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Client Alert

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Mission Product: Supreme Court Protects Rights of Trademark Licensees in Bankruptcy Despite "Rejection" of Underlying Trademark License Agreement by Debtor-Licensor

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In an 8-1 decision in *Mission Product Holdings, Inc. v. Tempnology, LLC, NKA Old Cold LLC*, the Supreme Court resolved a circuit split regarding the rights of a trademark licensee upon "rejection" by a debtor-licensor of the underlying trademark license agreement in bankruptcy. **The Supreme Court ruled that if you hold a trademark license from a Chapter 11 debtor-licensor pursuant to a contractual license agreement, you can keep using the marks–subject to the terms of the license agreement–even after the debtor-licensor rejects the agreement in bankruptcy.**

The Bankruptcy Code (11 U.S.C. § 365(g)) enables a debtor to "reject" certain types of contracts where both contract parties have continuing performance obligations, and that such rejection "constitutes a breach of such contract." While the Bankruptcy Code (11 U.S.C. § 365(n)) specifically protects certain types of intellectual property rights upon contract rejection (including patents, trade secrets, and copyrights), the section does not mention trademarks and trademark licenses. That led some lower courts, including the Court of Appeals for the First Circuit, to conclude that upon rejection of a contract containing a trademark license, such license is terminated. However, other courts, including the Court of Appeals for the Seventh Circuit, have held that because contract rejection in bankruptcy is simply deemed a breach of the contract but not a termination, any remaining trademark license rights of the non-breaching party would survive contract rejection. The Supreme Court reversed the decision of the First Circuit and sided with the approach of the Seventh Circuit, thereby protecting the rights of trademark licensees.

Case Background, Procedural History, and Holding

The *Mission Product* case arose from a "licensing agreement gone wrong." Tempnology manufactured clothing and related accessories designed to stay cool during exercise and marketed its products with the brand name "Coolcore" and certain logos and labels (the "Coolcore Trademarks"). In 2012, Tempnology entered into an agreement (the "Coolcore Agreement") with Mission Product that, among other things, gave Mission Product an exclusive license to distribute certain products and a non-exclusive license to use the Coolcore Trademarks both in the U.S. and globally through July 2016. However, Tempnology filed for Chapter 11 bankruptcy in September 2015 and soon thereafter, Tempnology, as a Chapter 11 debtor, filed a motion to reject the Coolcore Agreement.

As is typical, the Bankruptcy Court granted the rejection motion. Tempnology sought a declaratory judgment that upon the rejection of the Coolcore Agreement, Mission Product could no longer use the Coolcore Trademarks pursuant to the Coolcore Agreement. The Bankruptcy Court agreed with the debtor, finding that Tempnology's rejection of the Coolcore Agreement revoked Mission Product's right to use the Coolcore Trademarks. The First Circuit Bankruptcy Appellate Panel reversed, relying on the Seventh Circuit's holding in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 272 (7th Cir. 2012) that contract rejection does not "vaporize" the counterparty licensee's rights, and that Mission Product could continue to use the Coolcore Trademarks even following rejection by the debtor-licensor of the Coolcore Agreement.

However, the Court of Appeals for the First Circuit in *Mission Product Holdings, Inc. v. Tempnology, LLC* (*In re Tempnology, LLC*), 879 F.3d 389 (1st Cir. 2018) rejected the Bankruptcy Appellate Panel's and Seventh Circuit's view. Instead, the First Circuit reasoned that certain special features of both trademark and bankruptcy law led to the conclusion that a licensee's trademark license rights terminated upon the rejection by a debtor-licensor of the licensing agreement. Holding otherwise, according to the First Circuit, would frustrate Congress's goal of allowing for a bankruptcy debtor to be released from burdensome obligations, including having to monitor and exercise quality control over its licensed trademarks.

On appeal, the Supreme Court disagreed and reversed the First Circuit. The Supreme Court ruled that neither the distinctive features of trademark law nor the goal of bankruptcy reorganization persuaded the Court to ignore the express text of the Bankruptcy Code that rejection of a contract–including a license agreement–does not terminate rights to the underlying license. Rather, a debtor's rejection of a contract in bankruptcy has the same effect as a breach outside bankruptcy. In a non-bankruptcy context, the non-breaching counterparty continues to retain rights following a contract breach, including trademark licenses, to the extent granted by the contract. Accordingly, the Supreme Court concluded that the debtor-licensor's rejection of the agreement in *Mission Product* did not and cannot revoke the trademark license granted to the licensee.

Analysis and Conclusion

The Supreme Court's holding and conclusion allows for trademark licensees to breathe a sigh of relief. Until now, given the prior circuit split, trademark licensees were told by knowledgeable corporate, intellectual property, and bankruptcy lawyers to demand a security interest in the licensed trademarks or risk losing the trademark license in the event of the licensor's bankruptcy. While having a security interest in a bankruptcy case is always preferable, the Supreme Court's holding means that such a strategy is no longer essential to protecting trademark license rights.

Furthermore, the holding in *Mission Product* will make it more difficult for debtors with valuable trademark license rights to seek to monetize such rights in Chapter 11. First, since the trademark licensee continues to retain its license, the debtor no longer can seek to obtain value from the licensee upon contract rejection. Additionally, while the decision addresses a non-exclusive trademark license, the holding may also be applicable to an exclusive trademark license. In such a scenario, a debtor that rejects an agreement containing an exclusive trademark license may not be able to relicense that trademark, which could frustrate a debtor's ability to reorganize. Moreover, a debtor that rejects a trademark license agreement must now decide whether to spend potentially limited resources to protect the value of its trademarks by monitoring and exercising quality control over its licensed trademarks even following rejection. Where debtor-licensors cannot exercise the requisite level of quality control, such trademark licenses may ultimately become "naked" licenses, which could in turn lead to the loss of trademark rights.

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