

The Supreme Court will soon determine whether Trademark License Rights in Bankruptcy Endure or Melt Away

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In the coming months, the U.S. Supreme Court is expected to issue a decision in *Mission Product Holdings, Inc. v. Tempnology, LLC* that may (yes, we said “may”) resolve a circuit split as to whether trademark licensees can continue using trademarks after a licensor in bankruptcy rejects the license agreement under bankruptcy law.

The TMCA has been following this case from the first decision by the U.S. Bankruptcy Court for the District of New Hampshire in 2015, through the decision by the

Bankruptcy Appellate Panel for the First Circuit in 2016, the First Circuit’s decision in early 2018, and the Supreme Court’s grant of certiorari in late 2018. Along the way, we have explained that the Bankruptcy Code gives debtors the power to “reject” executory contracts (which relieves a debtor from its contractual obligations), and that federal courts have been divided for years regarding the effect of rejection of trademark license agreements.

The blame for the circuit split can be placed largely on Congress. That is because the Bankruptcy Code—which Congress drafted—contains specific provisions for the post-rejection treatment of license agreements for “intellectual property,” but those do not cover trademarks, although they cover patents, copyrights, trade secrets, and mask works, among other things. When Congress implemented those protections, it noted the deliberate omission of trademarks from the statute because the issue warranted “more extensive study,” which we wrote about at length in our prior posts.

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The Supreme Court heard oral arguments in *Mission* on February 20, 2019. At oral argument the Justices focused primarily on the effect of a brand owner/licensor's breach of a trademark license agreement in bankruptcy, as a debtor, as opposed to the effects of breach outside of bankruptcy. In addition, the arguments also touched on general contract law, the "negative inference" of *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985) (see our previous posts for more on this case), and relevant provisions of the Bankruptcy Code, specifically sections 365(g) and 365(n), which concern, respectively the effect of a debtors' rejection of a contract generally and rejection of an intellectual property license for intellectual property other than trademarks.

So you don't have to listen to the entire oral argument, we have selected the most interesting questions and issues, which, in our opinion, provide some tea leaves for those of us following the case:

- Off the bat, Justice Alito asked Mission whether a debtor-licensor's cessation of quality control activities would imperil a trademark. Before Mission could answer, Justice Sotomayor asked Mission whether rejection of a trademark license revokes approval by the licensor that is a condition to the license. Mission responded that quality control obligations are imposed by trademark law, and not solely by contract, and rejection entitles a debtor-licensor to free itself only from contractual obligations. Mission added that, outside of bankruptcy, a licensor's breach of a license agreement (breach being the effect of rejection on the agreement mandated by the Bankruptcy Code) does not take away a licensee's right to use a trademark.
- Chief Justice Roberts asked Tempnology whether a licensee can continue using a trademark after rejection, so long as the licensee carries out quality control as the debtor-licensor did. Tempnology responded that ceasing quality control abandons a trademark, causing it to lose value and its status as a trademark (which didn't exactly answer Justice Roberts' question). Justice Breyer asked whether a person can use an abandoned mark, and Tempnology conceded one can.
- Several Justices pressed Tempnology for authority that a trademark licensor could unilaterally terminate a license agreement outside of bankruptcy by ceasing quality control. Tempnology relied on the general notions of trademark law, including a trademark's signification of its owner and an owner's duty to exercise control over the trademark, which did not appear to relieve the Justices concerns.
- Justice Sotomayor asked Tempnology, at two separate points, how the Court could limit its ruling to trademark agreements, e. rather than "any number of other contracts." Tempnology stated it was only asking the Court to adhere to precedent that the effect of rejection is that the contract is no longer enforceable, but she did not seem to be persuaded by that argument.
- Questions by Justices Gorsuch and Sotomayor as to whether the trademark issues are moot signaled a possibility that the Court may not reach a decision on the effect of rejection. The Justices' questions intimated that Mission may not have suffered damages, because Tempnology refused to supply Mission with goods that could bear the licensed mark prior to the rejection. Following the rejection, Mission did not use the trademark, but argued it was damaged because it was wrongly prevented by the bankruptcy court's decision from using the trademark following rejection, including on goods it could have ordered from suppliers other than Tempnology. Tempnology asserted the issues are moot because Tempnology took no action against Mission that prevented Mission from using the trademark. Given that the Court granted *cert* for this case, we would be surprised if the Court declined to resolve this Circuit split

and instead ruled on mootness grounds.

Throughout the argument, the Justices and the litigants searched for property law scenarios analogous to the rejection of a trademark license agreement by a debtor—an apartment lease, a McDonald’s franchise, a photocopier lease, and an igloo lease. As to the igloo, Justice Breyer likened a licensor’s quality control obligations to a promise to air condition an igloo, stating, “. . . you break your promise to air condition, no more igloo.” (The amicus curiae arguing in support of Mission who received this analogy disagreed, responding that a licensee can continue using a trademark because abandonment is the only consequence of ceasing quality control and that takes some time.) These discussions—and the general struggle to find a suitable analogy—highlighted the unique nature of trademark rights as property and the Bankruptcy Code’s treatment of various contract rights respecting property.

The oral argument provided a glimpse of the Court’s unenviable task of filling in the blanks of the Bankruptcy Code that Congress left to the Courts. While the Court is clearly concerned with reaching a result that makes sense under notions of trademark, property, contract and bankruptcy law, we are eager to see how it resolves their conflicts. Once the Court reaches a decision, you should expect to hear from us again.