



PROGRAM MATERIALS

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The Impact of Recent U.S. Supreme Court IP Decisions on In-House and Business Practices

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**The Impact of Recent U.S. Supreme Court IP Decisions
on In-House and Business Practices**

Kevin Casey, the presenter,¹ will summarize and share insights about the impact of the following eight U.S. Supreme Court cases, each addressing an IP issue in the last year. Two of the cases address copyright issues; one, a trademark issue; another one, a trademark and patent fee issue; and four address patent issues.

A. Cases for Discussion

1. *Rimini Street, Inc. v. Oracle USA, Inc.*, No. 17-1625 (March 4, 2019)
2. *Fourth Estate Public Benefit Corp. v. Wall-Street.com*, No. 17-571 (March 4, 2019)
3. *Iancu v. NantKwest, Inc.*, No. 18-801 (March 4, 2019; Case Pending)
4. *Mission Product Holdings, Inc. v. Tempnology, LLC*, No. 17-1657 (May 20, 2019)
5. *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, 584 U.S. ___, 139 S. Ct. 628 (U.S. Jan. 22, 2019)
6. *SAS Institute Inc. v. Iancu*, 584 U.S. ___, 138 S. Ct. 1348, 126 U.S.P.Q.2d 1307 (U.S. April 24, 2018)
7. *WesternGeco LLC v. ION Geophysical Corp.*, 579 U.S. ___, 138 S. Ct. 2129, 127 U.S.P.Q.2d 1001 (U.S. June 22, 2018)
8. *Return Mail, Inc. v. U.S. Postal Service*, No. 17-1594 (Argued Feb. 19, 2019; Case Pending)

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1. ***Rimini Street, Inc. v. Oracle USA, Inc.***, No. 17-1625 (March 4, 2019) (unanimous opinion by Justice Kavanaugh) (the term “full costs” in Section 505 of the Copyright Act, 17 U.S.C., means only the costs specified in the general cost statutes codified at 28 U.S.C. §§ 1821 and 1920 and not any expenses). The Copyright Act states that prevailing parties can recover their “full costs,” and the Ninth Circuit held that the term includes things like expert witness fees, jury consulting fees, and e-discovery expenses. The result was an award to Oracle of over \$12 million in litigation costs (on top of a \$100 million judgment) in a copyright dispute with Rimini Street which offers technical support services to customers of Oracle’s popular enterprise software. The U.S. Supreme Court overturned the award, ruling that such awards do not get special treatment under copyright law. Rather, full costs are limited to six narrower categories found in the general litigation cost statute.

Practical ramifications:

- (a) The decision will have a limited effect in most cases.
- (b) Because the decision constrains cost awards, copyright owners might reconsider bringing suit or alter strategic decisions (e.g., they might be less likely to retain multiple experts or a costly expert because they cannot recover expert fees) once suit is filed. In the extreme, some copyright owners might have to rely on litigation funding firms in order to bring a case.
- (c) On the other hand, the decision brings predictability and clarity which should help litigants better litigate and settle cases.
- (d) From a contractual standpoint, one might want to incorporate into certain provisions such as indemnification or infringement enforcement clauses specific language beyond litigation costs and include “expert witness fees, e-discovery fees, and jury consultants.”

2. ***Fourth Estate Public Benefit Corp. v. Wall-Street.com***, No. 17-571 (March 4, 2019) (unanimous opinion by Justice Ginsburg). The U.S. Supreme Court ruled that a copyright holder must register a work with the U.S. Copyright Office before the holder can sue for infringement, and “registration” within the meaning of 17 U.S.C. § 411(a) occurs not when an application for registration is filed, but when the Copyright Office registers the copyright. Fourth Estate (a journalism collective) sued a website called Wall-Street.com, claiming it had reposted articles without permission. The district court dismissed the case because Fourth Estate had filed its lawsuit before it had fully registered the copyrights for the articles. The Court affirmed the U.S. Court of Appeals for the Eleventh Circuit, resolving a long-standing circuit split, and rejected Fourth Estate’s argument that the act of applying for copyright registration meets the prerequisite for filing an infringement suit.

The Recording Industry Association of America warned that forcing copyright owners to wait for registration would leave authors in a “sort of legal limbo.” The American Bar Association cautioned the slower registration approach would have “an adverse impact on attorneys, their clients, and the judicial system.” The Author’s Guild predicted that the case could have “a monumental impact on an author’s ability to protect the fruits of her creative endeavors.” Delays in registration had grown recently: the average processing time for registration applications is currently seven months. Nevertheless, the Court rejected these policy and practical arguments and applied a straightforward statutory interpretation of the Copyright Act, namely the word “registration.” Upon registration of the copyright, a copyright owner can recover for infringement that occurred both before and after registration -- although the Copyright Act has a three-year statute of limitations in which to sue.

Practical ramifications:

(a) Copyright owners should register early to avoid the delay that will occur if they wait to start the registration process until they notice someone infringing their work. (Footnote 2 indicates that the initial delay in registering the application was because the check submitted with the application “bounced.”).

(b) Also consider the use of expedited applications at the Copyright Office, which cost \$800 and result in action within days.

(c) From a contract perspective, include a provision that provides injunctive relief, a de facto license, or both to stop the display of content in the event of termination or expiration of the agreement.

3. ***Peter v. NantKwest, Inc.***, No. 18-801 (March 4, 2019) (granted petition for certiorari to resolve showdown over the “American Rule”). The U.S. Supreme Court agreed to decide a circuit split and address the legality of the U.S. Patent and Trademark Office’s (PTO’s) controversial policy of seeking attorneys’ fees regardless of the outcome of a case. Under the “American Rule,” absent an exception such as a clear statement in the applicable statute that expressly authorizes the recovery of attorney fees, each party to a lawsuit must bear its own attorneys’ fees and expenses for the litigation. Although contrary to the “American Rule,” the PTO’s policy is supported by language in both the Patent Act and the Trademark Act. Both Acts state that unsuccessful applicants who seek de novo appeal in a district court from an adverse PTO decision -- as opposed to a more streamlined record appeal directly to the U.S. Court of Appeals for the Federal Circuit -- must pay all expenses of the proceeding. For decades, the PTO interpreted the statutory language to include only relatively minor expenses, like travel costs and expert fees. The PTO began in 2013, however, to seek the substantially larger “expense” of attorneys’ fees.

The 2015 U.S. Court of Appeals for the Fourth Circuit decision in *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), rattled trademark practitioners after the circuit court affirmed the district court’s decision holding that the American Rule applies only when the award of attorneys’ fees depends on whether the party seeking the fees prevails. The *Shammas* case addressed for the first time whether the PTO could recover attorneys’ fees pursuant to 15 U.S.C. § 1071(b)(3) (“unless the court finds the expenses to be unreasonable, all of the expenses of the proceeding shall be paid by the party bringing the case, whether the final decision is in favor of such party or not”). The Fourth Circuit concluded that Section 1071(b) renders applicants always responsible for the PTO’s attorney fees -- win or lose.

Last year, however, the U.S. Court of Appeals for the Federal Circuit disagreed with the Fourth Circuit in *NantKwest, Inc. v. Iancu*, 898 F. 3d 1177 (Fed. Cir. 2018) (in banc). NantKwest is a drug maker arguing that it is not responsible for paying PTO attorneys’ fees regardless of who wins the case. NantKwest filed a Section 145 civil action in the Eastern District of Virginia seeking review of the PTO’s decision rejecting patent claims for a method of treating cancer by administering natural killer cells. The district court granted summary judgment in favor of the PTO, and the PTO filed a motion under Section 145 “seeking expenses of the proceeding.” The district court denied the PTO’s motion, ruling that the policy violated the long-standing “American Rule” against awards of attorneys’ fees. The Federal Circuit agreed and affirmed the district court’s judgment. The Federal Circuit held that the American Rule prohibits courts from shifting attorneys’ fees from one party to another absent a “specific and explicit”

directive from Congress. The phrase “[a]ll the expenses of the proceedings” in Section 145 falls short of this stringent standard.

On March 4, 2019, the U.S. Supreme Court granted certiorari to decide the following question: Whether the phrase “[a]ll the expenses of the proceedings” in 35 U.S.C. § 145 encompasses the personnel expenses the United States Patent and Trademark Office incurs when its employees, including attorneys, defend the agency in Section 145 litigation?

Practical ramifications:

(a) There is concern among trademark and patent practitioners that siding with the Fourth Circuit would lead to an over-170 year break in precedent on the patent side and 70 years on the trademark side regarding the awarding of attorneys’ fees.

(b) Clearly concerned about a ruling in favor of the PTO, the International Trademark Association (“INTA”) filed an amicus brief in the *NantKwest* case as it did in the *Shammas* case.

(c) A ruling in favor of the PTO would chill a patent or trademark applicant’s option to appeal to the district court and thus miss the opportunity to pursue further discovery and augment the record.

4. *Mission Product Holdings, Inc. v. Tempnology, LLC*, No. 17-1657 (May 20, 2019) (8-1 opinion by Justice Kagan; dissent by Justice Gorsuch) (the effect of bankruptcy on trademark licenses). Tempnology made and owned the intellectual property directed to specialized products such as towels, socks, headbands, and other accessories designed to stay at a low temperature even when used during exercise. Tempnology and Mission executed an agreement in 2012, which expired in 2016, that granted Mission (1) distribution rights to some of Tempnology's products, (2) a nonexclusive license to Tempnology's patents, and (3) a non-exclusive license to use Tempnology's trademark and logo to sell and promote the products. After accruing multi-million-dollar operating losses in 2013 and 2014, Tempnology filed for bankruptcy under Chapter 11 of the Bankruptcy Code in September 2015. The following day, Tempnology moved to reject its agreement with Mission under Section 365(a) of the Bankruptcy Code, which allows a debtor-in-possession to "reject any executory contract" that is not beneficial to the company.

Although the parties do not dispute that Mission can insist that the rejection not apply to the patent license in the agreement, it is unsettled in the First Circuit (where the proceedings were brought as a case of first impression) whether Mission can also insist that the rejection not apply to the trademark licenses. The bankruptcy court found that Tempnology's rejection of the agreement left Mission with only a claim for damages for breach of contract, and no claim that Tempnology was under an obligation to further perform the license agreement. The First Circuit affirmed. The question addressed by the U.S. Supreme Court was: Under Section 365 of the Bankruptcy Code, does a debtor-licensor's rejection of a trademark license agreement -- which "constitutes a breach of such contract" under 11 U.S.C. § 365(g) -- terminate rights of the licensee that would survive the licensor's breach under non-bankruptcy law? In other words, does the debtor-licensor's rejection of a trademark license deprive the licensee of its rights to use the trademark? The Court held "no," and reversed the First Circuit's decision.

The question of how trademark rights should be treated in the context of bankruptcy has split the circuits and has led to uncertainty in the market for trademark licenses. The U.S. Supreme Court resolved the circuit split that traces back to the Fourth Circuit's 1985 decision in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In *Lubrizol*, the Fourth Circuit held that rejection of an executory patent license agreement by a debtor-licensor terminates the license. Although Congress abrogated that result by amending the Bankruptcy Code in 1987 to address patent, copyright, and trade secret licenses, 11 U.S.C. § 365(n) (allowing licensees to continue operations under their patent, copyright, or trade secret license), it expressly left open the impact of rejection on trademark license agreements for further study and

consideration. *Lubrizol* remained law in the Fourth Circuit with respect to trademark licenses, and courts in some other circuits continued to rely on *Lubrizol* in holding that a trademark licensee's rights are terminated upon rejection.

Among the circuits that have disagreed with the Fourth Circuit is the Seventh Circuit. In *Sunbeam Prods. Inc. v. Chicago Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012), the Seventh Circuit held that, although rejection eliminates the debtor-licensor's obligation to perform under the agreement, it does not terminate the licensee's right to continue to use the trademark for the duration of the agreement. Thus, rejection relieves the licensor of any obligations under the agreement and is a breach that may cause harm to the licensee for which the licensee might have a remedy, but the licensee may continue to use the licensed mark. Under the Seventh Circuit's reasoning, rejection does not terminate either the licensee's right to continue using the licensed mark or its obligation to continue to comply with the license. Those obligations might include making royalty payments and maintaining quality control, which the licensor may continue to enforce.

The Solicitor General argued that the Court should adopt the Seventh Circuit's position because, among other reasons, a licensor cannot unilaterally revoke a trademark license outside of bankruptcy. Others suggested a case-by-case approach, which might depend on the language of the particular license at issue. The Court agreed with the Solicitor General and with the Seventh Circuit, against the First and Fourth Circuits, holding that rejection of a trademark license in bankruptcy constitutes a breach by the debtor-licensor and not a rescission. Therefore, all the rights that would ordinarily survive a contract breach (typically including the licensee's right to continue use of the mark) remain in place.

Tempnology's principal counterargument rested on a negative inference drawn from provisions of Section 365 that identified categories of contracts (including other IP contracts) under which a counterparty could retain specified rights after rejection. Tempnology argued that these provisions indicated that the ordinary consequence of rejection must be something other than a breach. The Court was not persuaded, stating that Congress did not intend for these provisions to alter the basic conclusion that a rejection operates as a breach of contract.

Practical ramifications:

(a) The International Trademark Association (INTA) characterized the question presented as "the most significant unresolved legal issue in trademark licensing." The decision is definitely a "win" for trademark licensees.

(b) Some question whether the Court's decision will result in "naked" trademark licenses, where the licensor fails to exercise control over the nature and

quality of the goods and/or services sold by the licensee under the licensed mark, which can abandon rights in the trademark. The Court acknowledged that its decision might force a debtor to choose between expending scarce resources on quality control and risking the loss of a valuable asset, but dismissed such “trademark-related concerns” as subservient to general bankruptcy law.

(c) Thus, the decision may place the debtor-licensor in the position of choosing between (1) retaining burdensome obligations associated with monitoring quality control, or (2) abandoning a valuable trademark.

(d) It is surprising that trademarks, unlike patents, copyrights, or trade secrets, are not considered intellectual property and are treated differently under the Bankruptcy Code.

(e) From a contractual perspective, the decision will require additional provisions related to after-effects of bankruptcy with regard to a licensor’s right to continued use of a licensed trademark. Justice Sotomayor, in her concurring opinion, noted that whether a trademark licensee retains rights to use a licensed mark following a debtor-licensor’s rejection must be determined under applicable non-bankruptcy law, and that the result will likely turn on the language of the contract or on state law. For example, a licensor might want to draft its license agreement to permit an actual rescission in the event of a rejection.

5. *Helsinn Healthcare S.A. v. Teva Pharmaceuticals USA, Inc.*, 584 U.S. ___, 139 S. Ct. 628 (U.S. Jan. 22, 2019) (unanimous opinion by Justice Thomas) (even secret sales preclude patents under the “on-sale” bar). Congress substantially changed the patent law in 2011 with passage of the America Invents Act (AIA). One such change was made in the section covering the on-sale bar. The long-standing requirement was, per 35 U.S.C. § 102, that an invention could not be “on sale” or “in public use” more than one year before filing a patent application. The AIA added a qualifier to that statutory language: there can no patent if the invention was “in public use, on sale, or otherwise available to the public”

Before the AIA, if the inventor used the invention for commercial purposes, the one-year “grace” period began -- even if the use was secret and did not inform the public about the invention. The same was true for a commercial sale of a product that included the invention, even if the contract of sale were confidential. The only real exception was for “experimental use” to refine the invention before it became ready for patenting. The addition of the catchall phrase highlighted above to Section 102 introduced uncertainty into the law.

As a result, since 2011, sales made subject to confidentiality agreements have inhabited a grey area of impact on patentability. Patent holders, most commentators, and even the U.S. Patent and Trademark Office in its official regulations understood that the addition of the catchall phrase “otherwise available to the public” changed the law such that sales had to be public to trigger the on-sale bar and that sales made in private or confidential sales should not trigger the on-sale bar. Conversely, alleged infringers argued that all sales, regardless of any obligations the sales agreement placed on buyers or sellers, trigger the on-sale bar. The confusion as to what sales trigger the on-sale bar has persisted for the better part of a decade.

Recently, the U.S. Supreme Court resolved this confusion in its decision in *Helsinn*. *Helsinn* is a Swiss pharmaceutical development company that claimed it needed funding to complete its drug development. To address this funding shortfall, over one year before *Helsinn* filed its first patent application covering the drug, *Helsinn* entered into a license and a supply and purchase agreement with a U.S. company, granting the right to sell and distribute the drug. The sales agreement included a confidentiality provision. The drug was a commercial success.

As part of its attempt to enter the market, Teva sought to invalidate *Helsinn*’s patent to the drug arguing that the on-sale bar was fatal to the patent. The district court held that the sales agreement did not trigger the on-sale bar as a result of the change in the patent law. Teva appealed and the U.S. Court of Appeals for the

Federal Circuit reversed the district court's holding that the catchall phrase did not change the statutory meaning of "on sale" to automatically exclude secret or confidential sales and offers for sale. The U.S. Supreme Court then agreed to address *Helsinn*'s case.

Unfortunately for *Helsinn*, the U.S. Supreme Court agreed with the Federal Circuit and invalidated the patent. In ruling *Helsinn*'s patent invalid, the U.S. Supreme Court held that the addition of the catchall phrase did not support the conclusion that Congress intended to alter the meaning of "on sale." The long-standing and clear rule of law could not be overturned by the "oblique" language of the AIA. As a result, both public sales and those covered by confidentiality agreements trigger the on-sale bar.

Practical ramifications: In summary, *Helsinn* confirms that the on-sale bar remains the same as it was before 2011.

(a) Given the legal clarification, how should prospective patent owners proceed? One general piece of advice is to file for a patent as soon as possible. For example, file one or more provisional applications before providing any disclosures to third parties.

(b) As inventors and their companies progress toward marketing their inventions, they will often want to sign up distributors, resellers, and others ahead of a product launch. Such transactions should be evaluated carefully for their effect on the right to secure a patent on an important invention.

(c) Consider requiring that all participants sign strong nondisclosure agreements which may include injunctive relief provisions. If the participants breach such agreements, however, the only recourse a prospective patent owner would have is contractual relief and suffer loss of rights.

(d) To claim the benefit of the "experimental use" exception to an on-sale bar, make sure that external testing programs are focused only on services, testing and refining the product, and reporting results. Any supply agreement should be for "experimental use" of the product, and should be carefully worded to avoid the supply of the product to be interpreted as a sale of the product.

(e) Moving forward, patent holders should evaluate whether patents they own were the subject of any secret sales before the filing of their application, as such sales may be fatal to any action seeking to enforce their patent. Conversely, alleged infringers must craft their discovery requests to probe whether such secret sales occurred, which may be the silver bullet to getting a patent infringement case dismissed.

6. *SAS Institute Inc. v. Iancu*, 584 U.S. ___, 138 S. Ct. 1348, 126 U.S.P.Q.2d 1307 (U.S. April 24, 2018) (5-4 opinion by Justice Gorsuch). The case involved an inter partes review by the petitioner, SAS Institute, challenging the validity of all sixteen claims of a patent granted to ComplementSoft. The Patent Trial and Appeal Board of the United States Patent and Trademark Office (PTO) determined that the petition had sufficient merit to find at least one of the claims invalid, sufficient to begin the inter partes review, but issued a “partial institution” power and only reviewed a subset of the claims -- denying review of the remaining claims. The PTO’s final determination only affected the subset of claims that were actually instituted: the PTO found eight of the nine reviewed claims to be invalid.

SAS appealed to the U.S. Court of Appeals for the Federal Circuit, asserting that the statute granting inter partes review, 35 U.S.C. § 318(a), required the PTO to review all of the claims identified in the petition. Section 318(a) states: “If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” The Federal Circuit rejected SAS’s position. The U.S. Supreme Court reversed and remanded. Held the Court: when the PTO institutes an inter partes review to reconsider an already-issued patent claim, under 35 U.S.C. §§ 311–319, it must decide the patentability of all of the claims the petitioner has challenged. The Court determined that the language of the inter partes statute as passed by Congress was clear and plain, and did not give the PTO “partial institution” power.

Practical ramifications:

(a) The PTO has subsequently made clear that it will also apply the all-or-nothing institution approach to grounds raised in petitions.

(b) In addition, as to already-instituted inter partes reviews, the PTO has issued supplemental orders instituting on all claims and all grounds. That action has required the expansion of approximately 45% of pending inter partes reviews.

(c) The PTO will issue a decision on all claims, but – will it mean more denials, or summary conclusions on certain claims? The all-or-nothing nature of the PTO’s decision on institution presents petitioners with new strategic questions. The ability to force review of all claims and grounds if just one is granted is not necessarily an invitation to fill a petition with additional challenges. Instead, petitioners will need to make a strategic judgment about whether asking the PTO to review too many claims and grounds will backfire and lead to denial of the entire petition. If many of the grounds are shown to be frivolous, there may be a lower likelihood of institution.

(d) Alternatively, for claims which may not have been previously instituted, the PTO may address patentability of those claims in a summary fashion. The SAS decision may significantly expand petitioner estoppel because the PTO's institution on all grounds (even where the PTO is dubious or may otherwise have instituted on less than all grounds) would mean that the petitioner "reasonably could have raised" those grounds during the inter partes review.

(e) Petitioners may consider whether it would be preferable to present multiple petitions, categorized by claims and/or by grounds, to avoid both a binary decision as to institution on the entire set and to potentially avoid estoppel as to the grounds the PTO deems less persuasive given the evidence in the petition.

(f) Patent owners might consider disclaiming relatively weak claims to render institution less likely, but such action might also limit the patent owner's infringement positions. Patent owners will need to weigh the disclaimer decision more carefully now in view of the different incentives.

(g) If instituted, the decisions on all claims are appealable.

7. *WesternGeco LLC v. ION Geophysical Corp.*, 579 U.S. ___, 138 S. Ct. 2129, 127 U.S.P.Q.2d 1001 (U.S. June 22, 2018) (7-2 opinion by Justice Thomas) (patent owners can recover foreign lost profits under certain circumstances).

WesternGeco owns patents directed to marine seismic surveys for discovering oil and gas deposits beneath the ocean floor. Both WesternGeco and its competitor, ION, manufacture devices for steering streamers (surface cables) in marine seismic surveys. WesternGeco does not sell its device, but uses it to perform surveys abroad; ION does not perform surveys, but makes components for its competing surveying system in the United States. ION ships the components to companies abroad where the components are combined to create a surveying system indistinguishable from WesternGeco's patented systems. Those companies then use the ION systems to perform surveys abroad.

At trial, ION was found to have infringed the asserted patent claims under 35 U.S.C. §§ 271(f)(1) and (2), and WesternGeco was awarded a reasonable royalty of \$12.5 million and lost profits of \$93.4 million. The lost profits damages were based on the loss of ten surveys abroad, which WesternGeco argued it would have won but for ION's sales to WesternGeco's competitors. On appeal, the Federal Circuit (a) addressed infringement under Section 271(f)(2) but did not address whether ION was liable under Section 271(f)(1); and (b) reversed the lost profits award as being based on an unauthorized extraterritorial application of the patent law.

The U.S. Supreme Court reversed and remanded the Federal Circuit's decision. The focus of the Patent Act's general damages provision, 35 U. S. C. § 284, in a case involving infringement under Section 271(f)(2) is on the act of exporting components from the United States; therefore, WesternGeco's award for lost profits was a permissible domestic application of Section 284, not an impermissible extraterritorial one. Section 271(f)(2) encompasses as patent infringement the supplying of a patented invention's components from within the United States for assembly abroad. There are caveats in Section 271(f)(2), such as the component must not be a "staple article or commodity of commerce suitable for substantial noninfringing use." Further, the supplier must know that the component supplied from within the United States "will be combined outside the United States in a manner that would infringe the patent if such combination occurred within the United States." Further still, there must be intent.

Practical ramifications:

(a) The decision is clearly a win for patent owners and helps ensure that they receive adequate compensation for damages caused by U.S. patent infringement regardless of where the damages accrue.

(b) The Court reversed the Federal Circuit's categorical rule against extraterritorial damages -- meaning patent owners and accused infringers should look beyond U.S. borders in evaluating damages for U.S. infringement.

(c) The Court made considerable efforts, however, to limit its ruling, including focusing specifically on Section 271(f)(2), reserving decision on proximate cause, and prioritizing its reasoning to avoid addressing the plaintiff's broader contention that the presumption against extraterritoriality should never apply to a general damages provision such as 35 U.S.C. § 284.

(d) Footnote 3 of the opinion invites litigants to look to other doctrines, like proximate cause, to limit or preclude damages in particular cases. In the future, defendants will need to focus on these doctrines instead of relying on a blanket prohibition on foreign damages.

(e) What about an infringement claim under Section 271(a) that occurs in the U.S. but gives rise to foreign damage? Numerous examples might be conjured in the Internet context, for example where a domestic patented method, directly infringed in this country under Section 271(a), gives rise to a "signal" (e.g., stream) and not a "component," which is ultimately consumed and paid for outside the United States.

(f) Although the President has been focused on bringing manufacturing back to America, U.S. companies that do business globally now have an additional motivation to move the entirety of their manufacturing offshore.

(g) Justice Gorsuch raises in his dissent a concern that foreign courts may similarly hold a U.S. company liable for damages for infringing a foreign patent in another country.

8. *Return Mail, Inc. v. U.S. Postal Service*, No. 17-1594 (Argued Feb. 19, 2019; Case Pending) (is the federal government a “person” such that it can seek to invalidate patents under the AIA?). Passed in 2011, the Leahy-Smith America Invents Act (“AIA”) made several changes to the patent system. Among its major changes was the introduction of post-issuance review proceedings, allowing a “person who is not the owner of a patent” to challenge the validity of one or more claims of a patent that has been granted.

Return Mail owns a patent directed to the processing of mail items that are undeliverable due to an inaccurate or obsolete address of the intended recipient. Return Mail sought to license the patent to the U.S. Postal Service (“USPS”) and, when it was unsuccessful, filed a lawsuit against USPS alleging infringement of the patent. Specifically, in 2011, Return Mail sued the United States in the U.S. Court of Federal Claims under 28 U.S.C. § 1498(a). In 2014, USPS filed a petition with the U.S. Patent and Trademark Office’s Patent Trial and Appeal Board (“Board”) asking that the patent be declared invalid on several grounds, invoking covered business method review. The USPS argued that Return Mail’s processing system claims were invalid because they involved an ineligible subject matter under 35 U.S.C. § 101 (“Section 101”), were anticipated under 35 U.S.C. § 102, and would have been obvious under 35 U.S.C. § 103. In response, Return Mail addressed the invalidity arguments and further argued that the USPS lacked statutory standing to institute review proceedings under the AIA.

The Board held that the USPS was not statutorily barred from filing the petition for review, and on the merits determined that all of the challenged patent claims were unpatentable under Section 101. The U.S. Court of Appeals for the Federal Circuit affirmed. The question addressed by the U.S. Supreme Court: “Is the government a ‘person’ who may institute review proceedings under the Leahy-Smith America Invents Act?”

Practical ramifications:

(a) The case has implications for patent litigation, the estoppel doctrine, and executive agencies.

(b) The AIA estoppel provisions bar petitioners from challenging a patent’s validity during litigation on any ground that the petitioner had already raised during the Board’s review proceedings. The sole forum where a petitioner may sue the government for patent infringement is the U.S. Court of Federal Claims, however, where petitioners are not precluded from litigating issues that had already been subject to AIA review. Therefore, if the government were to be considered a “person” under the AIA -- and thus an eligible petitioner -- it would be able to pursue duplicative patent challenges unabated, giving it a unique

advantage over private patent owners. Facing two rounds of validity challenges might encourage settlement with the government. Clearly, the potential impact is greater on industries with government-based use.

(c) Allowing one federal agency (e.g., the USPS) to participate in the adjudications of another federal agency (the PTO) might contradict Congress's intent to give the PTO primary responsibility to administrate patentability.

(d) And allowing executive agencies to challenge the PTO in court might undermine the President's executive power because one of the agencies could take a position at odds with the President's understanding of the law. On the other hand, affirming the Federal Circuit's decision would weaken the Executive Branch because it would limit agencies' ability to challenge the validity of patents.

Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States v. Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

MISSION PRODUCT HOLDINGS, INC. *v.*
TEMPNOLOGY, LLC, NKA OLD COLD LLCCERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR
THE FIRST CIRCUIT

No. 17–1657. Argued February 20, 2019—Decided May 20, 2019

Petitioner Mission Product Holdings, Inc., entered into a contract with Respondent Tempnology, LLC, which gave Mission a license to use Tempnology’s trademarks in connection with the distribution of certain clothing and accessories. Tempnology filed for Chapter 11 bankruptcy and sought to reject its agreement with Mission. Section 365 of the Bankruptcy Code enables a debtor to “reject any executory contract”—meaning a contract that neither party has finished performing. 11 U. S. C. §365(a). It further provides that rejection “constitutes a breach of such contract.” §365(g). The Bankruptcy Court approved Tempnology’s rejection and further held that the rejection terminated Mission’s rights to use Tempnology’s trademarks. The Bankruptcy Appellate Panel reversed, relying on Section 365(g)’s statement that rejection “constitutes a breach” to hold that rejection does not terminate rights that would survive a breach of contract outside bankruptcy. The First Circuit rejected the Panel’s judgment and reinstated the Bankruptcy Court’s decision.

Held:

1. This case is not moot. Mission presents a plausible claim for money damages arising from its inability to use Tempnology’s trademarks, which is sufficient to preserve a live controversy. See *Chafin v. Chafin*, 568 U. S. 165, 172. Tempnology’s various arguments that Mission is not entitled to damages do not so clearly preclude recovery as to render this case moot. Pp. 6–7.

2. A debtor’s rejection of an executory contract under Section 365 of the Bankruptcy Code has the same effect as a breach of that contract outside bankruptcy. Such an act cannot rescind rights that the contract previously granted. Pp. 7–16.

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(a) Section 365(g) provides that rejection “constitutes a breach.” And “breach” is neither a defined nor a specialized bankruptcy term—it means in the Code what it means in contract law outside bankruptcy. See *Field v. Mans*, 516 U. S. 59, 69. Outside bankruptcy, a licensor’s breach cannot revoke continuing rights given to a counterparty under a contract (assuming no special contract term or state law). And because rejection “constitutes a breach,” the same result must follow from rejection in bankruptcy. In preserving a counterparty’s rights, Section 365 reflects the general bankruptcy rule that the estate cannot possess anything more than the debtor did outside bankruptcy. See *Board of Trade of Chicago v. Johnson*, 264 U. S. 1, 15. And conversely, allowing rejection to rescind a counterparty’s rights would circumvent the Code’s stringent limits on “avoidance” actions—the exceptional cases in which debtors may unwind pre-bankruptcy transfers that undermine the bankruptcy process. See, e.g., §548(a). Pp. 8–12.

(b) Tempnology’s principal counterargument rests on a negative inference drawn from provisions of Section 365 identifying categories of contracts under which a counterparty may retain specified rights after rejection. See §§365(h), (i), (n). Tempnology argues that these provisions indicate that the ordinary consequence of rejection must be something different—i.e., the termination of contractual rights previously granted. But that argument offers no account of how to read Section 365(g) (rejection “constitutes a breach”) to say essentially its opposite. And the provisions Tempnology treats as a reticulated scheme of exceptions each emerged at a different time and responded to a discrete problem—as often as not, correcting a judicial ruling of just the kind Tempnology urges.

Tempnology’s remaining argument turns on how the special features of trademark law may affect the fulfillment of the Code’s goals. Unless rejection terminates a licensee’s right to use a trademark, Tempnology argues, a debtor must choose between monitoring the goods sold under a license or risking the loss of its trademark, either of which would impede a debtor’s ability to reorganize. But the distinctive features of trademarks do not persuade this Court to adopt a construction of Section 365 that will govern much more than trademark licenses. And Tempnology’s plea to facilitate reorganizations cannot overcome what Section 365(a) and (g) direct. In delineating the burdens a debtor may and may not escape, Section 365’s edict that rejection is breach expresses a more complex set of aims than Tempnology acknowledges. Pp. 12–16.

879 F. 3d 389, reversed and remanded.

KAGAN, J., delivered the opinion of the Court, in which ROBERTS, C. J.,

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and THOMAS, GINSBURG, BREYER, ALITO, SOTOMAYOR, and KAVANAUGH, JJ., joined. SOTOMAYOR, J., filed a concurring opinion. GORSUCH, J., filed a dissenting opinion.

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SUPREME COURT OF THE UNITED STATES

No. 17–1657

MISSION PRODUCT HOLDINGS, INC., PETITIONER *v.*
TEMPNOLOGY, LLC, NKA OLD COLD LLC

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

[May 20, 2019]

JUSTICE KAGAN delivered the opinion of the Court.

Section 365 of the Bankruptcy Code enables a debtor to “reject any executory contract”—meaning a contract that neither party has finished performing. 11 U. S. C. §365(a). The section further provides that a debtor’s rejection of a contract under that authority “constitutes a breach of such contract.” §365(g).

Today we consider the meaning of those provisions in the context of a trademark licensing agreement. The question is whether the debtor-licensor’s rejection of that contract deprives the licensee of its rights to use the trademark. We hold it does not. A rejection breaches a contract but does not rescind it. And that means all the rights that would ordinarily survive a contract breach, including those conveyed here, remain in place.

I

This case arises from a licensing agreement gone wrong. Respondent Tempnology, LLC, manufactured clothing and accessories designed to stay cool when used in exercise. It marketed those products under the brand name “Coolcore,” using trademarks (*e.g.*, logos and labels) to

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distinguish the gear from other athletic apparel. In 2012, Tempnology entered into a contract with petitioner Mission Product Holdings, Inc. See App. 203–255. The agreement gave Mission an exclusive license to distribute certain Coolcore products in the United States. And more important here, it granted Mission a non-exclusive license to use the Coolcore trademarks, both in the United States and around the world. The agreement was set to expire in July 2016. But in September 2015, Tempnology filed a petition for Chapter 11 bankruptcy. And it soon afterward asked the Bankruptcy Court to allow it to “reject” the licensing agreement. §365(a).

Chapter 11 of the Bankruptcy Code sets out a framework for reorganizing a bankrupt business. See §§1101–1174. The filing of a petition creates a bankruptcy estate consisting of all the debtor’s assets and rights. See §541. The estate is the pot out of which creditors’ claims are paid. It is administered by either a trustee or, as in this case, the debtor itself. See §§1101, 1107.

Section 365(a) of the Code provides that a “trustee [or debtor], subject to the court’s approval, may assume or reject any executory contract.” §365(a). A contract is executory if “performance remains due to some extent on both sides.” *NLRB v. Bildisco & Bildisco*, 465 U. S. 513, 522, n. 6 (1984) (internal quotation marks omitted). Such an agreement 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 (or its trustee), upon entering bankruptcy, to decide whether the contract is a good deal for the estate going forward. If so, the debtor will want to assume the contract, fulfilling its obligations while benefiting from the counterparty’s performance. But if not, the debtor will want to reject the contract, repudiating any further performance of its duties. The bankruptcy court will generally approve that choice, under the deferential

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“business judgment” rule. *Id.*, at 523.

According to Section 365(g), “the rejection of an executory contract[] constitutes a breach of such contract.” As both parties here agree, the counterparty thus has a claim against the estate for damages resulting from the debtor’s nonperformance. See Brief for Petitioner 17, 19; Brief for Respondent 30–31. But such a claim is unlikely to ever be paid in full. That is because the debtor’s breach is deemed to occur “immediately before the date of the filing of the [bankruptcy] petition,” rather than on the actual post-petition rejection date. §365(g)(1). By thus giving the counterparty a pre-petition claim, Section 365(g) places that party in the same boat as the debtor’s unsecured creditors, who in a typical bankruptcy may receive only cents on the dollar. See *Bildisco*, 465 U. S., at 531–532 (noting the higher priority of post-petition claims).

In this case, the Bankruptcy Court (per usual) approved Tempnology’s proposed rejection of its executory licensing agreement with Mission. See App. to Pet. for Cert. 83–84. That meant, as laid out above, two things on which the parties agree. First, Tempnology could stop performing under the contract. And second, Mission could assert (for whatever it might be worth) a pre-petition claim in the bankruptcy proceeding for damages resulting from Tempnology’s nonperformance.

But Tempnology thought still another consequence ensued, and it returned to the Bankruptcy Court for a declaratory judgment confirming its view. According to Tempnology, its rejection of the contract also terminated the rights it had granted Mission to use the Coolcore trademarks. Tempnology based its argument on a negative inference. See Motion in No. 15–11400 (Bkrtcy. Ct. NH), pp. 9–14. Several provisions in Section 365 state that a counterparty to specific kinds of agreements may keep exercising contractual rights after a debtor’s rejection. For example, Section 365(h) provides that if a bank-

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rupt landlord rejects a lease, the tenant need not move out; instead, she may stay and pay rent (just as she did before) until the lease term expires. And still closer to home, Section 365(n) sets out a similar rule for some types of intellectual property licenses: If the debtor-licensor rejects the agreement, the licensee can continue to use the property (typically, a patent), so long as it makes whatever payments the contract demands. But Tempnology pointed out that neither Section 365(n) nor any similar provision covers trademark licenses. So, it reasoned, in that sort of contract a different rule must apply: The debtor's rejection must extinguish the rights that the agreement had conferred on the trademark licensee. The Bankruptcy Court agreed. See *In re Tempnology, LLC*, 541 B. R. 1 (Bkrtcy. Ct. NH 2015). It held, relying on the same "negative inference," that Tempnology's rejection of the licensing agreement revoked Mission's right to use the Coolcore marks. *Id.*, at 7.

The Bankruptcy Appellate Panel reversed, relying heavily on a decision of the Court of Appeals for the Seventh Circuit about the effects of rejection on trademark licensing agreements. See *In re Tempnology, LLC*, 559 B. R. 809, 820–823 (Bkrtcy. App. Panel CA1 2016); *Sunbeam Products, Inc. v. Chicago Am. Mfg., LLC*, 686 F. 3d 372, 376–377 (CA7 2012). Rather than reason backward from Section 365(n) or similar provisions, the Panel focused on Section 365(g)'s statement that rejection of a contract "constitutes a breach." Outside bankruptcy, the court explained, the breach of an agreement does not eliminate rights the contract had already conferred on the non-breaching party. See 559 B. R., at 820. So neither could a rejection of an agreement in bankruptcy have that effect. A rejection "convert[s]" a "debtor's unfulfilled obligations" to a pre-petition damages claim. *Id.*, at 822 (quoting *Sunbeam*, 686 F. 3d, at 377). But it does not "terminate the contract" or "vaporize[]" the counterparty's

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rights. 559 B. R., at 820, 822 (quoting *Sunbeam*, 686 F. 3d, at 377). Mission could thus continue to use the Coolcore trademarks.

But the Court of Appeals for the First Circuit rejected the Panel’s and Seventh Circuit’s view, and reinstated the Bankruptcy Court decision terminating Mission’s license. See *In re Tempnology, LLC*, 879 F. 3d 389 (2018). The majority first endorsed that court’s inference from Section 365(n) and similar provisions. It next reasoned that special features of trademark law counsel against allowing a licensee to retain rights to a mark after the licensing agreement’s rejection. Under that body of law, the majority stated, the trademark owner’s “[f]ailure to monitor and exercise [quality] control” over goods associated with a trademark “jeopardiz[es] the continued validity of [its] own trademark rights.” *Id.*, at 402. So if (the majority continued) a licensee can keep using a mark after an agreement’s rejection, the licensor will need to carry on its monitoring activities. And according to the majority, that would frustrate “Congress’s principal aim in providing for rejection”: to “release the debtor’s estate from burdensome obligations.” *Ibid.* (internal quotation marks omitted). Judge Torruella dissented, mainly for the Seventh Circuit’s reasons. See *id.*, at 405–407.

We granted certiorari to resolve the division between the First and Seventh Circuits. 586 U. S. ____ (2018). We now affirm the Seventh’s reasoning and reverse the decision below.¹

¹In its briefing before this Court, Mission contends that its exclusive distribution rights survived the licensing agreement’s rejection for the same reason as its trademark rights did. See Brief for Petitioner 40–44; *supra*, at 2. But the First Circuit held that Mission had waived that argument, see 879 F. 3d, at 401, and we have no reason to doubt that conclusion. Our decision thus affects only Mission’s trademark rights.

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II

Before reaching the merits, we pause to consider Tempnology's claim that this case is moot. Under settled law, we may dismiss the case for that reason only if "it is impossible for a court to grant any effectual relief whatever" to Mission assuming it prevails. *Chafin v. Chafin*, 568 U. S. 165, 172 (2013) (internal quotation marks omitted). That demanding standard is not met here.

Mission has presented a claim for money damages—essentially lost profits—arising from its inability to use the Coolcore trademarks between the time Tempnology rejected the licensing agreement and its scheduled expiration date. See Reply Brief 22, and n. 8. Such claims, if at all plausible, ensure a live controversy. See *Memphis Light, Gas & Water Div. v. Craft*, 436 U. S. 1, 8–9 (1978). For better or worse, nothing so shows a continuing stake in a dispute's outcome as a demand for dollars and cents. See 13C C. Wright, A. Miller & E. Cooper, *Federal Practice and Procedure* §3533.3, p. 2 (3d ed. 2008) (Wright & Miller) ("[A] case is not moot so long as a claim for monetary relief survives"). Ultimate recovery on that demand may be uncertain or even unlikely for any number of reasons, in this case as in others. But that is of no moment. If there is any chance of money changing hands, Mission's suit remains live. See *Chafin*, 568 U. S., at 172.

Tempnology makes a flurry of arguments about why Mission is not entitled to damages, but none so clearly precludes recovery as to make this case moot. First, Tempnology contends that Mission suffered no injury because it "never used the trademark[s] during [the post-rejection] period." Brief for Respondent 24; see Tr. of Oral Arg. 33. But that gets things backward. Mission's non-use of the marks during that time is precisely what gives rise to its damages claim; had it employed the marks, it would not have lost any profits. So next, Tempnology argues that Mission's non-use was its own "choice," for

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which damages cannot lie. See *id.*, at 26. But recall that the Bankruptcy Court held that Mission *could not* use the marks after rejection (and its decision remained in effect through the agreement’s expiration). See *supra*, at 4. And although (as Tempnology counters) the court issued “no injunction,” Brief for Respondent 26, that difference does not matter: Mission need not have flouted a crystal-clear ruling and courted yet more legal trouble to preserve its claim. Cf. 13B Wright & Miller §3533.2.2, at 852 (“[C]ompliance [with a judicial decision] does not moot [a case] if it remains possible to undo the effects of compliance,” as through compensation). So last, Tempnology claims that it bears no blame (and thus should not have to pay) for Mission’s injury because all it did was “ask[] the court to make a ruling.” Tr. of Oral Arg. 34–35. But whether Tempnology did anything to Mission amounting to a legal wrong is a prototypical merits question, which no court has addressed and which has no obvious answer. That means it is no reason to find this case moot.

And so too for Tempnology’s further argument that Mission will be unable to convert any judgment in its favor to hard cash. Here, Tempnology notes that the bankruptcy estate has recently distributed all of its assets, leaving nothing to satisfy Mission’s judgment. See Brief for Respondent 27. But courts often adjudicate disputes whose “practical impact” is unsure at best, as when “a defendant is insolvent.” *Chafin*, 568 U. S., at 175. And Mission notes that if it prevails, it can seek the unwinding of prior distributions to get its fair share of the estate. See Reply Brief 23. So although this suit “may not make [Mission] rich,” or even better off, it remains a live controversy—allowing us to proceed. *Chafin*, 568 U. S., at 176.

III

What is the effect of a debtor’s (or trustee’s) rejection of a contract under Section 365 of the Bankruptcy Code?

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The parties and courts of appeals have offered us two starkly different answers. According to one view, a rejection has the same consequence as a contract breach outside bankruptcy: It gives the counterparty a claim for damages, while leaving intact the rights the counterparty has received under the contract. According to the other view, a rejection (except in a few spheres) has more the effect of a contract rescission in the non-bankruptcy world: Though also allowing a damages claim, the rejection terminates the whole agreement along with all rights it conferred. Today, we hold that both Section 365’s text and fundamental principles of bankruptcy law command the first, rejection-as-breach approach. We reject the competing claim that by specifically enabling the counterparties in some contracts to retain rights after rejection, Congress showed that it wanted the counterparties in all other contracts to lose their rights. And we reject an argument for the rescission approach turning on the distinctive features of trademark licenses. Rejection of a contract—any contract—in bankruptcy operates not as a rescission but as a breach.

A

We start with the text of the Code’s principal provisions on rejection—and find that it does much of the work. As noted earlier, Section 365(a) gives a debtor the option, subject to court approval, to “assume or reject any executory contract.” See *supra*, at 2. And Section 365(g) describes what rejection means. Rejection “constitutes a breach of [an executory] contract,” deemed to occur “immediately before the date of the filing of the petition.” See *supra*, at 3. Or said more pithily for current purposes, a rejection is a breach. And “breach” is neither a defined nor a specialized bankruptcy term. It means in the Code what it means in contract law outside bankruptcy. See *Field v. Mans*, 516 U. S. 59, 69 (1995) (Congress generally

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meant for the Bankruptcy Code to “incorporate the established meaning” of “terms that have accumulated settled meaning” (internal quotation marks omitted)). So the first place to go in divining the effects of rejection is to non-bankruptcy contract law, which can tell us the effects of breach.

Consider a made-up executory contract to see how the law of breach works outside bankruptcy. A dealer leases a photocopier to a law firm, while agreeing to service it every month; in exchange, the firm commits to pay a monthly fee. During the lease term, the dealer decides to stop servicing the machine, thus breaching the agreement in a material way. The law firm now has a choice (assuming no special contract term or state law). The firm can keep up its side of the bargain, continuing to pay for use of the copier, while suing the dealer for damages from the service breach. Or the firm can call the whole deal off, halting its own payments and returning the copier, while suing for any damages incurred. See 13 R. Lord, Williston on Contracts §39:32, pp. 701–702 (4th ed. 2013) (“[W]hen a contract is breached in the course of performance, the injured party may elect to continue the contract or refuse to perform further”). But to repeat: The choice to terminate the agreement and send back the copier is for the *law firm*. By contrast, the *dealer* has no ability, based on its own breach, to terminate the agreement. Or otherwise said, the dealer cannot get back the copier just by refusing to show up for a service appointment. The contract gave the law firm continuing rights in the copier, which the dealer cannot unilaterally revoke.

And now to return to bankruptcy: If the rejection of the photocopier contract “constitutes a breach,” as the Code says, then the same results should follow (save for one twist as to timing). Assume here that the dealer files a Chapter 11 petition and decides to reject its agreement with the law firm. That means, as above, that the dealer

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will stop servicing the copier. It means, too, that 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. (Here is where the twist comes in: Because the rejection is deemed to occur “immediately before” bankruptcy, the firm’s damages suit is treated as a pre-petition claim on the estate, which will likely receive only cents on the dollar. See *supra*, at 3.) And most important, it means that assuming the law firm wants to keep using the copier, the dealer cannot take it back. 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.

All of this, it will hardly surprise you to learn, is not just about photocopier leases. Sections 365(a) and (g) speak broadly, to “any executory contract[s].” Many licensing agreements involving trademarks or other property are of that kind (including, all agree, the Tempnology-Mission contract). The licensor not only grants a license, but provides associated goods or services during its term; the licensee pays continuing royalties or fees. If the licensor breaches the agreement outside bankruptcy (again, barring any special contract term or state law), everything said above goes. In particular, the breach does not revoke the license or stop the licensee from doing what it allows. See, e.g., *Sunbeam*, 686 F. 3d, at 376 (“Outside of bankruptcy, a licensor’s breach does not terminate a licensee’s right to use [the licensed] intellectual property”). And because rejection “constitutes a breach,” §365(g), the same consequences follow in bankruptcy. The debtor can stop performing its remaining obligations under the agreement. But the debtor cannot rescind the license already conveyed. So the licensee can continue to do whatever the license authorizes.

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In preserving those rights, Section 365 reflects a general bankruptcy rule: The estate cannot possess anything more than the debtor itself did outside bankruptcy. See *Board of Trade of Chicago v. Johnson*, 264 U. S. 1, 15 (1924) (establishing that principle); §541(a)(1) (defining the estate to include the “interests of the debtor in property” (emphasis added)). As one bankruptcy scholar has put the point: Whatever “limitation[s] on the debtor’s property [apply] outside of bankruptcy[] appl[y] inside of bankruptcy as well. A debtor’s property does not shrink by happenstance of bankruptcy, but it does not expand, either.” D. Baird, *Elements of Bankruptcy* 97 (6th ed. 2014). So if the not-yet debtor was subject to a counterparty’s contractual right (say, to retain a copier or use a trademark), so too is the trustee or debtor once the bankruptcy petition has been filed. The rejection-as-breach rule (but *not* the rejection-as-rescission rule) ensures that result. By insisting that the same counterparty rights survive rejection as survive breach, the rule prevents a debtor in bankruptcy from recapturing interests it had given up.

And conversely, 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. The most notable example is for fraudulent conveyances—usually, something-for-nothing transfers that deplete the estate (and so cheat creditors) on the eve of bankruptcy. See §548(a). A trustee’s avoidance powers are laid out in a discrete set of sections in the Code, see §§544–553, far away from Section 365. And they can be invoked in only narrow circumstances—unlike the power of rejection, which may be exercised for any plausible economic reason. See, e.g., §548(a) (describing the requirements for avoiding fraudulent transfers); *supra*, at 2–3. If trustees (or debtors) could use rejection to rescind previously granted interests, then

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rejection would become functionally equivalent to avoidance. Both, that is, would roll back a prior transfer. And that result would subvert everything the Code does to keep avoidances cabined—so they do not threaten the rule that the estate can take only what the debtor possessed before filing. Again, then, core tenets of bankruptcy law push in the same direction as Section 365’s text: Rejection is breach, and has only its consequences.

B

Tempnology’s main argument to the contrary, here as in the courts below, rests on a negative inference. See Brief for Respondent 33–41; *supra*, at 3–4. Several provisions of Section 365, Tempnology notes, “identif[y] categories of contracts under which a counterparty” may retain specified contract rights “notwithstanding rejection.” Brief for Respondent 34. Sections 365(h) and (i) make clear that certain purchasers and lessees of real property and timeshare interests can continue to exercise rights after a debtor has rejected the lease or sales contract. See §365(h)(1) (real-property leases); §365(i) (real-property sales contracts); §§365(h)(2), (i) (timeshare interests). And Section 365(n) similarly provides that licensees of some intellectual property—but not trademarks—retain contractual rights after rejection. See §365(n); §101(35A); *supra*, at 4. Tempnology argues from those provisions that the ordinary consequence of rejection must be something different—*i.e.*, the termination, rather than survival, of contractual rights previously granted. Otherwise, Tempnology concludes, the statute’s “general rule” would “swallow the exceptions.” Brief for Respondent 19.

But that argument pays too little heed to the main provisions governing rejection and too much to subsidiary ones. On the one hand, it offers no account of how to read Section 365(g) (recall, rejection “constitutes a breach”) to say essentially its opposite (*i.e.*, that rejection and breach

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have divergent consequences). On the other hand, it treats as a neat, reticulated scheme of “narrowly tailored exception[s],” *id.*, at 36 (emphasis deleted), what history reveals to be anything but. Each of the provisions Tempnology highlights emerged at a different time, over a span of half a century. See, *e.g.*, 52 Stat. 881 (1938) (real-property leases); §1(b), 102 Stat. 2538 (1988) (intellectual property). And each responded to a discrete problem—as often as not, correcting a judicial ruling of just the kind Tempnology urges. See Andrew, *Executory Contracts in Bankruptcy*, 59 U. Colo. L. Rev. 845, 911–912, 916–919 (1988) (identifying judicial decisions that the provisions overturned); compare, *e.g.*, *In re Sombrero Reef Club, Inc.*, 18 B. R. 612, 618–619 (Bkrcty. Ct. SD Fla. 1982), with, *e.g.*, §§365(h)(2), (i). Read as generously as possible to Tempnology, this mash-up of legislative interventions says nothing much of anything about the content of Section 365(g)’s general rule. Read less generously, it affirmatively refutes Tempnology’s rendition. As one bankruptcy scholar noted after an exhaustive review of the history: “What the legislative record [reflects] is that whenever Congress has been confronted with the consequences of the [view that rejection terminates all contractual rights], it has expressed its disapproval.” Andrew, 59 U. Colo. L. Rev., at 928. On that account, Congress enacted the provisions, as and when needed, to reinforce or clarify the general rule that contractual rights survive rejection.²

² At the same time, Congress took the opportunity when drafting those provisions to fill in certain details, generally left to state law, about the post-rejection relationship between the debtor and counterparty. See, *e.g.*, Andrew, *Executory Contracts in Bankruptcy*, 59 U. Colo. L. Rev. 845, 903, n. 200 (1988) (describing Congress’s addition of subsidiary rules for real property leases in Section 365(h)); Brief for United States as *Amicus Curiae* 29 (noting that Congress similarly set out detailed rules for patent licenses in Section 365(n)). The provisions are therefore not redundant of Section 365(g): Each sets out a remedial scheme embellishing on or tweaking the general rejection-as-breach

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Consider more closely, for example, Congress’s enactment of Section 365(n), which addresses certain intellectual property licensing agreements. No one disputes how that provision came about. In *Lubrizol Enterprises v. Richmond Metal Finishers*, the Fourth Circuit held that a debtor’s rejection of an executory contract worked to revoke its grant of a patent license. See 756 F. 2d 1043, 1045–1048 (1985). In other words, *Lubrizol* adopted the same rule for patent licenses that the First Circuit announced for trademark licenses here. Congress sprang into action, drafting Section 365(n) to reverse *Lubrizol* and ensure the continuation of patent (and some other intellectual property) licensees’ rights. See 102 Stat. 2538 (1988); S. Rep. No. 100–505, pp. 2–4 (1988) (explaining that Section 365(n) “corrects [*Lubrizol*’s] perception” that “Section 365 was ever intended to be a mechanism for stripping innocent licensee[s] of rights”). As Tempnology highlights, that provision does not cover trademark licensing agreements, which continue to fall, along with most other contracts, within Section 365(g)’s general rule. See Brief for Respondent 38. But what of that? Even put aside the claim that Section 365(n) is part of a pattern—that Congress whacked Tempnology’s view of rejection wherever it raised its head. See *supra*, at 13. Still, Congress’s repudiation of *Lubrizol* for patent contracts does not show any intent to *ratify* that decision’s approach for almost all others. Which is to say that no negative inference arises. Congress did nothing in adding Section 365(n) to alter the natural reading of Section 365(g)—that rejection and breach have the same results.

Tempnology’s remaining argument turns on the way special features of trademark law may affect the fulfillment of the Code’s goals. Like the First Circuit below, Tempnology here focuses on a trademark licensor’s duty to

rule.

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monitor and “exercise quality control over the goods and services sold” under a license. Brief for Respondent 20; see *supra*, at 5. Absent those efforts to keep up quality, the mark will naturally decline in value and may eventually become altogether invalid. See 3 J. McCarthy, Trademarks and Unfair Competition §18:48, pp. 18–129, 18–133 (5th ed. 2018). So (Tempnology argues) unless rejection of a trademark licensing agreement terminates the licensee’s rights to use the mark, the debtor will have to choose between expending scarce resources on quality control and risking the loss of a valuable asset. See Brief for Respondent 59. “Either choice,” Tempnology concludes, “would impede a [debtor’s] ability to reorganize,” thus “undermining a fundamental purpose of the Code.” *Id.*, at 59–60.

To begin with, that argument is a mismatch with Tempnology’s reading of Section 365. The argument is trademark-specific. But Tempnology’s reading of Section 365 is not. Remember, Tempnology construes that section to mean that a debtor’s rejection of a contract terminates the counterparty’s rights “unless the contract falls within an express statutory exception.” *Id.*, at 27–28; see *supra*, at 12. That construction treats trademark agreements identically to most other contracts; the only agreements getting different treatment are those falling within the discrete provisions just discussed. And indeed, Tempnology could not have discovered, however hard it looked, any trademark-specific rule in Section 365. That section’s special provisions, as all agree, do not mention trademarks; and the general provisions speak, well, generally. So Tempnology is essentially arguing that distinctive features of trademarks should persuade us to adopt a construction of Section 365 that will govern not just trademark agreements, but pretty nearly every executory contract. However serious Tempnology’s trademark-related concerns, that would allow the tail to wag the

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Doberman.

And even putting aside that incongruity, Tempnology's plea to facilitate trademark licensors' reorganizations cannot overcome what Sections 365(a) and (g) direct. The Code of course aims to make reorganizations possible. But it does not permit anything and everything that might advance that goal. See, e.g., *Florida Dept. of Revenue v. Piccadilly Cafeterias, Inc.*, 554 U. S. 33, 51 (2008) (observing that in enacting Chapter 11, Congress did not have "a single purpose," but "str[uck] a balance" among multiple competing interests (internal quotation marks omitted)). Here, Section 365 provides a debtor like Tempnology 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. See *supra*, at 3. But 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. See 28 U. S. C. §959(b) (requiring a trustee to manage the estate in accordance with applicable law). Nor does Section 365 relieve the debtor of the need, against the backdrop of that law, to make economic decisions about preserving the estate's value—such as whether to invest the resources needed to maintain a trademark. In thus delin-
eating the burdens that a debtor may and may not escape, Congress also weighed (among other things) the legitimate interests and expectations of the debtor's counterparties. The resulting balance may indeed impede some reorganizations, of trademark licensors and others. But that is only to say that Section 365's edict that rejection is breach expresses a more complex set of aims than Tempnology acknowledges.

IV

For the reasons stated above, we hold that under Sec-

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tion 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. Here, that construction of Section 365 means that the debtor-licensor's rejection cannot revoke the trademark license.

We accordingly reverse the judgment of the Court of Appeals and remand the case for further proceedings consistent with this opinion.

It is so ordered.

SOTOMAYOR, J., concurring

SUPREME COURT OF THE UNITED STATES

No. 17–1657

MISSION PRODUCT HOLDINGS, INC., PETITIONER *v.*
TEMPNOLOGY, LLC, NKA OLD COLD LLC

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

[May 20, 2019]

JUSTICE SOTOMAYOR, concurring.

I agree with the Court that a debtor’s choice to reject an executory contract under 11 U. S. C. §365(a) functions as a breach of the contract rather than unwinding the rejected contract as if it never existed. *Ante*, at 8–10. This result follows from traditional bankruptcy principles and from the general rule set out in §365(g) of the Bankruptcy Code. I also agree that no specific aspects of trademark law compel a contrary rule that equates rejection with rescission. I therefore join the Court’s opinion in full. I write separately to highlight two potentially significant features of today’s holding.

First, the Court does not decide that every trademark licensee has the unfettered right to continue using licensed marks postrejection. The Court granted certiorari to decide whether rejection “terminates rights of the licensee that would survive the licensor’s breach under applicable nonbankruptcy law.” Pet. for Cert. i. The answer is no, for the reasons the Court explains. But the baseline inquiry remains whether the licensee’s rights would survive a breach under applicable nonbankruptcy law. Special terms in a licensing contract or state law could bear on that question in individual cases. See *ante*, at 9–10; Brief for American Intellectual Property Law Association as *Amicus Curiae* 20–25 (discussing examples of contract

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terms that could potentially lead a bankruptcy court to limit licensee rights postrejection).

Second, the Court’s holding confirms that trademark licensees’ postrejection rights and remedies are more expansive in some respects than those possessed by licensees of other types of intellectual property. Those variances stem from §365(n), one of several subject-specific provisions in the Bankruptcy Code that “embellis[h] on or tweek[k]” the general rejection rule. *Ante*, at 13, n. 2. Section 365(n)—which applies to patents, copyrights, and four other types of intellectual property, but not to trademarks, §101(35A)—alters the general rejection rule in several respects. For example, a covered licensee that chooses to retain its rights postrejection must make all of its royalty payments; the licensee has no right to deduct damages from its payments even if it otherwise could have done so under nonbankruptcy law. §365(n)(2)(C)(i). This provision and others in §365(n) mean that the covered intellectual property types are governed by different rules than trademark licenses.

Although these differences may prove significant for individual licensors and licensees, they do not alter the outcome here. The Court rightly rejects Tempnology’s argument that the presence of §365(n) changes what §365(g) says. As the Senate Report accompanying §365(n) explained, the bill did not “address or intend any inference to be drawn concerning the treatment of executory contracts” under §365’s general rule. S. Rep. No. 100–505, p. 5 (1988); see *ante*, at 14. To the extent trademark licensees are treated differently from licensees of other forms of intellectual property, that outcome leaves Congress with the option to tailor a provision for trademark licenses, as it has repeatedly in other contexts. See *ante*, at 13–14.

With these observations, I join the Court’s opinion.

GORSUCH, J., dissenting

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This Court is not in the business of deciding abstract questions, no matter how interesting. Under the Constitution, our power extends only to deciding “Cases” and “Controversies” where the outcome matters to real parties in the real world. Art. III, §2. Because it’s unclear whether we have anything like that here, I would dismiss the petition as improvidently granted.

This case began when Mission licensed the right to use certain of Tempnology’s trademarks. After Tempnology entered bankruptcy, it sought and won from a bankruptcy court an order declaring that Mission could no longer use those trademarks. On appeal and now in this Court, Mission seeks a ruling that the bankruptcy court’s declaration was wrong. But whoever is right about that, it isn’t clear how it would make a difference: After the bankruptcy court ruled, the license agreement expired by its own terms, so nothing we might say here could restore Mission’s ability to use Tempnology’s trademarks.

Recognizing that its original case seems to have become moot, Mission attempts an alternative theory in briefing before us. Now Mission says that if it prevails here it will, on remand, seek money damages from Tempnology’s estate for the profits it lost when, out of respect for the bankruptcy court’s order, it refrained from using the

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trademarks while its license still existed.

But it's far from clear whether even this theory can keep the case alive. A damages claim "suffices to avoid mootness only if viable," which means damages must at least be "legally available for [the alleged] wrong." 13C C. Wright, A. Miller, & E. Cooper, *Federal Practice and Procedure* §3533.3, p. 22 (3d ed. 2008). Yet, as far as Mission has told us, Tempnology did nothing that could lawfully give rise to a damages claim. After all, when Tempnology asked the bankruptcy court to issue a declaratory ruling on a question of law, it was exercising its protected "First Amendment right to petition the Government for redress of grievances." *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U. S. 731, 741 (1983). And petitioning a court normally isn't an actionable wrong that can give rise to a claim for damages. Absent a claim of malice (which Mission hasn't suggested would have any basis here), the ordinary rule is that "no action lies against a party for resort to civil courts" or for "the assertion of a legal argument." *Lucsik v. Board of Ed. of Brunswick City School Dist.*, 621 F. 2d 841, 842 (CA6 1980) (*per curiam*); see, e.g., *W. R. Grace & Co. v. Rubber Workers*, 461 U. S. 757, 770, n. 14 (1983); *Russell v. Farley*, 105 U. S. 433, 437–438 (1882).

Maybe Mission's able lawyers will conjure something better on remand. But, so far at least, the company hasn't come close to articulating a viable legal theory on which a claim for damages could succeed. And where our jurisdiction is so much in doubt, I would decline to proceed to the merits. If the legal questions here are of sufficient importance, a live case presenting them will come along soon enough; there is no need to press the bounds of our constitutional authority to reach them today.