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Mission Products v. Tempnology: SCOTUS Holds that Rejection of Trademark License in Bankruptcy Does Not Terminate the Right to Use the Mark

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On May 20, 2019, the U.S. Supreme Court held by a vote of 8-1 that a trademark licensor's rejection in bankruptcy of a trademark license does not terminate the licensee's right to use the licensed mark. *Mission Products Holdings, Inc. v. Tempnology, LLC*, No. 17-1657, 587 U.S. ___ (2019). In so holding, the Court resolved a circuit split on the issue. The Court reversed the decision of the First Circuit, which held that Tempnology's rejection of a trademark license under the Bankruptcy Code had the effect of terminating Mission Products' right to use the licensed marks. The Court expressly affirmed the reasoning of the Seventh Circuit in *Sunbeam Products, Inc. v. Chicago Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012), and held that rejection of a trademark license constitutes a pre-petition breach of the license agreement but does not otherwise terminate the licensor's and licensee's rights and obligations under the license agreement.

The Court's opinion, authored by Justice Kagan, considered section 365 of the Bankruptcy Code, 11 U.S.C. §365. Specifically, the Court considered section 365(a), which permits a debtor in bankruptcy to reject any executory contract[1], and section 365(g), which provides that the debtor's rejection "constitutes a breach of such contract." 11 U.S.C. §365(a), (g).

In this case, the licensor, Tempnology, manufactured clothing and accessories designed to stay cool when used in exercise. Tempnology sold those products under the name "Coolcore" with related logos and labels. Tempnology entered into a license agreement with Mission Products, which granted, among other things, a non-exclusive license to use the Coolcore trademark in the United States and elsewhere. In 2015, less than a year before the license was to expire, Tempnology filed a petition for bankruptcy under Chapter 11 of the Bankruptcy Code. Tempnology exercised its option under section 365(a) to reject the license agreement, as it was still executory, and the Bankruptcy Court approved the rejection. The parties agreed that the rejection had two effects. First, Tempnology could stop performing under the license agreement, and second, Mission Products could assert a pre-bankruptcy petition claim for damages[2].

Tempnology argued that its rejection of the license agreement also terminated the rights it previously granted Mission Products to use the Coolcore marks. Tempnology based its argument on a negative inference it drew from the fact that, over the years, Congress had adopted provisions in section 365 that allowed the other party in a rejected contract to continue exercising its contractual rights. Of particular relevance was section 365(n), which provides that if the licensor of certain intellectual property rights, such as patents, rejects the license, the licensee can continue to use the patented technology as long as it makes the payments required under the license. 11 U.S.C. §365(n). Section 365(n) specifically excluded trademark licenses. See 11 U.S.C. §365(n). Tempnology argued that, because section 365(n) excludes trademark licenses, a negative inference should be drawn that Congress intended for

trademark licenses to terminate upon rejection.

The Court rejected Tempnology's arguments. In so doing, the Court first relied on the language in section 365(g), which provides that a rejection constitutes a breach. While a breaching debtor can stop performing its remaining obligations under the license, it cannot rescind the license. The Court went on to note that the section 365(n) provision allowing a licensee to continue using licensed intellectual property other than trademarks was a reaction to a Fourth Circuit decision – *Lubrizol Enterprises v. Richmond Metal Finishers*, 756 F.2d 1043 (4th Cir. 1985) – which held that a patent licensee's rejection of an executory contract had the effect of revoking the grant of a patent license. The Court in *Mission Products* explained that "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." (emphasis in original).

The Court also rejected Tempnology's arguments based on a trademark licensor's duty to monitor and exercise quality control over licensed goods and services. Tempnology argued that if rejection does not terminate the license, the debtor-licensor is forced to choose between expending scarce resources on quality control, or forgoing expending such resources and thereby risking the loss of a valuable asset, presumably because use without quality control would lead to a naked license. The Court observed that these concerns, while possibly serious, "would allow the tail to wag the Doberman." The Court explained that the ability to reject a contract under section 365 allows a debtor to escape its future contract obligations, but it does not exempt the debtor from all burdens that generally-applicable law, in this case the law on trademarks, imposes on the owner of the trademark.

Tempnology also argued that the case is moot because, it claimed, Mission Products could not recover damages[3]. The Court held that the case is not moot, as Mission Products would be able to recover damages.

The *Mission Products* decision is important for several reasons. First, it resolves the split that had developed between those courts holding that rejection results in a breach and those holding that rejection terminates the right to use a licensed mark. Second, resolving the split removes uncertainty faced by trademark licensors and licensees who are forced to consider what might happen if a licensor declares bankruptcy. Moreover, resolving this uncertainty avoids the need to use expensive and complex steps, such as placing licensed marks in a bankruptcy-remote entity, in order to avoid the effect of a licensor's bankruptcy.

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[1] An executory contract refers to a contract that neither party has finished performing.

[2] In its opinion, the Court noted that pre-petition creditors often receive only cents on the dollar of their bankruptcy claims.

[3] The lone dissent, by Justice Gorsuch, also argued mootness on the ground that the license had already expired by the time the bankruptcy court confirmed the rejection and declared that Mission Products could not use the mark.