect not to opt in to Section 365(n) and instead rely on rejection as breach under Section 365(g)?
- What differences (if any) exist between a non-debtor licensee's rights under Section 365(n) vs. Section 365(g)? For instance, can a non-debtor licensee enforce exclusivity provisions, extensions, requirements to provide embodiments included in the license, etc., under Section 365(g) that are specifically addressed in Section 365(n)?
- What rights does a debtor (*i.e.*, the breaching party) retain upon its election to reject under Section 365? Would such rejection permit a debtor to use "rejection as breach" as a sword against non-debtors to enable the debtor to retain benefits without assuming contracts?
- What is the scope of what constitutes a "right to intellectual property" under Section 365(n)? In particular, do arguably ancillary rights related to intellectual property, such as an exclusive right to distribute products that include intellectual property (*e.g.*, copyrighted material or patented products), fall within the ambit of Section 365(n)?

As noted above, and with these unresolved points in mind, the Supreme Court's decision may not constitute a game changer when it comes to existing commercial practices of licensees and licensors. For example, the decision likely does not affect (and at a minimum does not abridge) the rights of intellectual property licensees with protection under Section 365(n). Similarly, the Supreme Court does not elaborate on the rights or obligations *of the debtor* post-rejection — *i.e.*, while the *Tempnology* decision clarifies that a non-rejecting (non-breaching) party will generally have the option to retain its rights and benefits of the rejected agreement (and honor its obligations), it does not speak to what rights a debtor retains when it rejects (*i.e.*, breaches) a license agreement.

Overview of the Rejection of Executory Contracts

Section 365(a) of the Bankruptcy Code provides that a debtor "subject to the court's approval, may assume or reject any executory contract."[11] While Section 365(a) does not define the term "executory contract," the Supreme Court describes an "executory contract" as an agreement in which "neither party has finished performing" — *i.e.*, where "performance remains due to some extent on both sides."[12] Thus, Section 365(a) "enables the debtor (or its trustee), upon entering bankruptcy, to decide whether the contract is a good deal for the estate going forward."[13] If the contract will benefit the estate, the debtor can assume the contract, fulfill its obligations, and benefit from the counterparty's performance. However, if the contract will not benefit the estate, the debtor can reject the contract and repudiate any further performance of its duties under the agreement.

In turn, Section 365(g) of the Bankruptcy Code provides that rejection of an executory contract "constitutes a breach of such contract," deemed to occur "immediately before the date of the filing of the petition."[14] Thus, rejection results in a prepetition claim for damages on the part of the contract counterparty, which places the counterparty in "the same boat as the debtor's unsecured creditors, who in a typical bankruptcy may receive only cents on the dollar."[15] "Breach," which is not defined in the Bankruptcy Code, "means in the Code what it means in contract law outside bankruptcy."[16]

As decided by the Supreme Court in *Tempnology*, rejecting an executory contract (not just trademark licenses) gives the counterparty "a claim for damages, while leaving intact the rights the counterparty has received under the contract."[17] Rejection does not have the effect of a contract rescission and does not terminate the agreement or the rights it conferred.

To highlight this point, the Supreme Court discussed a hypothetical agreement in which a dealer leases a photocopier to a law firm and agrees to service it every month in exchange for a monthly fee. Outside of bankruptcy, if the dealer stops servicing the machine, the dealer will have breached the contract. The law firm can then choose (assuming no special contract term or state law) one of the following options:

1. Retain and continue to pay for the copier while suing the dealer for damages from the service breach — *i.e.*, the law firm keeps its side of bargain

2. Halt payments and return the copier while suing for damages — *i.e.*, the law firm calls off the whole deal

The dealer has no ability, via its own breach, to terminate the agreement, and cannot get the copier back by refusing to service the machine.[18] Because "rejection" constitutes a breach under Section 365(g) of the Bankruptcy Code, the rejection of the photocopier lease should have the same results as discussed above (except that the damages claim will be a prepetition claim). If the dealer files for bankruptcy and decides to reject the agreement, "the dealer will stop servicing the copier," and "the law firm has an option about how to respond — continue the contract or walk away, while suing for whatever damages go with its choice."[19]

Overview of Section 365(n) and Rights of Trademark Licensees

Section 365(n) of the Bankruptcy Code was adopted in response to the Fourth Circuit's decision in *Lubrizol* to provide specific options and protections to non-debtor licensees of certain intellectual property (but excluding trademarks). In *Lubrizol*, the debtor rejected an intellectual property license, and the court concluded that the licensee was only able to seek a prepetition unsecured claim; the licensee could not continue to use the licensed property or seek specific performance on the contract.[20] In effect, the Fourth Circuit treated rejection of the license as a rescission of the agreement even though the express language of Section 365(g) treats rejection as a "breach" of contract by the debtor.

In response to *Lubrizol*, Congress adopted Section 365(n) to protect licensees of "intellectual property."[21] Under Section 365(n), a licensee whose intellectual property license is rejected by a debtor-licensor may elect one of the following options:

1. Treat the debtor's rejection as a termination of the license and assert a claim for rejection damages

2. Retain its rights to the intellectual property as they existed as of the filing of the bankruptcy petition, continue making royalty payments, and waive administrative claims arising from performance of the contract and any setoff rights.[22]

Section 365(n) expressly includes the right to enforce exclusivity and extension provisions in the agreement as they relate to the licensed intellectual property against the debtor and any successor.[23]

However, "intellectual property" as defined in the Bankruptcy Code does not include trademarks.[24] While Section 365(n) established protections for licensees of non-trademark "intellectual property," Congress intentionally excluded trademarks from the Bankruptcy Code's definition of "intellectual property."[25] As a result of the exclusion of trademarks from Section 365(n) and the Fourth Circuit's interpretation of the effect of license rejection in *Lubrizol*, some courts denied protection to trademark licensees.[26] On the other hand, many bankruptcy courts following the adoption of Section 365(n) searched for ways to provide a degree of protection to trademark licensees when their licenses were rejected.[27]

In 2012, the Seventh Circuit, recognizing the challenges posed to trademark licensees by *Lubrizol* and the exclusion of trademarks from Section 365(n), took a different approach. In *Sunbeam*, the Seventh Circuit rejected *Lubrizol*'s interpretation of the effect of rejection and, based on the language of Section 365(g), concluded that rejection of a trademark license constitutes a breach by the debtor that does not inherently terminate the non-debtor's rights in the trademark.[28] Instead, the non-debtor has the rights of a non-breaching party under applicable non-bankruptcy law.[29] According to the court, "[o]utside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property," therefore, rejection does not give rise to termination.[30] Thus, "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 contract was formed. It merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence."[31]

Supreme Court Adopts *Sunbeam* and Overrules First Circuit

The Supreme Court reversed the First Circuit's decision, holding that "[a] rejection breaches a contract but does not rescind it. And that means all the rights that would ordinarily survive a contract breach ... remain in place."[32] In making this determination, the Supreme Court affirmed the Seventh Circuit's reasoning in *Sunbeam*.

The Supreme Court began its analysis by examining Section 365 of the Bankruptcy Code, which permits a debtor to assume or reject executory contracts. According to the Court, an executory contract "represents both an asset (the debtor's right to the counterparty's future performance) and a liability (the debtor's own obligations to perform)." Section 365(a) "enables the debtor ... upon entering bankruptcy, to decide whether the contract is a good deal for the estate going forward." If the contract is a good deal for the estate, the debtor can assume the contract "fulfilling its obligations while benefiting from the counterparty's performance." However, if the contract is not a good deal for the estate, the debtor can reject the contract, "repudiating any further performance of its duties."[33]

Assuming a decision has been made to reject a contract, Section 365(g) provides that rejection constitutes a breach of the contract that is deemed to occur immediately before the date of the filing of the petition — *i.e.*, rejection results in a prepetition claim against the estate for damages resulting from the debtor's nonperformance.[34]

Focusing on these provisions, the Court concluded that "[a] rejection does not terminate the contract. When it occurs, the debtor and counterparty do not go back to their pre-contract positions. Instead, the counterparty retains the rights it has received under the agreement. As after a breach, so too after a rejection, those rights survive."[35] As the Court put it, "Section 365 reflects a general bankruptcy rule: The estate cannot possess anything more than the debtor itself did outside bankruptcy ... [I]f the not-yet debtor was subject to a counterparty's contractual right ... so too is the trustee or the debtor once the bankruptcy petition has been filed."[36] Thus, the power of rejection is not an avoidance power that allows a debtor to recover rights bargained away and transferred from the estate prepetition.[37]

While Section 365 identifies specific categories of contracts under which a counterparty can retain specified contractual rights despite rejection — *e.g.*, Section 365(n) provides a specific framework for licensees of intellectual property to retain contractual rights after rejection or to treat the license as terminated) — the Court confirmed that the omission of "trademarks" from these categories does not mean that rejection must result in the "termination, rather than survival, of contractual rights previously granted."[38] This "negative inference" argument raised by the debtor did not persuade the Court, as the argument "[paid] too little heed to the main provisions governing rejection and too much to subsidiary ones."[39] Instead, the Court explained that each of the exceptions to the general rule that rejection "constitutes a breach" found in Section 365 "responded to a discrete problem — as often as not, correcting a judicial ruling" such as the "rejection-as-rescission" theory. The "mash-up of legislative interventions says nothing much of anything about the content of Section 365(g)'s general rule" as "Congress enacted the provisions, as and when needed, to reinforce or clarify the general rule that contractual rights survive rejection."

Finally, the Supreme Court did not believe that the "special features" of trademark law warranted an exception to the general treatment of executory contracts under Section 365 or unduly burdened a trademark licensor's ability to reorganize to the extent that he or she is unable to terminate a license via rejection.[40] Although, "[t]he Code of course aims to make reorganizations possible," it does not "permit anything and everything that might advance that goal." Ultimately, "Section 365 provides a debtor ... with a powerful tool: Through rejection, the debtor can escape all of its future contract obligations, without having to pay much of anything in return." Yet, "in allowing rejection of those contractual duties, Section 365 does not grant the debtor an exemption from all the burdens that generally applicable law — whether involving contracts or trademarks — imposes on property owners."[41]

Thus, the Supreme Court held that "under Section 365, a debtor's rejection of an executory contract in bankruptcy has the same effect as a breach outside bankruptcy. Such an act cannot rescind rights that the contract previously granted."[42]

Takeaways

Treatment of Trademark Licensees Post-Rejection

Tempnology holds that Section 365(g) protects non-debtor contract counterparties, especially trademark licensees, post-rejection by confirming the "rejection-as-breach" interpretation of Section 365(g) — *i.e.*, a debtor cannot unilaterally terminate the bargained-for rights of a contract counterparty. Following the Supreme Court's decision, a trademark licensee clearly does not lose its right to continued use of a trademark upon rejection. Instead, the non-rejecting or non-breaching party — much like the law firm in the Court's hypothetical — can keep its side of the bargain by continuing its obligations under the contract, or choose to terminate the agreement and sue for damages (which would give rise to a prepetition claim).

The Supreme Court also clarified that trademark rights are distinct from intellectual property rights, reiterating that trademark rights are not protected under Section 365(n) since trademarks are not within the Bankruptcy Code's definition of "intellectual property." Nevertheless, the Court's majority opinion did not elaborate on whether an "intellectual property" licensee (*e.g.*, a copyright holder) can now rely on Section 365(g) instead of Section 365(n) post-rejection, nor did it elaborate on the different rights a non-debtor party has under these sections of the Bankruptcy Code. Justice Sotomayor's concurring opinion suggests that an "intellectual property" licensee may have different rights than a trademark licensee post-rejection given Section 365(n)'s "intellectual property" specific language. In particular, Justice Sotomayor notes that "trademark licensees' post-rejection rights and remedies are more expansive in some respects than those possessed by licensees of other types of intellectual property," as Section 365(n) "mean[s] that the covered intellectual property types are governed by different rules than trademark licenses."[43] That said, the majority opinion does not clarify whether an "intellectual property" licensee will be able to use Section 365(g) instead of Section 365(n). While Justice Sotomayor's concurring opinion may suggest that an "intellectual property" licensee's rights would be determined by Section 365(n), the text of Section 365(n) is permissive and provides that the licensee *may* elect to rely on Section 365(n) if the debtor rejects an intellectual property license.

Moreover, the Supreme Court's decision is framed from the point of view of the debtor as a licensor, and does not directly discuss the impact of rejection on the rights of a debtor-licensee or non-debtor licensor. It is unclear from the Court's opinion whether rejection on the part of a debtor-licensee would allow the debtor as the rejecting party to retain any rights and benefits under the agreement to the same extent as they would exist outside of bankruptcy following breach, or whether the debtor must assume the agreement to retain its rights therein. For example, the Court did not discuss whether a rejecting debtor-licensee could elect to reject a license, but still retain rights under the agreement on a go-forward basis (although such actions would arguably turn on its head the Supreme Court's discussion of the assumption/rejection election available to debtors and hypotheticals concerning the obligations of the non-breaching party to continue performance if it wishes to retain rights under a license).

Bifurcation of Intellectual Property and Non-Intellectual Property Rights

Although not addressed in the Supreme Court's opinion, the string of lower-court decisions are significant in that they provide an important (and rare) analysis on the scope of protection afforded by Section 365(n) to contractual rights included in the same agreement as, but which are arguably ancillary to, an intellectual property license. The lower-court decisions distinguish between trademark rights and other contractual rights on the one hand, and intellectual property rights protected by Section 365(n) on the other hand, even when they are found in the same contract. Specifically, the lower court decisions uniformly rejected the notion that Section 365(n)'s protections extend to an exclusive right to distribute patented products granted alongside the intellectual property license (the Supreme Court did not take up the question).

In determining whether a licensee's rights under an intellectual property license qualify for protection under Section 365(n), the First Circuit evaluated each of the rights within the agreement separately by looking at the explicit terms of the licensing contract and the intention underlying the contract in order to ascertain whether the contractual rights sufficiently constitute a right to "intellectual property" that falls within the ambit of Section 365(n).[44] Following this inquiry, the court concluded that an exclusive right to distribute a patented product within a specified territory did not qualify as part of an intellectual property license entitled to protection under Section 365(n), since "the right to sell a product is clearly not included within the statute's definition of intellectual property" and could not be "treat[ed] ... as such merely because of a coincidental practical effect it may have in limiting the scope of the manner in which a patent might be exploited."[45] According to the court, exclusive distribution rights were "simply a restriction on the right to sell certain products that ... happen to be made using a patent. And the exclusivity Mission seeks to maintain would apply fully even if there were no patent license at all."[46]

Thus, the lower court decisions serve as an important reminder that not all rights in an executory contract, including rights related to intellectual property, are safeguarded by Section 365(n). Notwithstanding, other courts have come to different results.[47] For example, the court in *In re SIMA International, Inc.*[48] held that Section 365(n) permitted a licensee to elect to retain the "exclusive right to prevent the development of competing products"[49] on the grounds that the relevant provision of the license agreement "embodie[d] precisely the kind of exclusive intellectual property rights" protected by the Bankruptcy Code.[50] Further, the court in *In re Matusalem* implied that Section 365(n) can be extended to protect rights related to intellectual property, but which are not explicitly intellectual property rights.[51]

The Supreme Court declined to address the issue, and licensees should continue to take precautions to protect themselves from the risk of non-performance by license counterparties.

Conclusion

The Supreme Court's decision in *Tempnology* provides guidance on the impact of rejection under the Bankruptcy Code, concluding, at least as to executory contracts that are not subject to Section 365(n), that rejection constitutes a breach by the debtor, not a rescission or termination of the agreement. Instead, the non-debtor party will generally have the same rights as would exist outside of bankruptcy, which will typically permit the non-debtor party to elect whether to treat the agreement as terminated or to continue to retain the benefits of the agreement. However, a number of significant issues remains open and will continue to develop over time, particularly in connection with how the Supreme Court's ruling will be applied to specific agreements.

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Endnotes

[1] *See generally Mission Prod. Holdings, Inc. v. Tempnology, LLC*, 139 S. Ct. 1652 (2019) (*Tempnology*). The proceeding was first heard by the Bankruptcy Court for the District of New Hampshire in *In re Tempnology, LLC*, 541 B.R. 1 (Bankr. D.N.H. 2015). The decision of the bankruptcy court was affirmed in part and reversed in part by the Bankruptcy Appellate Panel for the First Circuit (the BAP) in *In re Tempnology LLC*, 559 B.R. 809 (B.A.P. 1st Cir. 2016). The BAP's decision was affirmed in part and reversed in part by the First Circuit Court of Appeals in *In re Tempnology, LLC*, 879 F.3d 389 (1st Cir. 2018).

[2] References herein to the Bankruptcy Code or sections refer to the United States Bankruptcy Code, codified at title 11 of the United States Code §§ 101 *et seq*.

[3] *Tempnology*, 139 S. Ct. at 1666.

[4] 756 F.2d 1043 (4th Cir. 1985).

[5] 686 F.3d 372 (7th Cir. 2012).

[6] *Id.* at 376-78.

[7] *Lubrizol*, 756 F.2d at 1048.

[8] *In re Tempnology, LLC*, 879 F.3d at 401-04.

[9] For a further discussion of this trend and court decisions addressing the consequences of trademark license rejection, *see* Peter M. Gilhuly, Kimberly A. Posin, and Ted A. Dillman, *Intellectually Bankrupt? The Comprehensive Guide to Navigating IP Issues in Chapter 11*, 21 AM. BANKR. INST. L. REV. 1, 45-47 (2013).

[10] For example, in the few months after the First Circuit rendered its opinion, the Bankruptcy Court for the District of Connecticut in *In re SIMA International, Inc.* respectfully declined to follow the First Circuit's decision, instead opting to side with the Seventh Circuit in *Sunbeam*. *In re SIMA Int'l, Inc*., No. 17-21761, 2018 WL 2293705, at *7-8 (Bankr. D. Conn. May 17, 2018).

[11] 11 U.S.C. § 365(a).

[12] *See Tempnology*, 139 S. Ct. at 1657-58 (citation and internal quotation marks omitted). The question of whether the agreement was "executory" was not disputed by the parties. However, it is worth noting that the Supreme Court's description of executory contracts as one that "neither party has finished performing," differs from and is a materially lower standard than the "Countryman" definition that the "majority of published decisions cite with approval." *See In re Kemeta, LLC*, 470 B.R. 304, 322 (Bankr. D. Del. 2012). The Countryman definition provides that an executory contract is "a contract under which the obligation of both the bankrupt and the other party to the contract are so far unperformed that the failure of either to complete performance would constitute a material breach excusing performance of the other." *See* Vern Countryman, *Executory Contracts in Bankruptcy: Part I*, 57 MINN. L. REV. 439, 460 (1973). This issue was closely analyzed in a recent decision of the United States Bankruptcy Court for the District of Delaware, which was discussed in detail in another *Client Alert*. *See* Ted A. Dillman, Andrew M. Parlen, and Nina J. Grandin, *Weinstein Bankruptcy Decisions Find Talent Agreement Non-Executory, but Post-Closing Obligations Must Be Honored*, Feb. 14 2019. Because the issue was not before the Court, it is unclear what conclusion should be drawn from the "neither party has finished performing" language included in the *Tempnology* opinion.

[13] *Tempnology*, 139 S. Ct. at 1658.

[14] 11 U.S.C. § 365(g).

[15] *Tempnology*, 139 S. Ct. at 1658.

[16] *Id.* at 1661.

[17] *Id.*

[18] *Id.* at 1662.

[19] *Id.*

[20] 756 F.2d at 1048.

[21] *See* 11 U.S.C. § 101(35A).

[22] *See* 11 U.S.C. § 365(n)(1)(A)-(B). Specifically, Section 365(n) provides "[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." *Id.* § 365(n)(1)(B). A licensee protected by section 365(n) whose debtor-licensor rejects the license is in a position analogous to a tenant under a rejected real estate lease pursuant to section 365(h), which allows the tenant to remain in possession of a lease with modified rights when the debtor-lessor rejects the lease. *See id.* § 365(h).

[23] *See id.* § 365(n)(1)(B).

[24] *See* 11 U.S.C. § 101(35A).

[25] According to the legislative history of Section 365, Congress explained that it specifically did not address trademarks when it enacted Section 365(n) because "such contracts raise issues beyond the scope of [the] legislation. In particular, trademark, trade name and service mark licensing relationships depend to a large extent on control of the quality of the products or services

sold by the licensee. 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 treatment of this situation by bankruptcy courts." S. Rep. No. 100-505, at 5 (1988).

[26] *See In re Old Carco L.L.C.*, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009) (refusing to provide protections to trademark licensees because trademarks were excluded from the Bankruptcy Code's definition of "intellectual property" and as a result were excluded from the scope of Section 365(n)'s protections); *In re HQ Global Holdings, Inc.*, 290 B.R. 507, 513 (Bankr. D. Del. 2003) ("[S]ince the Bankruptcy Code does not include trademarks in its protected class of intellectual property, *Lubrizol* controls and the Franchisees' right to use the trademarks stops on rejection."); *In re Centura Software Corp.*, 281 B.R. 660, 673 (Bankr. N.D. Cal. 2002) (noting that "both pre and post-amendment cases as well as scholarly writings suggest that, upon the rejection of a trademark license, *Lubrizol*'s harsh holding controls, and the licensee is left with only a claim for breach"); *Blackstone Potato Chip Co. v. Mr. Popper, Inc. (In re Blackstone Potato Chip Co.)*, 109 B.R. 557, 560-61 (Bankr. D.R.I. 1990) (post-365(n) case where the court, without discussing Section 365(n), rejected a trademark license and found that under *Lubrizol* the licensee did not have a continuing right to use the trademark); *but see Licensing by Paolo, Inc. v. Sinatra (In re Gucci)*, 126 F.3d 380, 394 n.1 (2d Cir. 1997) ("The effects of a rejection of a trademark licensing agreement are a matter that remains to be litigated. To date, this Court has not addressed whether a [Section] 365 rejection operates as a kind of avoiding power to bring back into the estate a license of the debtor's trade name or trademark that was conferred by the debtor prior to its bankruptcy filing."). For a more complete discussion of these issues, see Gilhuly et al., *supra* note 9, at 45-49.

[27] For instance, the court in *In re Matusalem* found that Section 365(n) applied to a franchise agreement in its entirety where the agreement included both licenses of trademarks and other intellectual property rights (trade secrets), and refused to authorize the rejection of the contract based on the debtor's failure to meet the business judgment standard as rejection would "utterly destroy" the franchisee's business. *In re Matusalem*, 158 B.R. 514, 515, 519-22 (Bankr. S.D. Fla. 1993); *cf. In re Centura Software Corp*, 281 B.R. at 671-73 (arguing that "*Matusalem*'s dicta does not suggest an extension of [Section] 365(n) protection to trademarks upon a balancing of equities"). Some courts have found that trademark licenses are no longer executory. *See In re Exide Techs.*, 607 F.3d 957, 963-68 (3d Cir. 2010) (finding the license to be no longer executory and therefore not subject to rejection, and in a concurring opinion, reasoning that Congress intended to allow for the development of "equitable treatment" of trademark licenses, pursuant to which courts should use their equitable powers to deny rejection of trademark licenses); *see also* S. Rep. No. 100-505, at 5 ("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 treatment of this situation by bankruptcy courts."). Other courts have imposed "transition periods" to alleviate the licensees' damages from rejection. *See In re HQ Global Holdings, Inc.*, 290 B.R. at 513-14 (finding that debtor-franchisor could reject the license agreement because trademarks are excluded from "intellectual property" however granting the franchisee's request for a "transition period" during which to continue to use debtor-licensor's trademark); *In re Exide Techs.*, 340 B.R. 222, 227, 250 (Bankr. D. Del. 2006) (allowing the debtor to reject a trademark license, but approving a two-year "transition period" for the benefit of the licensee in order to "mitigate any potential damage and business disruption that [the licensee] may suffer as a result of losing the [trade]mark").

[28] *Sunbeam*, 686 F.3d at 376-78.

[29] *Id.* at 376-77.

[30] *Id.*; Gilhuly et al., *supra* note 9, at 47.

[31] *Sunbeam*, 686 F.3d at 377 (citation and internal quotation marks omitted).

[32] *Tempnology*, 139 S. Ct. at 1657-58.

[33] *Id.* at 1658.

[34] *Id.*

[35] *Id.* at 1662.

[36] *Id.* at 1663 (citations omitted).

[37] *Id.* The Court noted that the "rejection-as-rescission" approach would circumvent the Bankruptcy Code's limits on avoidance actions, which are laid out in discreet sections of the Bankruptcy Code and can only be invoked in narrow circumstances. *Id.*

[38] *Id*.

[39] *Id.* at 1664.

[40] Tempnology argued that termination of the continued use of a trademark post-rejection was appropriate given the special features of trademark law. Specifically, Tempnology focused on the fact that the failure of a trademark licensor to "monitor and exercise quality control over the goods and services sold under [its] license," could result in the invalidity of the trademark. *Id.* at 1665 (citation and internal quotations marks omitted). According to Tempnology, without termination of the licensee's rights to use the trademark, the "debtor will have to choose between expending scarce resources on quality control and risking the loss of a valuable asset," which would "impede a [debtor's] ability to reorganize." *Id.* (alternation in original) (citation and internal quotation marks omitted).

[41] *Id.* at 1665-66. As noted above the Supreme Court also reasoned that the "rejection-as-rescission approach would circumvent the Code's stringent limits on 'avoidance' actions – the exceptional cases in which trustees (or debtors) may indeed unwind pre-bankruptcy transfers that undermine the bankruptcy process." *Id.* at 1663.

[42] *Id.* at 1666.

[43] *Id.* at 1666-67 (Sotomayor, J., concurring).

[44]The BAP analyzed the "letter [and] spirit of the Agreement" and determined that "the parties had two independent goals in entering into the Agreement," when it analyzed whether the exclusivity provision qualified as an intellectual property right. *In re Tempnology LLC*, 559 B.R. at 818. The First Circuit adopted the BAP's logic by holding that "the Agreement and the record are clear" that "[t]he only thing that is exclusive is the right to sell certain products, not the right to practice ... the patent that is used to make those products." *In re Tempnology, LLC*, 879 F.3d at 398.

[45] *Id.* at 398.

[46] *Id*.

[47] Certain other courts have differentiated between "intellectual property" rights and non-intellectual property rights found within the same agreement. *See In re Davidson Hydrant Techs., Inc.*, No. 11-13349, 2012 WL 987620, at *6-7 (Bankr. N.D. Ga. Jan. 10, 2012) (holding that an agreement to market a product does not constitute a patent license protected from rejection under section 365(n) because "[t]he plain language of the Agreement does not grant a license of intellectual property under section 365(n)(1)" and "[e]very provision of the Agreement suggests Debtor intended to engage Windsor for the sole purpose of generating interest in the product ... rather than concluding sales on Debtor's behalf"); *In re Spansion Inc.*, No. 09-1069, 2011 WL 3268084, at *9 (D. Del. July 28, 2011) (holding that an agreement letter in which one party agreed not to sue the other regarding an alleged patent infringement "granted ... a non-exclusive patent license" and that "§365 permits [the licensee] to retain those rights and obligations" which included a purchaser's right to refrain from disbarring the debtor as a supplier of products and the debtor's obligation to refrain from pursuing any claims against the purchaser).

[48] In *SIMA*, the debtor and developer of a method for assessing an individual's personality, had a long-standing licensing agreement with People Management International (PMI) for the intellectual property surrounding the personality test, including patents and trademarks. 2018 WL 2293705, at *1-2. The court was asked to decide whether the rejection of the license agreement allowed PMI to retain the right to use SIMA's trademark. The bankruptcy court held that the rejection of the license agreement constituted a breach and did not terminate the licensee's right to use the trademark for the duration of the contract. *Id.* at *8. According to the court, "[o]ther than the option given to lessees and purchasers of real property to treat rejection as termination, Section 365 does not explicitly provide for termination of a lessee's contract interests." *Id.* In coming to this conclusion, the *SIMA* court "respectfully decline[d] to follow the First Circuit holding and similarly align[ed] with the plain language reading of Section 365(g) advanced by Judge Easterbrook in the Seventh Circuit," explicitly siding with *Sunbeam* over the First Circuit in *In re Tempnology, LLC*. *Id.*

[49] *Id.* at *9-11.

[50] *Id*. at *10. The court in *SIMA* distinguishes the right to prevent others from developing competing products from the exclusive distribution rights at issue in the *Tempnology* cases by stating the rights at issue in the *Tempnology* cases were "an exclusive distribution argument by the non-debtor, not the exclusive rights to exploit the debtor's intellectual property." *Id.* This comparison makes clear that the court in *SIMA* views the right to prevent the development of competing product as included within intellectual property rights.

[51] In *In re Matusalem*, the court did not permit the rejection of a franchise and exclusive distribution agreement, stating that there was no business reason for the rejection. 158 B.R. at 522. However, in dicta, the court states: "Even if rejection were permitted, it would not automatically result in the termination of Inc.'s exclusive rights within its territorial area to the secret process and formulas used to make rum products or Inc.'s exclusive rights to manufacture and sell these products within its territorial area." *Id.* Additionally in *In re Davidson Hydrant Technologies, Inc.*, the court noted that "under federal patent law, a patent is considered a 'bundle of rights'" and "[e]ach 'stick' in the bundle can be licensed to another party." 2012 WL 987620, at *5.