Trademark Licensing: A Once Concerning Mechanism for Transfer Faces New Certainty Under *Mission Product Holdings, Inc. v. Tempnology, LLC*

Hilary Weaver*

I. Introduction

Long-term trademark licensing agreements are inherently risky transactions for licensees. Consider the risks facing a hypothetical business owner who licenses rights in the trademark of an up-and-coming business under a long-term, exclusive licensing agreement. If the licensed trademark loses popularity over time, the license's value could plummet and cause the licensee to suffer a financial loss. On the other hand, if the licensor's brand becomes exponentially more popular, market demand for products under the licensed mark could increase and generate large profits for the licensee. Under the latter scenario, securing long-term rights under the licensing agreement could even empower the licensee to feel comfortable hiring additional employees, leasing a larger manufacturing space, or making other long-term investments in reliance upon the continued use of the mark.

Licensors of trademarks can also bear substantial risks when they enter into long-term licensing agreements. If a trademark's value skyrockets after having signed a licensing agreement, the licensor may regret having granted a license in the mark for too low a price. Ordinarily, licensors cannot compel licensees to renegotiate the terms of licensing agreements to reflect the newly-increased value of the mark. Accordingly, the licensee may obtain windfall profits at the expense of the licensor.

Unfortunately, licensors and licensees of trademarks have faced one additional type of risk in connection with long-term licensing agreements: the prospect that the other party might try to use bankruptcy laws to escape

---

* Law Student at the Sandra Day O'Connor College of Law at Arizona State University, J.D. expected May 2020. A special thank you to Professor Troy Rule for his generous feedback and support.

from licensing agreements that were no longer profitable to them.[1] Specifically, either party could file a Chapter 11 bankruptcy petition and use that bankruptcy protection to eliminate its obligations under the trademark licensing agreement.[2]

Chapter 11 of the Bankruptcy Code has long entitled parties in bankruptcy to reject executory contracts, which include trademark licensing agreements.[3] Parties on the losing end of such rejections have pre-petition claims for damages.[4] Those claims, however, are unsecured, and thus claimants typically receive mere pennies on the dollar.[5] Moreover, some courts have historically interpreted rejection to eliminate the transfer of rights that existed under the agreement.[6] In those jurisdictions, continuing to exercise the trademark rights was not an option because such use would give the former licensor a cause of action for infringement.[7] In instances when a licensee made substantial investments based on an expectation of the continued use of a mark, the rejection of the trademark licensing agreement could cause severe financial harm.

Although the use of Chapter 11 bankruptcy to terminate a licensee's rights appears unjust, some courts allowed the practice until the Supreme Court of the United States (the "U.S. Supreme Court") issued its recent opinion in *Mission Product Holdings, Inc. v. Tempnology, LLC*.[8] Indeed,

---

1. In this article, the use of filing a petition of bankruptcy to rescind previously granted licensing rights is referred to as "opportunistic bankruptcy."

2. The Bankruptcy Code affords the debtor the power to assume or reject executory contracts and avoid specific types of contracts. *See* 11 U.S.C. §§ 365(a), 544–553 (2019).

3. In Section 365(a), the Bankruptcy Code provides that "the trustee, subject to the court's approval, may assume or reject any executory contract." *Id.* § 365(a). Intellectual property licenses are generally considered executory contracts, and thus are subject to rejection. *See, e.g.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC (*In re Tempnology*), 879 F.3d 389, 396 (1st Cir. 2018) ("[T]he term 'executory contract' in section 365(a) encompassed intellectual property licenses.") (quoting Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985)). Accordingly, although this article focuses on a debtor-licensor's rejection of a trademark license, in the event a licensee files a petition for bankruptcy, the licensee would also have the power to reject the agreement.

4. 11 U.S.C. § 365(g) (2018).

5. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 531–32 (1984).

6. *In re Tempnology*, 879 F.3d at 404.

7. *See* 15 U.S.C. § 1114(1) (2018) (providing that any person that uses a registered trademark in association with a sale of goods or services without permission from the registrant and such use is likely to cause confusion is liable in a civil action brought by the registrant).

8. 139 S. Ct. 1652 (2019); *see In re Tempnology*, 879 F.3d at 389 (holding that a licensee's trademark rights did not survive rejection). To distinguish between the U.S. Supreme Court opinion and the First Circuit opinion, the U.S. Supreme Court opinion will be referred to as *Mission Product Holdings*, and the First Circuit opinion will be referred to as *In re Tempnology*.

under the First Circuit's former jurisprudence, rejection would "terminate[] the whole agreement along with all rights it conferred."[9] The *Mission Product Holdings* decision rejected the First Circuit rule and instead held that "[a] rejection breaches a contract but does not rescind it."[10] In adopting this "rejection-as-breach" rule, the U.S. Supreme Court affirmed the Seventh Circuit's reasoning in *Sunbeam Products, Inc. v. American Chicago Manufacturing, LLC*.[11]

This article compares how the First Circuit and Seventh Circuit interpreted the effect of rejection of a trademark license in a bankruptcy proceeding, and ultimately argues that the U.S. Supreme Court correctly resolved the circuit split by adopting the rejection-as-breach rule. Part II of this article provides background information on intellectual property licensing and the Bankruptcy Code's treatment of intellectual property licenses. Specifically, Part II examines the pre-Section 365(n) approach to the effect of rejection on intellectual property licenses, the enactment of Section 365(n), and highlights the uncertainty related to interpretation of these provisions. This Part then provides a detailed summary of the Seventh Circuit's approach in *Sunbeam Products*,[12] the First Circuit's approach in *In re Tempnology*,[13] and the U.S. Supreme Court's resolution of the circuit split in *Mission Product Holdings*.[14] Part III explains that the U.S. Supreme Court correctly reversed the First Circuit's opinion because the First Circuit's approach was incompatible with the Bankruptcy Code and created a pathway for licensors to unilaterally extinguish the rights of trademark licensees. In Part IV, this article concludes.

II. INTELLECTUAL PROPERTY AND BANKRUPTCY LAW

To appreciate the U.S. Supreme Court's resolution of the circuit split over the treatment of rejection of trademark license rights in bankruptcy, one must first understand the distinct categories of intellectual property, the mechanisms to transfer intellectual property rights, the fundamental purposes of bankruptcy,[15] and the relevant portions of the Bankruptcy Code.

---

9. Mission Prod. Holdings, Inc., 139 S. Ct. at 1661.
10. *Id.* at 1657–58.
11. 686 F.3d 372 (7th Cir. 2012).
12. *Id.*
13. 879 F.3d 389 (1st Cir. 2018).
14. 139 S. Ct. 1652 (2019).
15. While there are four chapters of bankruptcy, this article focuses primarily on Chapter 11 because the uncertainty associated with the rejection of trademark licensing agreements is most prevalent in cases in which a licensor-debtor aims to reorganize its business as opposed to

This Part II begins by providing an overview of intellectual property and intellectual property licensing. It then explains the underlying purposes of Chapter 11 bankruptcy, the pre-Section 365(n) treatment of rejection on intellectual property licenses, and Congress's enactment of Section 365(n). Last, this Part II provides summaries of the Seventh Circuit and First Circuit cases that comprised the circuit split and the U.S. Supreme Court's 2019 decision, which ultimately resolved that intercircuit dispute.

A. Intellectual Property and Mechanisms to Transfer Intellectual Property Rights

The term intellectual property encompasses heterogeneous categories of intangible personal property rights. Intellectual property rights protect creative manifestations including inventions, works of authorship, and images used in trade. This subpart provides an overview of the different categories of intellectual property and the distinct property rights each category protects, and then explores the mechanisms for transferring intellectual property rights to third parties. Last, this subpart narrows its focus to trademarks and the benefits trademark licensing agreements provide to licensees, licensors, and commerce in general.

1. The Categories of Intellectual Property Protect Distinct Property Rights

Patents, copyrights, and trademarks are different categories of intellectual property that each protect distinct property interests.[16] Trademarks are the most widely used category of intellectual property.[17] The Lanham Act, the federal law governing trademarks, defines trademark as "any word, name, symbol, or device, or any combination thereof" used to "identify and distinguish . . . goods, including a unique product, from those manufactured or sold by others . . . even if the source is unknown."[18] A

---

liquifying its business assets. Moreover, *In re Tempnology*, the First Circuit case that the U.S. Supreme Court heard and ultimately reversed, involved a Chapter 11 bankruptcy proceeding. *In re Tempnology*, 879 F.3d 389, 392 (1st Cir. 2018) (stating the debtor sought to reorganize under Chapter 11).

16. *See* Bradlee R. Frazer, *Common-law Trademarks or Trade-Name Rights in Geographic Areas of Prior Use*, 22 AM. JUR. PROOF FACTS 3d 623, §§ 5–6 (1993).

17. WORLD INTELLECTUAL PROP. ORG., WORLD INTELLECTUAL PROPERTY REPORT: BRANDS–REPUTATION AND IMAGE IN THE GLOBAL MARKETPLACE 9 (2013).

18. 15 U.S.C. § 1127 (2018).

registered trademark is effective for a period of ten years, and its effectiveness can be renewed for successive terms without limitation.[19] Trademarks protect brand exclusivity,[20] and trademarks provide registrants with protection against brand infringement by competitors.[21] Thus, if a competitor attempts to use the registered mark without the registrant's permission, and that use causes confusion in the market, then the trademark registrant has remedies available under federal law.[22]

Unlike other forms of registered intellectual property, a trademark carries with it an affirmative duty of control.[23] Because the principal function of a trademark is to distinguish the products or services protected by the mark from similar products or services in the market,[24] the trademark registrant must ensure the mark is used consistently.[25] Accordingly, if the registrant fails to satisfy its duty of control, the trademark will ultimately be forfeited.[26]

Copyright, another category of intellectual property, provides protection to "original works of authorship fixed in any tangible medium of expression."[27] These works of authorship include literary, musical, or dramatic works, art and architecture, motion pictures, and sound recordings.[28] The copyright owner has exclusive rights to use the

---

19. 15 U.S.C. § 1058 (2018) ("Each [trademark] registration shall remain in force for 10 years."). Subject to certain limitations, trademarks can be renewed for successive ten-year periods. *See id.*

20. WORLD INTELLECTUAL PROP. ORG., *supra* note 17 at 9.

21. 15 U.S.C. § 1114(1) (2018) (providing that any person that uses a registered trademark in association with a sale of goods or services without permission from the registrant and such use is likely to cause confusion in the market will be liable in a civil action brought by the registrant).

22. *Id.*

23. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (5th ed. 2019) ("[N]ot only does the trademark owner have the right to control quality, when it licenses, it has the duty to control quality."). *See also* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) ("[U]nless the [trademark] licensor exercises supervision and control over the operation of its [trademark] licensees[,] the risk that the public will be unwittingly deceived will be increased and this is precisely what the [Lanham] Act is in part designed to prevent.").

24. *Franchise or Trademark License Agreements*, WORLD INTELLECTUAL PROP. ORG., http://www.wipo.int/sme/en/ip_business/licensing/franchise_license.htm [https://perma.cc/Z7GS-37LB] (last visited Oct. 15, 2019).

25. Gorenstein Enter., Inc. v. Quality Care–USA, Inc., 874 F.2d 431, 434 (7th Cir. 1989).

26. *E.g.*, *id.*; Oberlin v. Marlin Am. Corp., 596 F.2d 1322, 1327 (7th Cir. 1979) ("The Lanham Act requires supervision of trademark licensees at the expense of abandonment of the trademark.").

27. 17 U.S.C. § 102(a) (2019).

28. *Id.*

copyrighted work, including the rights to "reproduce the copyrighted work" and "prepare derivative works."[29] Subject to certain exceptions, a copyright is generally effective for the duration of the "life of the author and 70 years after the author's death."[30]

A third category of intellectual property, patents, protects inventions.[31] A patent grants to the patentee the "right to exclude others from making, using, offering for sale, or selling the invention."[32] Generally, patent rights are granted for a twenty-year term.[33] Unlike a trademark, which imposes a duty on the trademark registrant to ensure the mark is used consistently, a patent imposes no affirmative duty to monitor patent usage on the patentee.[34] Moreover, while trademarks communicate essential information about the quality of goods or services to consumers,[35] patents primarily function within a business's internal operations.[36]

In sum, trademarks, copyrights, and patents are distinct categories of intellectual property that protect different property rights. To establish intellectual property rights and benefit from the legal protections provided by these rights, the original creator—the party holding the inventive concept, the symbol or name designating the exclusivity of a brand, or the tangible form of a creative expression—must take specific action to register the intellectual property.[37] The process for registering intellectual property rights and mechanisms to transfer intellectual property rights are discussed below.

---

29. *Id.* § 106.
30. *Id.* § 302(a).
31. Frazer, *supra* note 16, at § 6.
32. 35 U.S.C. § 154(a)(1) (2018).
33. *Id.* § 154(a)(2).
34. *In re Tempnology*, 879 F.3d 389, 402 (1st Cir. 2018).
35. *Id.*
36. A typical consumer does not rely on an underlying patent when making decisions about what goods to purchase. A consumer, however, would likely consider a brand name or trademark in determining whether to purchase a particular product or service. Consider, for example, a consumer's loyalty to Samsung branded products over Apple branded products or Coke products over Pepsi products.
37. *See* WORLD INTELLECTUAL PROP. ORG., WHAT IS INTELLECTUAL PROPERTY? 6, 10, 21, https://www.wipo.int/edocs/pubdocs/en/intproperty/450/wipo_pub_450.pdf [https://perma.cc/G5QQ-7GP8] (last visited Aug. 1, 2019).

2. Registering Intellectual Property and Mechanisms to Transfer Intellectual Property Rights

To establish intellectual property rights, an original creator must generally register her creation with an appropriate government authority.[38] This process requires the creator to bear expenses upfront and assume the risks associated with the registration process.[39] However, by navigating the registration system and establishing intellectual property rights, the original creator can take advantage of new opportunities associated with intellectual property rights, including legal mechanisms that allow for the registrant to transfer rights to third parties.

Licensing is a desirable mechanism of transfer for registrants that wish to retain an ownership interest in their intellectual property. Unlike other mechanisms designed to transfer rights, an intellectual property license preserves the ownership interest of the licensor while simultaneously providing licensees with the ability to use particular intellectual property rights.[40] Intellectual property licensing is beneficial to licensors because it increases access to licensees' expertise, creates additional revenues in the form of royalties, and expands the market for goods or services sold under the trademark.[41]

Assignment and outright sale are alternative mechanisms to transfer intellectual property rights that ultimately eliminate the registrant's ownership interest. A registrant that elects to assign intellectual property

38. Trademarks and patents are registered with the U.S. Patent and Trademark Office. *How Should I Protect My Intellectual Property?*, INTELLECTUAL PROPERTY RIGHTS (IPR) BASICS, https://www.stopfakes.gov/article?id=How-Should-I-Protect-My-Intellectual-Property [https://perma.cc/832R-9PKQ] (last visited Mar. 7, 2019). Copyrights are registered with the U.S. Copyright Office. *Id.* Although trademarks and copyrights are afforded protection in some instances even without registration, registration provides additional advantages and protection for registrants. *Id.*

39. Expenses associated with registering intellectual property include legal fees and costs associated with research and development. Similarly, the risks associated with registering intellectual property include paying the expenses associated with the registration process without the guarantee that the U.S. Patent and Trademark Office or U.S. Copyright Office will grant intellectual property rights. Absent registration, however, the original creator generally lacks the ability to protect its creation from infringement, and even runs that risk that it may be threatened with litigation by a third party claiming to hold registered intellectual property rights in the particular creation. *See* WORLD INTELLECTUAL PROP. ORG., *supra* note 37, at 5–11, 19–21.

40. *See, e.g.*, *Licensing of Intellectual Property Rights*, WORLD INTELLECTUAL PROP. ORG., http://www.wipo.int/sme/en/ip_business/licensing/licensing.htm [https://perma.cc/78SH-ULG6] (last visited Sept. 16, 2019).

41. *See, e.g.*, *id.* A more thorough discussion of the benefits of trademark licensing agreements is discussed in Part II.A.3.

rights permanently transfers some or all of its rights to an assignee.[42] The outright sale of intellectual property rights has analogous effects on the seller as an assignment has on the assignor.[43] In an outright sale, the seller relinquishes all interests in the intellectual property.[44] Thus, by selling or assigning particular rights, the registrant surrenders control over and personal stake in intellectual property rights in exchange for payment.[45] These mechanisms of transfer are appealing for an owner that wishes to shift the risks associated with technological development or surrender complete control in exchange for payment. If, however, the owner desires to retain an interest in the intellectual property rights it grants to a third party, assignment and outright sale are impracticable, and thus licensing is the more suitable mechanism for transfer.

In sum, intellectual property rights can be transferred to third parties pursuant to a variety of legal mechanisms. Because this article focuses specifically on trademark licensing, the following subpart provides additional information regarding the growing market for trademark licensing agreements and the benefits that these agreements provide.

3. The Benefits of Trademark Licensing Agreements

Trademark licensing agreements provide licensors, licensees, and consumers with benefits that are unavailable under other mechanisms to transfer intellectual property rights. Because of these benefits, the market for trademark licensing agreements is growing. This subpart provides information about the benefits trademark licensors experience under trademark licensing agreements, the benefits trademark licensees enjoy under these agreements, and finally, the benefits consumers, in general, experience as a result of trademark licensing.

The growing market for trademark licensing agreements provides trademark registrants with access to additional resources and alternative avenues for economic reward.[46] Under a licensing agreement, the trademark registrant retains an interest in the trademark while partnering with other entities to enter new markets or expand an existing market for the product or service sold under the registered mark.[47] Trademark licensing agreements

42. *E.g.*, S. REP. NO. 100-505, at 3–4 (1988).
43. *See id.* at 3–4.
44. *See id.* at 3.
45. *See id.* at 4.
46. *See* WORLD INTELLECTUAL PROP. ORG., *supra* note 17, at 9, 11.
47. *Id.* at 11.

also provide the registrant with access to expertise and assets beyond that of its business.[48] For example, the registrant can utilize a licensing agreement to partner with companies that have more skilled marketing teams or own the manufacturing equipment needed to apply the trademark to an alternative medium. Finally, because the registrant retains an interest in the trademark, the registrant can enter into licensing agreements with a variety of different licensees. This function allows the registrant to contract with a diverse group of licensees and ultimately increase its level of access to resources and royalties.[49] Thus, a trademark licensing agreement provides a trademark registrant with opportunities to generate substantial capital in exchange for a relatively minimal expenditure.[50]

A strong trademark system in general and trademark licensing agreements in particular also provide benefits to trademark licensees. Licensees are able to leverage their expertise—including marketing, distribution, or manufacturing—in conjunction with a licensor's brand protected by the trademark, to generate additional economic reward. Under a trademark licensing agreement, a trademark licensee is granted specific rights to a particular trademark.[51] These rights might include the ability to use, sell, import, export, manufacture, or distribute trademarked goods or services to the extent provided by the licensing agreement.[52] In addition to a contractual grant of rights, the trademark-licensee is provided with a defense against infringement claims.[53] Finally, in many cases, trademark-licensing agreements grant licensees rights for an extended period of time, and thus licensees often invest substantial capital to build their business around the products or services protected by the mark.[54] Accordingly, the viability of a trademark licensee's business is highly dependent on the rights granted to it pursuant to the licensing agreement.[55]

---

48. *Id.*

49. *See generally id.*

50. *Id.* ("[Trademark licensing] enable[s] companies to access competences outside their own core strategic assets, and to generate new revenues without substantial investments into building or acquiring additional knowhow or manufacturing capability.").

51. Brief of Law Professors as Amici Curiae Supporting Petitioner at 7, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019) (No. 17-1657), 2018 WL 6618029, at *8–9.

52. *Licensing of Intellectual Property Rights*, *supra* note 40.

53. *See* WORLD INTELLECTUAL PROP. ORG., *supra* note 37, at 9 ("Trademark protection is legally enforced by courts that, in most systems, have the authority to stop trademark infringement.").

54. *See infra* note 195.

55. *See* COMMISSION TO STUDY THE REFORM OF CHAPTER 11, AM. BANKR. INST., 2012–2014 FINAL REPORT AND RECOMMENDATIONS 127 (2014).

Consumers also rely upon and benefit from the use of registered trademarks in the marketplace. A trademark effectively communicates to the public that the quality of the goods or services being sold under the registered trademark are controlled and monitored by the trademark registrant.[56] Trademarked brands provide consumers with assurance of the quality and reliability of products and services they purchase, and a consumer's experience with particular brands are influential on the often unwavering preferences that consumers develop.[57] Thus, trademarks provide consumers with confidence that a good or service sold under a registered mark is the good or service that the consumer intends to purchase, and trademark licensing expands the types of products or services available under particular marks.[58]

A strong trademark system and trademark licensing provide benefits to trademark licensors, trademark licensees, and consumers. The viability of trademark licensing, however, is influenced greatly by how these agreements are treated in bankruptcy proceedings. The following subpart explains how intellectual property licensing agreements in general and trademark licensing agreements in particular are treated under the Bankruptcy Code.

B. Intellectual Property Licensing in Bankruptcy Proceedings

As intellectual property licensing becomes more prevalent, intellectual property licensing agreements inevitably are included in bankruptcy debtors' estates. This subpart first discusses the purposes and objectives of bankruptcy, and then provides an overview of both rejection and executory contracts. This subpart also discusses the pre-Section 365(n) effect of rejection on intellectual property licenses, and Congress's enactment of Section 365(n). Finally, this subpart provides information about the cases that comprised the circuit split over the effect of rejection on trademark licensing agreements, and the U.S. Supreme Court's 2019 decision that resolved the split.

---

56. MCCARTHY, *supra* note 23, at § 18:48.

57. *See* COMMISSION TO STUDY THE REFORM OF CHAPTER 11, AM. BANKR. INST., *supra* note 55, at 127.

58. MCCARTHY, *supra* note 23, at § 18:48.

1. The Purposes and Objectives of Bankruptcy

The central purpose of Chapter 11 bankruptcy is to prevent a debtor from liquifying its business.[59] When a debtor-company liquidates under Chapter 7, a bankruptcy trustee compiles and sells all of the debtor-company's non-exempt assets, and the proceeds thereof are applied to debts owed to creditors pursuant to the rules set forth in the Bankruptcy Code.[60] At the conclusion of liquidation, the debtor-company is wound up and disappears. Liquidation imposes losses on the economy, including job reduction and increases the likelihood that economic resources are misused.[61]

An alternative to liquidation is reorganization under Chapter 11 of the Bankruptcy Code. Under Chapter 11, a debtor-company restructures its existing debts to maximize its ability to repay creditors.[62] Unlike liquidation, a debtor-company that reorganizes its debt continues to operate as a business. Accordingly, because of the attendant externalities that arise from liquidation, reorganization pursuant to Chapter 11, if viable, is often more desired by debtors, creditors, and society in general.[63]

While the paramount objective of Chapter 11 bankruptcy is to rehabilitate debtors,[64] Chapter 11 ultimately strikes a balance between a debtor's interests and its creditors' interests.[65] Creditors are primarily interested in the maximization of the debtor's estate.[66] Indeed, deriving the maximum value from the bankruptcy estate increases the likelihood that creditors will be made whole.[67] On the other hand, the debtor's interests include both a successful reorganization and the limitation of its debts.[68] To further the debtor's interests, the Bankruptcy Code provides the bankruptcy trustee or debtor in possession with the power to assume or reject executory

---

59. NLRB v. Bildisco & Bildisco, 465 U.S. 513, 528 (1984).

60. *Chapter 7 – Bankruptcy Basics*, U.S. STATES CTS., https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-7-bankruptcy-basics [https://perma.cc/QC6W-NDES] (last visited Sept. 16, 2019).

61. *Bildisco & Bildisco*, 465 U.S. at 528.

62. *See, e.g.*, *In re* Cooper Props. Liquidating Tr., Inc., 61 B.R. 531, 537 (Bankr. W.D. Tenn. 1986).

63. *See* Linda J. Rusch, *The New Value Exception to the Absolute Priority Rule in Chapter 11 Reorganizations: What Should the Rule Be?*, 19 PEPP. L. REV. 1311, 1321 (1992) ("Congress generally considers business reorganization to be better for society than liquidation, [but] Congress does not allow every business to reorganize under Chapter 11.").

64. *In re Tempnology*, 879 F.3d 389, 396 (1st Cir. 2018).

65. *See* Fla. Dep't of Revenue v. Piccadilly Cafeterias, Inc., 554 U.S. 33, 51 (2008) (citing Toibb v. Radloff, 501 U.S. 157, 163 (1991)).

66. *Id.*

67. *Id.*

68. *Id.*

contracts to the extent certain exceptions do not apply and subject to judicial approval.[69] The following subpart provides additional information on assumption and rejection in bankruptcy proceedings.

2. The Assumption and Rejection of Intellectual Property Licenses in Bankruptcy Proceedings

The ability of a bankruptcy trustee or debtor in possession to reject executory contracts is "vital to the basic purpose to a Chapter 11 reorganization, because rejection can release the debtor's estate from burdensome obligations that can impede a successful reorganization."[70] Pursuant to the Bankruptcy Code, "the trustee, subject to the court's approval, may assume or reject any executory contract."[71] The Bankruptcy Code further provides that the rejection of an executory contract "constitutes a breach of such contract."[72]

Whether an executory contract is rejected or assumed is dependent on whether, in the debtor's business judgment, the contract is beneficial to the debtor.[73] Under the business judgement rule, the trustee or debtor in possession's decision to reject an executory contract is given great deference. Indeed, as long as the bankruptcy trustee or debtor in possession satisfies the business judgement test, the trustee or debtor in possession has the power to assume contracts that are beneficial to the bankruptcy estate and reject those that hinder a successful reorganization.[74] In sum, rejection provides the bankruptcy estate with "an 'elixir for use in nursing a business back to good health.'"[75]

Although the Bankruptcy Code does not expressly define "executory contract," executory contracts generally require performance by both parties to the agreement.[76] Intellectual property licenses are broadly considered

---

69. *See* 11 U.S.C. § 365(a) (2018).

70. *Bildisco & Bildisco*, 465 U.S. at 528.

71. § 365(a).

72. *Id.* § 365(g).

73. *In re Tempnology*, 879 F.3d at 394.

74. *Id.* at 396. The business judgment test "is a presumption that in making a business decision the [bankrupt] acted on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the company." Aronson v. Lewis, 473 A.2d 805, 812 (Del. 1984).

75. *In re Tempnology*, 879 F.3d at 394 (quoting Thinking Machs. Corp. v. Mellon Fin. Servs. Corp., 67 F.3d 1021, 1024 (1st Cir. 1995)).

76. *In re* FBI Distrib. Corp., 330 F.3d 36, 40 n.5 (1st Cir. 2003) ("[T]he legislative history to section 365(a) indicates that Congress intended [executory contract] to mean a contract 'on

executory contracts, and thus are subject to rejection in bankruptcy proceedings.[77] The effect of rejection on rights provided under intellectual property licenses has varied historically. The following subparts explore that history.

3. The Pre-Section 365(n) Treatment of Rejection on Intellectual Property Licenses

Before the enactment of Section 365(n) of the Bankruptcy Code, the effect of rejection on intellectual property licenses was uncertain. This uncertainty was resolved to an extent when the Court of Appeals for the Fourth Circuit confronted the effect of a trustee's rejection of an intellectual property license in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc*.[78]

In *Lubrizol*, the Fourth Circuit held that an intellectual property license could not only be rejected as an executory contract in a bankruptcy proceeding, but that the licensee's rights to use the licensed technology were unilaterally extinguished by rejection.[79] The court applied the business judgment rule and afforded the debtor in possession a substantial level of deference when analyzing whether its determination to reject the intellectual property license was advantageous to the bankruptcy estate.[80] According to the Fourth Circuit, unless the licensee could show that the debtor in possession rejected the intellectual property license "in bad faith or in gross abuse of the bankrupt's retained business discretion," the court would not interfere with the decision to reject the license.[81] Thus, to the extent a debtor in possession rejected a license absent bad faith or gross negligence, the

---

which performance is due to some extent on both sides.'") (citing *Bildisco & Bildisco*, 465 U.S. at 522; H.R. REP. NO. 95–595, at 347 (1977), *as reprinted in* 1978 U.S.C.C.A.N. 5963, 5963).

77. *See, e.g.*, *In re Tempnology*, 879 F.3d at 396 ("[T]he term 'executory contract' in section 365(a) encompassed intellectual property licenses.") (quoting Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1045 (4th Cir. 1985)). Section 365(n) provides an exception from the broad rejection authority described in § 365(a). Specifically, § 365(n) limits the trustee or debtor in possession's ability to reject intellectual property licenses it granted to other parties. 11 U.S.C. § 365(n) (2018). The intricacies and nuances provided in § 365(n) are discussed in Part II(B)(d).

78. 756 F.2d 1043 (4th Cir. 1985).

79. *Id.* at 1046, 1048.

80. *Id.* at 1046.

81. *Id.* at 1047.

licensee's rights under the licensing agreement were eliminated, and the licensee's only remedy was to seek money damages.[82]

The *Lubrizol* decision and the precedent it established proved problematic, and scholars uniformly criticized the opinion for the following reasons.[83] First, intellectual property licenses create significant economic advantages for businesses,[84] and thus many licensees rely upon the rights provided under intellectual property licenses as vital resources for their businesses' existence.[85] In the wake of *Lubrizol* and the uncertainty it created for licensees, many healthy businesses that relied upon intellectual property licenses were plagued by uncertainty and were a mere licensor's-bankruptcy-filing away from financial ruin.[86]

Second, scholars criticized *Lubrizol* for confounding rejection with the avoiding powers provided in the Bankruptcy Code.[87] Section 365(g) of the Bankruptcy Code provides that the rejection of an executory contract "constitutes a breach of such contract."[88] Scholars noted that the remedy for rejection is determined under applicable nonbankruptcy law, and "[o]f course, state law will not give the breaching party—the estate rejecting the contract—the right to rescind the contract."[89] Indeed, "[n]othing in bankruptcy law does that either, so there is no basis for using rejection as an avoiding power."[90] *Lubrizol*, however, provided licensors with the power to reject intellectual property licenses and take back the rights granted under the agreement—a power that confused rejection with avoiding powers.[91]

82. *Id.* at 1048. However, "[d]amages on the contract that result from the rejection of an executory contract . . . receive the priority provided [to] unsecured creditors." *Bildisco & Bildisco*, 465 U.S. at 513. Thus, a licensee's remedy would likely not be paid in full.

83. *See, e.g.*, Jay Lawrence Westbrook, *The Commission's Recommendations Concerning the Treatment of Bankruptcy Contracts*, 5 AM. BANKR. INST. L. REV. 463, 470 (1997) ("The impact [of the *Lubrizol* decision] on the world of licensing was immediate and awful . . . .").

84. *See* Robert L. Tamietti, *Technology Licenses Under the Bankruptcy Code: A Licensee's Mine Field*, 62 AM. BANKR. L.J. 295, 296 (1988) ("Licenses, generally based on a relatively small initial payment relative to the costs of acquiring the patented product or process itself, allow the manufacturer to avoid those high initial acquisition costs in return for the promise of regular royalty payments to the licensor . . . .").

85. David M. Jenkins, *Licenses, Trademarks, and Bankruptcy, Oh My!: Trademark Licensing and the Perils of Licensor Bankruptcy*, 25 J. MARSHALL L. REV. 143, 151–52 (1991).

86. *Id.*; *see also* S. REP. NO. 100-505, at 3 (1988); 134 CONG. REC. S12993-01 (1988).

87. *See, e.g.*, Michael T. Andrew, *Executory Contracts in Bankruptcy: Understanding 'Rejection,'* 59 U. COLO. L. REV. 845, 916–19 (1988); Westbrook, *supra* note 83, at 470–72.

88. 11 U.S.C. § 365(g) (2018).

89. *See* Westbrook, *supra* note 83, at 471 (emphasis removed).

90. *Id.*

91. *Id.* at 470–472.

Scholars were not alone in condemning *Lubrizol*. The *Lubrizol* decision itself acknowledged that extinguishing a licensee's rights under intellectual property licenses by means of rejection would have a "general chilling effect" on potential licensee's willingness to contract for intellectual property licenses and "impose[d] serious burdens" upon these licensees.[92] For the reasons stated, Congress took action to supersede the *Lubrizol* decision by enacting Section 365(n) of the Bankruptcy Code.

4. Congress Responds to the Lubrizol Decision

Three years following *Lubrizol*, Congress expressly renounced the *Lubrizol* decision and the policy implications stemming therefrom.[93] Congress determined that *Lubrizol* and the precedent it established both jeopardized the system of intellectual property licensing, which historically created benefits for licensors, licensees, and the national economy, and created instability, which caused parties that would traditionally enter into licensing agreements to instead demand assignments.[94] The *Lubrizol* decision further concerned Congress because the uncertainty the decision created threatened the success and viability of American intellectual property licenses in the global market.[95]

Accordingly, in 1988, Congress amended Section 365 "to make clear that the rights of an intellectual property licensee to use the licensed property cannot be unilaterally cut off as a result of the rejection of the license . . . ."[96] The amendment was in the form of a new subsection to section 365; specifically, section 365(n), which provides in relevant part:

> (1) If the trustee *rejects* an executory contract under which the debtor is a licensor of a right to *intellectual property*, the *licensee* under such contract may elect—
>
> > (A) to *treat such contract as terminated* . . .; or
> >
> > (B) to *retain its rights* . . . under such contract and under any agreement supplementary to such contract, to such

92. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985).

93. *See* S. REP. NO. 100-505, at 3 (1988); 134 CONG. REC. S12993-01 (1988).

94. S. REP. NO. 100-505, at 3 (1988) (explaining that "this change in basic format [from licenses to assignments] is wasteful and cumbersome and is especially chilling to small business technologists").

95. 134 CONG. REC. S12993-01 (1988).

96. S. REP. NO. 100-505, at 1 (1988).

> intellectual property . . . as such rights existed immediately before the case commenced, for—
>
> > (i) the duration of such contract; and
> >
> > (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law.
>
> (2) If the licensee elects to retain its rights . . . under such contract—
>
> > (A) the trustee shall allow the licensee to exercise such rights;
> >
> > (B) the *licensee shall make all royalty payments* due under such contract for the duration of such contract . . . ; and
> >
> > (C) the *licensee shall be deemed to waive*—
> >
> > > (i) *any right of set off* it may have with respect to such contract under this title or applicable nonbankruptcy law; and
> > >
> > > (ii) any claim allowable under section 503(b) of this title arising from the performance of such contract.[97]

The enactment of Section 365(n) provided new protections to intellectual property licensees in licensors' bankruptcy proceedings. Rejection by a licensor of an intellectual property license no longer extinguished the licensee's rights granted under the intellectual property licensing agreement.[98] The scope of section 365(n), however, is limited. Section 365(n) applies only to "intellectual property" licenses.[99] Section 365(n) provides no definition of intellectual property, and one must look to the definitional section of the Bankruptcy Code to ascertain what intellectual

---

97. 11 U.S.C. § 365(n) (2018) (emphasis added). Section 365(n) continues in subsections (3) and (4) to clarify the rights of the licensee should it elect to retain its rights. *See id.*
98. *See id.*
99. *See id.* § 365(n)(1).

property includes.[100] Notably, trademarks are not included in this definition.[101]

Congressional oversight is not to blame for the omission of trademarks from the scope of Section 365(n).[102] To the contrary, the Senate Report expressly stated that Section 365(n) did not address the rejection of a trademark license.[103] The Senate Report provided that although it was concerned that the rejection of trademark licenses would be treated in accord with the *Lubrizol* decision, the Senate nonetheless determined that trademark licenses presented unique circumstances and challenges.[104] Particularly, unlike copyright licensing or patent licensing, Congress emphasized that a trademark licensor is obligated to monitor the quality of the products or services being provided by the licensee under the terms of the licensing agreement.[105] Thus, because the distinctive challenges of trademark licenses required more extensive study, "[Congress] postpone[d] congressional action in this area [] to allow the development of equitable treatment of this situation by bankruptcy courts."[106]

In sum, Section 365(n) superseded *Lubrizol* and provided reassurance and predictability to intellectual property licensees, as defined in the Bankruptcy Code. The rights of a trademark licensee, however, remained vulnerable and uncertain should a licensor file for bankruptcy. In interpreting Section 365(n) and determining the effect of rejection on trademark licensing agreements, the Seventh Circuit and the First Circuit adopted contrary approaches.

---

100. At the same time that Congress enacted 365(n), Congress also amended Section 101 of the Bankruptcy Code, which provides definitions used throughout the code. S. REP. NO. 100-505, at 7. Congress added "intellectual property" to the definitional section, and "broadly define[d] 'intellectual property' to include virtually all types of such rights (other than trademarks and similar rights) . . . ." *Id.*

101. *See* 11 U.S.C. § 101(35A) which provides: "'[I]ntellectual property' means—(A) trade secret; (B) invention, process, design, or plant protected under title 35; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17; or (F) mask work protected under chapter 9 of title 17; to the extent protected by applicable nonbankruptcy law."

102. *See* S. REP. NO. 100-505, at 5 (1988).

103. *Id.* ("[T]he bill does not address the rejection of executory trademark, trade name or service mark licenses by debtor licensors.").

104. *Id.*

105. *Id.*

106. *Id.*

5. Federal Courts Split Over Trademark Licensing Agreements and Section 365(n)

After the enactment of Section 365(n), the effect of rejection on a trademark license in bankruptcy remained largely uncertain. In 2012, the Seventh Circuit first confronted the effect of rejection on a trademark licensing agreement in a licensor's bankruptcy proceeding.[107] For six years, it seemed clear that a trademark licensee's rights were not unilaterally extinguished upon rejection in a licensor's bankruptcy. This clarity, however, was clouded by a First Circuit decision.[108] Contrary to the Seventh Circuit's approach, the First Circuit held that trademark licensees did not retain their rights under a rejected trademark license.[109] The Seventh Circuit and First Circuit decisions, and the U.S. Supreme Court's 2019 decision that resolved the circuit split are discussed at length below.

a. Sunbeam Products, Inc. v. American Chicago Manufacturing, LLC

In *Sunbeam Products, Inc. v. American Chicago Manufacturing, LLC*,[110] the Seventh Circuit held that the rejection of a trademark licensing agreement did not extinguish the licensee's rights to use the trademark under the rejected agreement.[111] Rather, rejection of the trademark license functioned as a breach of contract.[112]

In late 2008, Lakewood Engineering & Manufacturing Co. ("Lakewood") and Chicago American Manufacturing ("CAM") entered into an agreement which authorized CAM to use Lakewood's patents and put Lakewood's trademarks on completed box fans.[113] In February 2009, Lakewood's creditors filed an involuntary bankruptcy against Lakewood, and the bankruptcy trustee ultimately decided to sell the business.[114] Sunbeam Products, doing business under the name Jardon Consumer Solutions, purchased Lakewood's assets.[115] The assets included the patents and trademarks Lakewood licensed to CAM.[116] Sunbeam Products did not

107. *See* Sunbeam Prods., Inc. v. Chicago Am. Mfg., LLC, 686 F.3d 372 (7th Cir. 2012).
108. *See In re Tempnology*, 879 F.3d. 389 (1st Cir. 2018).
109. *Id.* at 404.
110. 686 F.3d 372 (7th Cir. 2012).
111. *Id.* at 376.
112. *Id.*
113. *Id.* at 374.
114. *Id.*
115. *Id.* For purposes of simplicity, Sunbeam Products, doing business as Jardon Consumer Solutions, is referred to as "Sunbeam Products."
116. *Id.*

want the Lakewood branded fans that CAM had created, nor did it want the Lakewood branded fans to be sold.[117] The bankruptcy trustee rejected the executory components of the CAM contract pursuant to 11 U.S.C.A. § 365(a).[118] Despite the rejection, CAM continued making and selling Lakewood branded fans, and Sunbeam Products filed suit.[119]

The bankruptcy court held that pursuant to the protections provided in section 365(n), CAM had the right to continue practicing Lakewood's patents for the duration of the contract.[120] Sunbeam Products did not contest this holding.[121] However, because "trademark" is not included in the Bankruptcy Code's definition of intellectual property,[122] the bankruptcy judge did not rely upon Section 365(n) to reach a determination on the trademark portion of the licensing agreement.[123] Instead, the bankruptcy judge allowed CAM to continue using the trademark rights provided in the agreement based "on equitable grounds."[124] Sunbeam Products appealed the trademark-licensing portion of the holding.[125]

Upon review, the Seventh Circuit determined that rejection of the Lakewood-CAM trademark license by the bankruptcy trustee did not unilaterally extinguish CAM's rights to use Lakewood's trademarks to the extent provided by the contract.[126] In reaching this decision, the court relied upon the opening language in section 365(g)[127] which provides: "rejection of an executory contract . . . constitutes a breach of such contract."[128] Had Lakewood breached the agreement outside the context of bankruptcy, CAM

117. *Id.*
118. *Id.*
119. *Id.*
120. *Id.* at 375.
121. *Id.*
122. *See* 11 U.S.C. § 101(35A) (2018).
123. *Sunbeam Prods., Inc.*, 686 F.3d at 375.
124. *Id.* (quoting *In re* Lakewood Eng'g & Mfg. Co., 459 B.R. 306, 345 (Bankr. N.D. Ill. 2011)).
125. *Id.*
126. *Id.* at 378. Put differently, while the rejection of a trademark license "frees the debtor/licensor of its own obligations under the trademark license, it does not . . . revoke the rights of the licensee to continue to use the trademark pursuant to, and [so long as it complies with] the terms of the license." Brief of Law Professors as Amici Curiae Supporting Petitioner at 12, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019) (No. 17-1657), 2018 WL 6618029, at *12.
127. *Sunbeam Prods., Inc.*, 686 F.3d at 376.
128. 11 U.S.C. § 365(g) (2018). The circuit court rejected the equitable grounds rationale that the bankruptcy judge had relied upon. *Sunbeam Prods., Inc.*, 686 F.3d at 376. The court stated, however, that disagreement with this rationale did not require the decision to be reversed. *Id.*

would have had two options: CAM could have ended its own obligations under the contract, or CAM could have covered in the market and demanded that Lakewood pay the additional costs.[129] Thus, outside the context of bankruptcy, Lakewood would have had no legal authority to unilaterally rescind CAM's rights under the licensing agreement.[130] The court reasoned that the proposition in section 365(g) established that, just as a breach outside of bankruptcy does not terminate the other party's rights under the contract, rejection, which functions as a breach of contract, does not terminate the licensee's rights.[131]

The Seventh Circuit also emphasized that the bankruptcy trustee *rejected* the agreement rather than using its avoiding powers.[132] Accordingly, the contract was not subject to rescission, which would have ultimately rendered the licensing agreement void.[133] The court provided that "rejection is not the functional equivalent of a rescission . . . [rejection] merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence."[134]

Finally, the court examined the effect of trademark not being included in the Bankruptcy Code's definition of "intellectual property." The court determined that this omission did not imply that Congress intended to codify the *Lubrizol* decision in the context of trademark licenses.[135] Rather, the court explained that "an omission is just an omission. The limited definition [of] § 101(35A) mean[t] that § 365(n) d[id] not affect trademarks one way or the other."[136] Thus, the court determined that rejection of CAM's trademark license had no effect on CAM's rights under the contract.[137]

The Seventh Circuit's approach was considered persuasive by several courts. In fact, the Bankruptcy Appellate Panel of the First Circuit ("BAP") adopted the Seventh Circuit rule and rationale in hearing the appeal of *Mission Product Holdings, Inc. v. Tempnology*.[138] This BAP decision,

---

129. *Sunbeam Prods., Inc.*, 686 F.3d at 377.

130. *Id.*

131. *Id.*

132. *Id.* The Bankruptcy Code provides trustees with avoiding powers, which can effectively eliminate rights created by contracts entered into by the debtor. *See* 11 U.S.C. §§ 544–51 (2018).

133. *Sunbeam Prods. Inc.*, 686 F.3d at 377.

134. *Id.* (internal quotation marks omitted).

135. *Id.* at 375. In particular, the court noted that "the omission was designed to allow more time for study, not to approve *Lubrizol*." *Id.*

136. *Id.*

137. *Id.* at 378.

138. *In re* Tempnology LLC, 559 B.R. 809, 822 (B.A.P. 1st Cir. 2016).

however, was appealed to the First Circuit. In 2018, the First Circuit reversed the BAP decision and created a circuit split regarding how rejection affects rights under trademark licensing agreements.[139]

b. Mission Product Holdings, Inc. v. Tempnology

In contrast to the Seventh Circuit holding in *Sunbeam Products*, the First Circuit, in *In re Tempnology*,[140] held that rejection of a trademark licensing agreement in a licensor's bankruptcy terminates a licensee's rights under the agreement.[141] The relevant facts underlying the case are relatively simplistic. In late 2012, Mission Product and Tempnology entered into an agreement which, among other rights, granted Mission a "nonexclusive, non-transferable, limited license . . . to use [Tempnology's] trademark and logo."[142] In 2015, Tempnology filed a voluntary petition for Chapter 11 bankruptcy and moved to reject multiple executory contracts, including the licensing agreement with Mission.[143] Mission objected and argued that section 365(n) limited the debtor's rights to terminate intellectual property licenses.[144] The bankruptcy judge concluded that section 365(n) did not preserve Mission's rights under the trademark license.[145] On appeal, the BAP agreed that section 365(n) provided no protection to Mission regarding its rights to use Tempnology's trademark.[146] The BAP, however, did not conclude that the rejection extinguished Mission's rights.[147] Rather, the BAP was persuaded by the Seventh Circuit's ruling in *Sunbeam Products*, and held that the rejection of the trademark license did not terminate Mission's rights to use Tempnology's trademarks.[148] Tempnology appealed the BAP decision to the Court of Appeals for the First Circuit.

Upon review, the First Circuit held that rights created under a trademark license are categorically abrogated by rejection.[149] The court arrived at this conclusion based on several lines of reasoning. First, trademark is not expressly included in the Bankruptcy Code's definition of intellectual property, and there is no catchall provision suggesting that that the

139. *In re* Tempnology, LLC, 879 F.3d. 389 (1st Cir. 2018).
140. *Id.*
141. *Id.* at 392.
142. *Id.* at 392–93.
143. *Id.* at 394.
144. *Id.*
145. *Id.*
146. *Id.* at 395.
147. *Id.*
148. *Id.*
149. *See id.* at 404.

definition of intellectual property is illustrative.[150] Thus, according to the First Circuit, section 365(n) provided no protection to a trademark licensee should a trademark license be rejected in a bankruptcy proceeding.[151] Second, the court focused on Congress's principal objective in providing debtor's with rejection power.[152] The court highlighted that rejection frees the debtor's estate "from burdensome obligations that can impede a successful reorganization."[153] Because a trademark carries with it the duty to monitor and control the use of the mark, the court determined that preserving Mission's rights under the agreement would require the debtor-licensor to either perform the obligations arising under the trademark licensing agreement or risk forfeiture of its trademark.[154] The court found this burden too great to impose upon the debtor,[155] and thus determined that allowing the licensee to retain rights under the licensing agreement would undercut the fundamental purpose of reorganization.[156]

Finally, the court rejected the case-by-case, equitable approach suggested in Judge Torreulla's dissenting opinion.[157] The court found that adopting a wholly equitable approach would increase the uncertainty surrounding the effect of rejection on trademark licensing agreements.[158] The court emphasized that the uncertainty would impose additional costs on parties and unnecessary delay in resolving disputes by requiring courts to make fact-specific determinations.[159]

Thus, for the reasons listed, the First Circuit diverged from the Seventh Circuit ruling in *Sunbeam Products* and held that rejection extinguished a trademark-licensee's rights provided under the rejected contract.[160] Mission appealed from the First Circuit's decision, and the U.S. Supreme Court granted certiorari to resolve the split between the First and Seventh Circuits.[161]

---

150. *Id.* at 401. *See* 11 U.S.C. § 101(35A) (2018).
151. *Id.* at 402.
152. *In re Tempnology*, 879 F.3d at 402.
153. *Id.*
154. *Id.* at 402–03.
155. *See id.* at 403.
156. *Id.* at 404.
157. *Id.*
158. *Id.*
159. *Id.*
160. *See id.* at 405.
161. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 397 (2018) (mem.).

6. The U.S. Supreme Court Resolves the Circuit Split

In reversing the First Circuit's decision in *In re Tempnology*, the U.S. Supreme Court held in its 2019 decision that "[r]ejection of a contract—any contract—in bankruptcy operates not as a rescission but as a breach."[162] The Court's reasoning was largely centered on the text of the Bankruptcy Code.[163]

The Court first relied upon section 365(a) and section 365(g) to assert that "a rejection is a breach."[164] The Court explained the term breach has identical meanings both inside and outside of bankruptcy.[165] Outside of bankruptcy, a material breach of a contract gives a nonbreaching party two options: (1) continue to perform under the contract and sue the breaching party for damages, or (2) refuse to perform further under the contract and sue for damages incurred.[166] The decision to stop performing the contract, however, remains with the nonbreaching party; it is never within the realm of the breaching party's powers to eliminate the rights granted under the contract.[167] Similarly, in bankruptcy, rejection of a contract constitutes a breach, and thus the counterparty is left with two options: "continue the contract or walk away, while suing for whatever damages go with its choice."[168] The rejecting party thus has no power to eliminate the counterparty's rights.[169] The Court therefore concluded that "rejection does not terminate the contract," and the rights provided under the contract ultimately survive.[170]

The Court next reasoned that the rejection-as-breach rule is consistent with a well-established bankruptcy principle: "The estate cannot possess anything more than the debtor itself did outside bankruptcy."[171] The Court noted that a bankruptcy trustee or debtor is subject to the same contractual obligations as the debtor was before it entered bankruptcy.[172] The rejection-as-breach rule "prevents a debtor in bankruptcy from recapturing interests it

162. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1661 (2019).
163. *Id.* at 1661–63.
164. *Id.* at 1661.
165. *Id.*
166. *Id.* at 1662.
167. *Id.*
168. *Id.*
169. *Id.*
170. *Id.*
171. *See id.* at 1663.
172. *Id.*

had given up," and thus ensures that the debtor does not possess anything more than it did outside the bankruptcy.[173]

In adopting the rejection-as-breach rule, the Court also emphasized the difference between rejection and avoidance.[174] First, the Court noted that a debtor's avoidance powers are prescribed in Sections 544–553, a separate set of sections far removed from Section 365.[175] The Court further explained that "[i]f trustees (or debtors) could use rejection to rescind previously granted interests, then rejection would become functionally equivalent to avoidance."[176]

The Court rejected Tempnology's arguments that the Court should endorse the First Circuit approach. First, the Court rejected Tempnology's "negative-inference" argument that because some provisions of Section 365 expressly provide that rejection does not eliminate a licensee's rights in certain circumstances, the rejection of executory contracts that do not fall within those limited categories must have a different function.[177] The Court explained that the provisions of the Bankruptcy Code that govern specific types of executory contract (*e.g.*, Section 365(n), which governs intellectual property licenses) are not subsections of a comprehensive "scheme of 'narrowly tailored exception[s].'"[178] Rather, each of those provisions emerged at different times and responded to specific problems, including the Fourth Circuit's *Lubrizol* decision.[179] Thus, Tempnology's negative-inference argument—that executory contracts that do not fit within specific exceptions must be treated different than what those subsections prescribed—failed.

The Court was also unpersuaded by Tempnology's argument and the First Circuit's reasoning that the special features of trademarks affect the function of rejection under Section 365.[180] The Court emphasized that the argument was trademark-specific, despite Section 365's application to all

173. *Id.*
174. *Id.*
175. *Id.*
176. *Id.*
177. *Id.* For example, Section 365(n) expressly provides that intellectual property licensees, excluding trademark licensees, retain contractual rights after the contract granting those rights is rejected.
178. *Id.* at 1664.
179. *Id.* To illustrate, the Court 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." *Id.* at 1665 (emphasis in original).
180. *Id.* at 1664.

types of executory contracts.[181] The Court acknowledged the legitimacy of Tempnology's trademark-specific concerns but ultimately concluded that adopting a rule that would apply to all types of executory contracts, merely because of trademark-specific concerns, "would allow the tail to wag the Doberman."[182]

In a concurring opinion, Justice Sotomayor highlighted two features arising from the majority's holding.[183] First, Justice Sotomayor explained a limitation on the majority's holding: the majority's holding is only applicable if "the licensee's rights would survive a breach under applicable nonbankruptcy law."[184] Second, Justice Sotomayor noted that the majority's holding provides more expansive post-rejection rights and remedies to trademark licensees than the rights and remedies available to licensees of other types of intellectual property.[185] Specifically, Section 365(n)—which governs patent licenses, copyright licenses, and other types of intellectual property—prescribes limitations on damages that do not exist under Section 365(g)—the provision governing trademark licenses.[186] Justice Sotomayor then noted that it is not the responsibility of the Court, but the responsibility of Congress to determine whether a trademark-specific rejection provision should be added to the Bankruptcy Code.[187]

III. THE U.S. SUPREME COURT CORRECTLY RESOLVED THE CIRCUIT SPLIT

The U.S. Supreme Court's 2019 decision in *Mission Product Holdings* resolved the circuit split resulting from the Seventh Circuit's decision in *Sunbeam Products* and the First Circuit's decision in *In re Tempnology* that had created costly uncertainty for parties seeking to enter into trademark licensing agreements.[188] Even if the parties to a trademark license were

---

181. *Id.* at 1665. "Tempnology is essentially arguing that distinctive features of trademarks should persuade [the Court] to adopt a construction of Section 365 that will govern not just trademark agreements, but pretty nearly every executory contract." *Id.*

182. *Id.*

183. *Id.* at 1666 (Sotomayor, J., concurring).

184. *Id.*

185. *Id.*

186. *See id.* at 1666–67.

187. *Id.* at 1667. In a dissenting opinion, Justice Gorsuch explained he would have dismissed the petition of certiorari as inappropriately granted because in his opinion, the issue was not a case or controversy that mattered to real-world parties. *Id.* at 1667–68 (Gorsuch, J., dissenting).

188. The *Mission Product Holdings* case involved a licensor-debtor's bankruptcy. *Id.* at 1658. The holding in *Mission Product Holdings* is therefore specific to that factual context. *See*

within a particular jurisdiction adopting one of the two contrasting approaches to this issue, some trademark licensors may have been able to meet venue requirements and file a petition for bankruptcy in jurisdictions that employed contradictory approaches. Accordingly, the uncertainty caused by the circuit split reduced the efficiency of licensing agreement negotiations and created unjustifiable transaction costs. By resolving the circuit split, the U.S. Supreme Court established a uniform approach regarding the effect of rejection on a trademark licensee's rights. This uniformity eliminates the uncertainty that once clouded trademark licensing agreements and ultimately stabilizes the market for trademark licenses.

As argued in depth below, the U.S. Supreme Court correctly reversed the First Circuit's decision in *In re Tempnology*. The First Circuit's approach was problematic for several reasons—the most troublesome being that it was inharmonious with the Bankruptcy Code. Under the First Circuit's approach, a debtor's rejection and avoidance powers were conflated. Moreover, a licensor had the power to unilaterally extinguish a licensee's rights. This treatment is virtually identical to the Fourth Circuit's approach in *Lubrizol*, which was criticized extensively for its unfair treatment of licensees.

By adopting the rejection-as-breach rule, the U.S. Supreme Court endorsed the Seventh Circuit's approach set forth in *Sunbeam Products*. The Seventh Circuit's approach and the U.S. Supreme Court's ultimate holding is most favorable for numerous reasons. Under both the U.S. Supreme Court's *Mission Product Holdings* decision and the Seventh Circuit's *Sunbeam Products* decision, a licensee can be confident that its rights under a trademark license will not be extinguished by a licensor filing for bankruptcy and electing to reject the agreement. Licensees will be more willing to enter trademark licensing agreement, and because the risk of unilateral extinguishment is eliminated, licensees will be more willing to pay larger sums up front to acquire trademark rights. Finally, given that rejection does not function in the same way as avoiding powers, the U.S.

---

id. at 1657 ("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.") However, given that trademark licensing agreements are broadly considered executory contracts, a debtor-licensee would also have the power to reject a trademark licensing agreement in the event it files a bankruptcy petition. Because the U.S. Supreme Court interpreted the effect of rejection based on Section 365(g), the general provision governing rejection, rejection by a licensee would also likely function as a breach. *See id.* at 1661–62. Thus, the protection afforded to the trademark licensee in *Mission Product Holdings* will likely extend to a trademark licensor in the event a trademark licensee rejects the agreement in bankruptcy.

Supreme Court's approach is most consistent with the rules set forth in the Bankruptcy Code.

The following subparts provide an in-depth analysis of the U.S. Supreme Court's holding in *Mission Product Holdings*. The first subpart analyzes the First Circuit's approach and concludes that the approach was correctly reversed. Next, the implications of the U.S. Supreme Court's 2019 decision are examined. Finally, the potential for Congressional action is discussed.

A. The First Circuit's Approach Was Correctly Rejected

The U.S. Supreme Court correctly rejected the First Circuit's bright-line rule set forth in *In re Tempnology*. In that case, the First Circuit adopted a categorical rule that left trademark licensees unprotected from rejection.[189] That bright-line approach aimed to eliminate the licensor-debtor's burden of monitoring trademark usage and increased the likelihood that the debtor's business be rehabilitated.[190] Despite those benefits, the rule in *In re Tempnology* was correctly rejected for three reasons. First, the First Circuit's approach afforded too much protection to trademark licensors and no protection to trademark licensees. Second, the First Circuit's approach would have perpetuated consequences that would have been virtually identical to those that followed the *Lubrizol* decision. Last, given the prevalence of trademark licensing, the First Circuit's approach and the uncertainty it created, would have generated negative externalities in national and international markets.

In affording broad protection to trademark licensors, the First Circuit's approach equipped trademark licensors with a mechanism to recover trademark rights that were previously bargained away. This power was illustrated in *In re Exide Technologies*.[191] In that case, a trademark licensor granted a licensee a perpetual license to use its trademark on industrial batteries.[192] After almost ten years, the licensor desired to enter the industrial battery market and attempted to regain the trademark from the licensor.[193] The licensee, however, refused.[194] The licensor then filed an opportunistic bankruptcy and attempted to take back the rights it licensed

189. *In re Tempnology*, 879 F.3d 389, 404 (1st Cir. 2018).
190. *Id.* at 396, 402.
191. 607 F.3d 957 (3d Cir. 2010).
192. *Id.* at 961.
193. *Id.*
194. *Id.*

away by rejecting the trademark licensing agreement.[195] The bankruptcy court granted the licensor's motion to do so.[196]

It is not hard to imagine analogous situations where a licensor seeking to regain trademark rights that it bargained away could have used bankruptcy as a sword. Consider the following hypothetical. A video game creator recently launched a new game and successfully registered the game's logo. Initially, the game generates a relatively small amount of interest. A clothing company approaches the video game creator and expresses its desire to obtain a perpetual license to use the game's trademarked logo on t-shirts. Following negotiations, the parties enter into an agreement. Several months later, the video game's popularity grows exponentially. Thus, the amount other clothing companies are willing to pay to obtain rights in the game's logo substantially increases. The video game creator approaches the licensee in an attempt to regain the trademark, but because the licensee is experiencing significant benefits under the agreement, it refuses. Despite the licensee's desires, the First Circuit's approach would have paved the way for the video game creator to escape the terms of the trademark licensing agreement by filing an opportunistic bankruptcy and rejecting the agreement. As a result, the video game creator would have been free to enter into a new trademark license and obtain windfall profits. The original licensee, however, would be left with no rights in the trademark.[197] Accordingly, by providing such great protection to trademark licensors, the First Circuit's approach subjected potential licensees to extreme uncertainty and in many instances unlimited risk.

In addition to being too licensor-friendly, the First Circuit's approach reinvigorated *Lubrizol* and the undesired effects that stemmed from that decision. The *Lubrizol* decision was uniformly criticized.[198] Critics acknowledged that granting licensors the power to extinguish licensee's rights would inevitably drive some licensees into financial ruin. In the same way a licensee might build its business around a patent, a licensee's growth

---

195. *Id.*

196. *Id.* Fortunately for the licensee in *In re Exide Technologies*, the Third Circuit determined that the trademark licensing agreement was not an executory contract and thus not subject to rejection in bankruptcy. *Id.* at 964. However, both the First Circuit and the Seventh Circuit have found that trademark licensing agreements are in fact executory contracts and thus are subject to rejection. *See In re Tempnology*, 879 F.3d 389 (1st Cir. 2018); Sunbeam Prods., Inc. v. Chi. Am. Mfg., L.L.C., 686 F.3d 372 (7th Cir. 2012).

197. Indeed, if the trademark-licensee continued to use the trademarked logo, it could have been threatened with litigation for infringement.

198. *See supra* Part II.B.3.

and vitality can also be dependent on rights to a trademark.[199] Thus, the risk of financial ruin for trademark licensees was just as pertinent under the First Circuit's decision, as it was for other categories of intellectual property licensees following the *Lubrizol* decision.

Scholars also criticized *Lubrizol* because it conflated rejection with a trustee's avoiding powers—the same can be said of the First Circuit's approach. The Bankruptcy Code provides that the "rejection of an executory contract . . . constitutes a breach of such contract."[200] Under nonbankruptcy law, once a contract is breached, legal remedies are available to put the non-breaching party in the position it would have been had the breach not occurred.[201] These remedies may come in the form of damages or in some instances specific performance.[202] However, under no circumstances does a breach of contract terminate the non-breaching party's rights under the contract. On the other hand, the Bankruptcy Code also provides trustees with avoiding powers. These powers afford trustees with the authority to invalidate a limited type of transfers and recapture the avoided value to maximize the debtor's estate.[203] Avoiding powers, however, are limited, and a trustee "is not free to define the transfer that it seeks to avoid in any way it chooses."[204] Accordingly, the Bankruptcy Code grants trustees the power to reject executory contracts and a separate power to avoid a limited type of debtor transfers. To allow rejection to function in the same way as

---

199. For example, Hot Picks, a small manufacturer of uniquely shaped guitar picks, obtained a license with Disney to create guitar picks shaped like Disney characters. Stephen Key, *How Licensing-'in' a Brand Can Wildly Grow Your Product Business*, ENTREPRENEUR (Nov. 22, 2016), https://www.entrepreneur.com/article/285384 [https://perma.cc/B5LC-BKWD]. Before obtaining this license, the company primarily produced picks shaped like aliens, skulls, and zombies. *Id.* "Having [a] three-year contract [with Disney] changed our business *completely*," owner Stephen Key explained. *Id.* "It enabled us to step up into the big leagues." *Id.* Assume however, that a second guitar pick manufacturer approached Disney and offered to pay double the royalties that Hot Picks paid under its licensing agreement. Under the First Circuit's approach, Disney would have had the power to unilaterally extinguish Hot Picks' rights, and because Hot Picks would no longer have rights to use Disney trademarks, the business would face financial insecurity.

200. 11 U.S.C. § 365(g) (2018).

201. E. Allen Farnsworth, *Legal Remedies for Breach of Contract*, 70 COLUM. L. REV. 1145, 1147 (1970).

202. *Id.* at 1150–55.

203. *See* Merit Mgmt. Grp., LP v. FTI Consulting, Inc., 138 S. Ct. 883, 887–88 (2018).

204. *Id.* at 894. "Sections 544 through 553 of the Code outline the circumstances under which a trustee may pursue avoidance. See, [sic] *e.g.,* 11 U.S.C. § 544(a) (setting out circumstances under which a trustee can avoid unrecorded liens and conveyances); § 544(b) (detailing power to avoid based on rights that unsecured creditors have under nonbankruptcy law); § 545 (setting out criteria that allow a trustee to avoid a statutory lien); § 547 (detailing criteria for avoidance of so-called 'preferential transfers')." *Id.* at 888.

avoidance misconstrued the Bankruptcy Code and broadly expands the powers of the bankruptcy trustee or debtor in possession. Thus, just like the court in *Lubrizol*, the First Circuit's approach confounded rejection with the trustee's avoiding powers.

Finally, the First Circuit's approach would have created negative externalities in national and international markets. Trademarks are not only the most broadly used category of registered intellectual property, but like patents, the market for trademarks on national and international levels continues to grow.[205] The First Circuit's approach, specifically the uncertainty it created, threatened the demand for trademark licenses. In *Lubrizol*, the Fourth Circuit acknowledged that its decision would not only "impose[] serious burdens upon contracting parties" but also "have a general chilling effect upon the willingness of such parties to contract at all."[206] The First Circuit's approach presented analogous detriments. Like *Lubrizol*, the First Circuit's approach would have imposed additional burdens on licensees. For example, the First Circuit's approach required more due diligence on the part of the licensee to determine the long-term health and viability of a licensor's business. Accordingly, potential licensees would have been subjected to greater costs during negotiations and would have been less likely to enter into trademark-licensing agreements with companies that might face financial difficulty. Moreover, the appropriate price of a license would have been difficult, if not impossible, to determine in light of the risk that a licensee's rights under the agreement could have been revoked if the licensor filed for bankruptcy and rejected the agreement. The negotiations between potential licensors and licensees would have been protracted, and the transaction costs associated with trademark licensing agreements would have ultimately increased. Accordingly, the First Circuit's approach and the uncertainty it created for licensees, not only imposed negative externalities in the trademark licensing market but also threatened the economic benefits associated with trademark licensing.

The First Circuit was highly critical of the Seventh Circuit's failure to consider the duty imposed on trademark licensors. The First Circuit correctly noted that unlike other forms of intellectual property, trademarks impose an affirmative duty on trademark registrants to monitor the trademark's usage. Moreover, the First Circuit argued that "[t]he Seventh Circuit's approach . . . would force [d]ebtor[s] to choose between

---

205. WORLD INTELLECTUAL PROP. ORG., *supra* note 17, at 9, 11.

206. Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1048 (4th Cir. 1985).

performing executory obligations arising from the continuance of the license or risking the permanent loss of its trademarks."[207]

The Supreme Court rejected Tempnology's concerns and the First Circuit's reasoning related to the duty to monitor trademarks.[208] In addition to the Court's reasoning, the concerns related to the duty to monitor a trademark are not so great that licensors should be empowered to extinguish licensee's rights because trademark licensing agreements impose their own restrictions on licensees. Virtually all trademark licensing agreements include individual terms that impose quality assurance obligations on licensees that the licensor can enforce through legal action.[209] Trademark licensing agreements frequently include terms that licensees "shall not use the trademarks in a disparaging or inaccurate manner," or that the licensees must "comply with written trademark guidelines."[210] Thus, a licensee is not free to use a registered mark in whatever way it deems appropriate. Rather, the licensee's usage is limited to the terms of the trademark licensing agreement. Moreover, the First Circuit's concern that the burden to monitor would be so great on the debtor-licensor that it will prevent a successful reorganization is speculative. The court did not point to any evidence regarding the costs of trademark monitoring, or that these costs would ultimately frustrate the licensor-debtor's reorganization.[211] Thus, even though trademarks impose a duty on the licensor to monitor usage, terms in underlying licensing agreements often impose quality assurance obligations on licensees, and no evidence supports the assertion that the registrant's duty to monitor frustrates the underlying purposes of bankruptcy.

In sum, the First Circuit's approach in *In re Tempnology* provided ultimate protection to licensors, but in doing so, it imposed too great of risks on licensees and trademark markets. Indeed, that approach transformed bankruptcy into a sword by authorizing licensors to file opportunistic bankruptcy, imposed significant burdens and undue risks on trademark licensees, and left trademark licensees guessing as to whether their rights under existing trademark licensing agreements would be unilaterally extinguished. For these reasons, the Supreme Court correctly rejected Tempnology's arguments and reversed the First Circuit's opinion.

207. *In re Tempnology*, 879 F.3d 389, 403 (1st Cir. 2018).
208. Mission Prod. Holdings v. Tempnology, LLC, 139 S. Ct. 1652, 1665 (2019).
209. *In re Tempnology*, 879 F.3d at 407 (Torruella, J., dissenting).
210. *Id.*
211. *See id.* at 403.

B. Rejection-as-Breach: The Most Suitable Treatment of Rejection

The U.S. Supreme Court correctly adopted the rejection-as-breach rule in *Mission Product Holdings* and thus endorsed the approach set forth by the Seventh Circuit's in *Sunbeam Products*. Under the rejection-as-breach rule, if a trademark licensor rejects a trademark license, the rejection functions as a breach of contract pursuant to Section 365(g); the rejection does not extinguish the licensee's rights under the trademark license.[212] This approach is most favorable for three reasons. First, the rejection-as-breach rule provides licensees with certainty regarding their rights under existing and future trademark licensing agreements. Second, the rule facilitates efficient bargaining and encourages parties to enter into trademark licensing agreements. Last, the approach is most consistent with the Bankruptcy Code.

The rejection-as-breach rule eliminates the uncertainty that existed under the circuit split and provides licensees with adequate protection in the event a licensor files for bankruptcy and rejects its trademark licensing agreement. Indeed, the U.S. Supreme Court specifically explained that the rejection of a trademark licensing agreement functions as a breach of contract, and thus "[a]s after a breach, so too after a rejection, [the licensee's] rights survive."[213] Accordingly, under the U.S. Supreme Court's rejection-as-breach rule the licensee's rights are not unilaterally extinguished upon rejection. Rather, the licensee's rights are protected, and additional remedies are available under non-bankruptcy law.

The increased certainty and licensee protection that stem from the rejection-as-breach rule are advantageous for several reasons. First, under the rejection-as-breach rule, the risk that licensees must assume when entering into trademark licensing agreements is reduced. Indeed, under no circumstances will a licensee's rights be terminated by a licensor's rejection. Instead, the licensee will have the option to either continue using the trademark or walk away from the contract. Thus, the risks that licensees face under the rejection-as-breach rule are far less staggering and much more reasonable than the approach provided by the First Circuit.

Second, because the rejection-as-breach rule limits the level of risk licensees are required to assume, licensees will be more inclined to pay a higher price for trademark rights at the time of contracting. The rejection-

---

212. *Mission Prod. Holdings, Inc.*, 139 S. Ct.at 1657–58.

213. *Id.* at 1662. Like the U.S. Supreme Court, the Seventh Circuit also emphasized that rejection functions as a breach and accordingly held that "in bankruptcy, as outside of it, the [licensee's] rights remain in place." Sunbeam Prods., Inc. v. Chi. Am. Mfg., LLC, 686 F.3d 372, 377 (7th Cir. 2012).

as-breach rule adequately protects trademark licensees such that they need not be overly prudent when negotiating trademark licensing agreements. Licensees will be more willing to pay the optimal price for trademark rights, and parties entering trademark licensing agreements will be more likely to achieve efficient agreements. Thus, licensors benefit by maximizing the return they receive on trademark rights, and licensees benefit by obtaining rights in trademarks that would otherwise be unavailable.

Third, the rejection-as-breach rule eliminates the burdens imposed on licensees that ultimately could have chilled the trademark licensing market. Both the approach in *Lubrizol* and its modern analogue, the First Circuit's *In re Tempnology* decision, imposed severe burdens on licensees. Under both of those approaches, licensees were subject to complete elimination of their rights under licensing agreements, and for licensees that built their business around those licensed rights, the possibility of financial ruin was ever looming. Accordingly, potential licensees may have determined that the risks associated with trademark licensing were too great and could have ultimately decided to not enter into trademark licensing agreements. The rejection-as-breach rule alleviates that burden.

Under the rejection-as-breach rule, licensors are not so empowered that they can use bankruptcy as a sword to effectively eliminate a licensee's rights. Rather, the risks licensees face are virtually identical to those outside of bankruptcy. Accordingly, because the rejection-as-breach rule provides adequate protection to licensees, licensees will be more willing to enter into efficient trademark licensing agreements, and the trademark licensing market will likely not chill.

Lastly, the rejection-as-breach rule is desirable in that its approach is most compatible with the Bankruptcy Code. Unlike the First Circuit's approach, the rejection-as-breach rule comports with the Bankruptcy Code because it recognizes the distinction between rejection and avoidance powers.[214] As the Supreme Court discussed, rejection and a bankruptcy trustee's avoidance powers are separate powers with different functions.[215] While avoiding powers allow the trustee to claw back a transfer of property, the power to reject is much more modest.[216] The Bankruptcy Code does *not* provide that the rejection of an executory contract allows the debtor to

214. As previously discussed in Part III.A, the First Circuit's approach conflates rejection with a trustee's avoidance powers.

215. *Mission Prod. Holdings, Inc.*, 139 S. Ct. at 1663.

216. Brief of Law Professors as Amici Curiae Supporting Petitioner at 2–3, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019) (No. 17-1657), 2018 WL 6618029, at *2–3.

eliminate the non-debtor's rights under the contract. Rather, a breach "merely frees the estate from the obligation to perform and has *absolutely no effect* upon the contract's continued existence."[217]

In sum, the U.S. Supreme Court's holding embracing the rejection-as-breach rule was a positive development for trademark law. The rejection-as-breach rule is the most suitable interpretation of rejection because the rule creates certainty, provides adequate protection for licensees, facilitates the formation of efficient trademark licensing agreements, and comports with the Bankruptcy Code.

C. Congress May Respond to the Mission Product Holdings *Decision*

As Justice Sotomayor explained in her concurring opinion, the adoption of the rejection-as-breach rule "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."[218] Pursuant to Section 365(n), which governs forms of intellectual property but not trademarks, if an intellectual property license is rejected and the licensee chooses to retain its rights under the contract, "the licensee shall make all royalty payments due under such contract,"[219] and "the licensee shall be deemed to waive . . . any right of setoff it may have with respect to such contract."[220]

An analogous provision for trademark licensing agreements does not exist.[221] Accordingly, if a trademark license is rejected, the licensee retains the right to deduct damages from its royalty payments to the extent provided by applicable nonbankruptcy law. This difference proves significant for individual trademark licensors and licensees.[222] Indeed, the licensee's ability to deduct damages from payments could reduce the value of the debtor's estate and thus increases the risk trademark licensors and their creditors face.

In light of the disparate treatment of trademark licensing agreements and other types of intellectual property agreements, Congress may respond and enact a provision specific to trademark licenses. Alternatively, Congress could also amend the definition of intellectual property to include trademark

217. *Sunbeam Prods.*, 686 F.3d at 377 (internal quotes omitted) (emphasis added).
218. *Mission Prod. Holdings, Inc.*, 139 S. Ct. at 1666 (Sotomayor, J., concurring).
219. 11 U.S.C. § 365(n)(2)(B) (2018).
220. *Id.* § 365(n)(2)(C).
221. As it stands, the rejection of a trademark license is governed by Section 365(g).
222. *See Mission Prod. Holdings, Inc.*, 139 S. Ct. at 1667 (Sotomayor, J., concurring).

so that Section 365(n) governs trademarks in addition to the other types of intellectual property. By pursuing either of these avenues, Congress will ensure that all types of intellectual property licensors, including trademark licensors, are adequately protected from setoff if they choose to reject an intellectual property licensing agreement. Congressional action would also ensure that trademark licensees do receive a windfall in comparison to other types of intellectual property licensees.

IV. CONCLUSION

By adopting the rejection-as-breach rule, the Supreme Court of the United States ensured that a licensee's rights would not be terminated in the event of rejection and resolved a costly circuit split in a way that promotes greater efficiency in trademark licensing. The rejection-as-breach rule provides licensees and licensors with certainty as to their rights in the event of a licensor's bankruptcy. The rule also makes the process of entering trademark licensing agreements more efficient and reduces the transaction costs associated with these agreements. By protecting trademark licensees and making the negotiation process more efficient, the rejection-as-breach rule encourages parties to enter into trademark licensing agreements, invest in businesses, and ultimately expand the United States economy. The rejection-as-breach rule is likewise consistent with the Bankruptcy Code's interpretation of rejection.

The Supreme Court's decision in *Mission Product Holdings, Inc.* correctly abandoned the First Circuit's approach, which equipped licensors with a sword to take back rights they had already bargained away. The First Circuit's approach had essentially attempted to resuscitate *Lubrizol*—a decision that has been uniformly rejected—and impose a bankruptcy-specific rule that allowed a breach to function as a termination of rights. The First Circuit's rule was inconsistent with the Bankruptcy Code, imposed an unreasonable burden on licensees, and would have had detrimental and lasting effects on the trademark licensing market. Fortunately, the Supreme Court recognized the shortcomings in the First Circuit's rule ruled accordingly.

By adopting the rejection-as-breach rule, the United States Supreme Court embraced the Seventh Circuit's approach, which is capable of governing trademark licenses in bankruptcy in a more efficient and appropriate way. The rejection-as-breach rule provides clarity for the trademark licensing market and helps ensure the longevity and viability of trademark licensing agreements.