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CLIENT ALERT

SCOTUS Hears Oral Arguments on *Mission Product* with Mixed Reviews

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On Wednesday, February 20, 2019, the U.S. Supreme Court heard oral arguments for *Mission Product Holdings vs. Tempnology, LLC*. to decide what it means to "reject" a trademark license agreement in bankruptcy. *See our earlier discussion of the issues here.* Section 365(g) of the Bankruptcy Code states that rejection constitutes a breach of the contract as of the day before the petition for bankruptcy was filed. On one hand, the Petitioner's position was that trademark license agreements are subject to the same general contract principals that apply outside of bankruptcy: since "there is nothing that the licensor could do outside bankruptcy by breaching to stop the licensee from using the mark," the same applies in bankruptcy. On the other hand, the Respondent's argument was that trademark licenses in bankruptcy are different because the mere fact of maintaining a trademark imposes an affirmative obligation on the licensor that would require it to police the mark—in other words, to continue to perform under a contract that has been breached.

During the oral arguments, the lack of authority dealing with trademarks was troubling for the justices, as evidenced by Justice Breyer's remark, "…gee, I mean, that had property law for 500 years and people have breached for 500 years." So, the Justices were left attempting to find analogous examples to trademark licenses to better understand which laws should govern trademark transactions.

For example, Justice Breyer questioned whether the owner of a trademark is like the owner of an igloo who grants a license to use the igloo with the promise that the owner will maintain the air conditioning. Just as without air conditioning, the igloo would melt and cease to exist, ceasing quality control of a trademark would result in its abandonment. And Justice Alito asked if rejection frees the debtor from all obligations to perform future duties under the contract, and therefore if the debtor no longer performs quality control of the mark, wouldn't that put the validity of the mark in peril?

Justice Kagan wondered whether there are any analogues in landlord-tenant law, noting that many cities have laws dictating that once a landlord stops maintaining a property, the tenant must vacate because the property isn't safe anymore. Ultimately, the parties were unable to come up with closer parallels.

Justice Sotomayor observed that "rejection" is not a contract term, but rather a specialized term used only in bankruptcy. She noted that "it's not generally that we reject a piece of a contract. We generally reject the entire contract. And so it's not the rejection of one claim under a contract."

There is no clear decision that can be discerned from the oral arguments. Stay tuned for the written decision.

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