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J.D. Candidate, 2021, Loyola Law School, Los Angeles. The author wishes to acknowledge insights from her faculty advisor, Jennifer Rothman, Professor of Law at LMU Loyola Law School in Los Angeles, who inspired the topic and provided a valuable perspective on trademark law, and the writing process overall. The author would also like to acknowledge her friend, Bradford Barnhardt, for his thoughtful contribution and perspective on bankruptcy law, as well as the Loyola Entertainment Law Review staffers and editors for their hard work.

REORGANIZING IN THE WAKE OF *MISSION PROD. HOLDINGS V. TEMPNOLOGY*: HOW TO ADDRESS THE TRADEMARK AND BANKRUPTCY LAW ISSUES CREATED BY THE SUPREME COURT'S RECENT DECISION

Kayla N. Ghasemi[*]

Bankruptcy law seeks to provide a "fresh start" for debtors and an equitable distribution of funds to creditors. Trademark law, on the other hand, aims to ensure proper source identification and protect the public from deception. These policies converge when a trademark owner or licensor has licensed use of the mark to others and hopes to reject this licensing agreement in bankruptcy. Prior to the Supreme Court's decision in *Mission Prod. Holdings v. Tempnology, LLC*, there was a circuit split regarding the licensee's rights upon the bankruptcy of and rejection by the licensor. Some circuits held that the licensee's rights terminated upon rejection, while others held that the rights continued.

The Supreme Court ultimately resolved these conflicting positions and held that rejection of a trademark license operates as a breach under applicable state law, which allows the licensee's rights to survive the bankruptcy. While this result seems fair for the licensee who may rely on use of the mark to keep its business afloat, there are certain bankruptcy and trademark issues that may arise such as increased difficulty in reorganization for the licensor, as well as the possibility of naked licensing and abandonment. This Comment explores these potential legal implications, considers legislative amendment, and suggests that practitioners draft contracts accordingly to help manage possible risks created by the *Mission* decision.

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I. INTRODUCTION

The Supreme Court's 2019 decision in *Mission Prod. Holdings v. Tempnology, LLC* ("*Mission*") answered a long-debated question regarding the fate of trademark licenses when a licensor files for bankruptcy, but it also created a number of questions in the areas of intellectual property and bankruptcy law that reorganizing licensors will have to grapple with for years to come. Prior to the Supreme Court's decision in *Mission*, some circuits held that the licensee's rights to use the trademark were extinguished upon the filing of bankruptcy by the licensor,[1] while other circuits held the opposite, concluding that a licensee's rights continued beyond the bankruptcy of the licensor.[2]

In *Mission*, the Supreme Court resolved this circuit split, holding that a debtor's express rejection of a trademark license in bankruptcy could not unilaterally deprive the licensee of its rights to use the trademark.[3] While the decision may seem like a win for trademark licensees, it was decided solely on the basis of bankruptcy law and not trademark law.[4] This Comment will delve into the questions left open by *Mission*. For instance, under bankruptcy law, the decision could make it more difficult for trademark licensors to restructure. Specifically, reorganizing debtors in bankruptcy must propose a feasible Chapter 11 plan that outlines the manner in which creditors will be repaid. To receive a discharge—that is, to no longer remain liable on pre-bankruptcy debts—the debtor's creditors must vote to approve the plan. If the debtor is forced to expend scarce resources to maintain a trademark, it will have less money to allocate to its creditors, making creditors less likely to vote in favor of the plan. The *Mission* decision therefore implicates a core policy of the bankruptcy system.

Additionally, under trademark law, there is a potential for consumer confusion as to who is standing behind a product, and trademark rights themselves could be extinguished as a result of a lack of supervision by the debtor-licensor of the licensee's products. The failure to supervise the products and

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1. *In re* Tempnology, LLC, 879 F.3d 389, 395 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

2. Sunbeam Prod., Inc. v. Chicago Am. Mfg., LLC, 686 F.3d 372, 377 (7th Cir. 2012).

3. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1666 (2019).

4. *Id.* at 1657.

services of a licensee can result in what is called "naked licensing," and lead to a determination that a mark has been abandoned by the licensor.[5]

Practitioners will need to be cognizant of and address these issues in licensing agreements going forward since they will continue to raise unsettled questions in the context of bankruptcy. Alternatively, Congress could ameliorate some of the challenges created by *Mission* by amending the United States Bankruptcy Code ("Bankruptcy Code") or the Lanham Act. This Comment will propose several approaches to address these issues. In Part II, this Comment provides the foundational aspects of trademark and bankruptcy law that inform the *Mission* decision and the current challenges. Part III describes the circuit split that set up the Supreme Court's decision in *Mission* and analyzes the Supreme Court's decision in the case. Part IV considers the implications of the decision, including some unresolved questions and potentially negative consequences. Finally, Part V considers potential legislative solutions and proposes ways in which thoughtful contract drafting and negotiation could avoid possible pitfalls created by the *Mission* decision.

II. BACKGROUND OF LAW

In bankruptcy, a corporate debtor who has over-extended itself to creditors must either choose to dissolve or reorganize and create a payment plan to repay its creditors.[6] A bankruptcy debtor must also decide what to do with its existing contractual obligations.[7] It may "assume" a contract and remain bound by its obligations, or it may "reject" a contract and be released of its obligations.[8] The rejection of an executory contract—a contract where there is performance due on both sides, such as a trademark-licensing agreement—operates as a breach of contract.[9] This portion of the Comment discusses the relevant areas of law.

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5. 2 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 6.04 (2020).

6. 1 COLLIER ON BANKRUPTCY ¶ 1.01 (Richard Levin & Henry J. Sommer eds., 16th ed. 2020); *Process - Bankruptcy Basics*, U.S. CTS., https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/process-bankruptcy-basics [https://perma.cc/BXJ9-9NNM].

7. *Process - Bankruptcy Basics*, *supra* note 6.

8. 11 U.S.C. § 365 (2018); *see also Executory Contracts in Bankruptcy - Assumption and Rejection*, U.S. DEP'T OF JUST., https://www.justice.gov/jm/civil-resource-manual-60-executory-contracts-bankruptcy [https://perma.cc/8KZE-JHRE].

9. *In re* Tempnology, LLC, 879 F.3d 389, 395–96 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

A. Trademark Licensing

Owners of trademarks often grant licenses for use of their marks in exchange for royalties.[10] This is done through a licensing agreement in which the trademark owner, or licensor, grants another, the licensee, the right to use the mark "for the purposes specified in the license agreement."[11] The licensing agreement also "protects the licensee from an infringement suit by the licensor for such use."[12] Additionally, a trademark license may be exclusive or non-exclusive.[13] An exclusive license grants rights to use a mark to only one licensee, while a nonexclusive license agreement may grant that right to others, including the licensor, allowing others to use the mark contemporaneously.[14] The memorialization of such an agreement protects the licensor in the event of a dispute and sets forth terms which specify what the licensee may and may not do with the mark.[15]

A cornerstone of the trademark licensing agreement is "[c]ontrol over the nature and quality" of the goods.[16] Accordingly, licensing agreements typically set forth quality control obligations, which require that both the licensor and licensee maintain the quality and value of the mark to prevent derogation or dilution and requires that they maintain the mark as an indicator of source and sponsorship.[17]

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10. WORLD INTELL. PROP. ORG., MODULE 12: TRADEMARK LICENSING, https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_12_learning_points.pdf [https://perma.cc/ST7V-RZTB].

11. Richard M. Cieri & Michelle M. Morgan, *Licensing Intellectual Property and Technology from the Financially-Troubled or Startup Company: Prebankruptcy Strategies to Minimize the Risk in A Licensee's Intellectual Property and Technology Investment*, 55 BUS. LAW. 1649, 1658 (2000).

12. *Id.* at 1658–69.

13. 2 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 6.07 (2020).

14. 2 ROGER M. MILGRIM & ERIC E. BENSEN, MILGRIM ON LICENSING § 15.08 (2020); 2 ROGER M. MILGRIM & ERIC E. BENSEN, MILGRIM ON LICENSING § 15.34 (2020).

15. GILSON LALONDE, *supra* note 13, § 6.07.

16. GILSON LALONDE, *supra* note 5, § 6.04; *see generally* Barcamerica Int'l USA Tr. v. Tyfield Imps., 289 F.3d 589, 595 (9th Cir. 2002); FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 515 (9th Cir. 2010).

17. Bach v. Forever Living Prod. U.S., Inc., 473 F. Supp. 2d 1110, 1120–22 (W.D. Wash. 2007); GILSON LALONDE, *supra* note 13, § 6.07.

While it is not mandatory to have a provision in the contract setting forth quality control, a licensor must supervise the quality and production of products or provision of services under the owner's mark.[18] In the absence of such oversight, a license may become "naked" as a result of the lack of "a meaningful assurance of quality."[19] Despite the evocative terminology, the term "naked licensing" indicates that the licensor is not supervising the manner in which the licensee is using the mark nor whether the products or services are similar to or of equal quality to its own.[20] Naked licensing of a mark may also occur "when a licensor allows a licensee to use the mark on any quality or type of good that the licensee chooses."[21]

Failure to provide such supervision indicates that the mark no longer functions as a source-identifier and has become unmoored from its underlying product or service.[22] As such, under section 45 of the Lanham Act, naked licensing constitutes abandonment, and consequently causes a forfeiture of the rights to the mark.[23]

The policy behind this law is to protect the public from being deceived.[24] In the absence of supervision, the public could be deceived due to potential misrepresentation as to the connection between the goods or services and their source, regardless of quality level.[25] The public may also

18. Miller v. Glenn Miller Prods., Inc., 454 F.3d 975, 992 (9th Cir. 2006) ("A license agreement need not contain an express quality control provision because trademark law, rather than the contract itself, confers on the licensor the right and *obligation* to exercise quality control.") (emphasis added).

19. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 (AM. L. INST. 1995); *Bach*, 473 F. Supp. 2d at 1120; *Barcamerica*, 289 F.3d at 596.

20. GILSON LALONDE, *supra* note 5, § 6.04.

21. Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995) (finding that the licensor lost its rights to a trademark when granting the licensee the uncontrolled right to use the mark in conjunction with any and all goods the licensee manufactured); 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:38 (5th ed. 2020).

22. GILSON LALONDE, *supra* note 5, § 6.04.

23. 15 U.S.C. § 1127 (2018) (stating that a mark will be deemed to be abandoned "[w]hen any course of conduct of the owner, including acts of omission as well as commission, causes the mark . . . to lose its significance as a mark"); GILSON LALONDE, supra note 5, § 6.04.

24. *See* GILSON LALONDE, *supra* note 5, § 6.04.

25. *Id.*; Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) (In the absence of supervision, "the risk that the public will be unwittingly deceived will be increased

likely be confused as to whether the licensor truly endorses the products that consumers might purchase from the licensee.[26]

Naked licensing "erodes the significance of the designation as an accurate indication of origin: a trademark,"[27] which is rooted in the rationale that the "public has a right to expect consistent quality of goods or services associated with the trademark."[28] Accordingly, a trademark holder that licenses its mark must protect that quality or risk losing rights to that mark.[29] While there is no bright-line rule regarding the level of control necessary to prevent abandonment, courts have considered "whether the [licensor] (1) retained express contractual control over the [licensee's] quality control measures, (2) had actual controls over the quality control measures, and (3) was unreasonable in relying on the quality control measures."[30]

Barcamerica Int'l USA Trust v. Tyfield Imps., Inc. illustrates the need for actual quality control, especially in the absence of a contractual obligation to do so.[31] In 1988 and 1989, Barcamerica, owner of the Leonardo Da Vinci mark, entered into licensing agreements with Renaissance Vineyards ("Renaissance") for use of its Leonardo Da Vinci mark on Renaissance's wine products in the United States.[32] These agreements did not contain a provision setting forth quality control obligations.[33]

Competitor Cantine Leonardo Da Vinci Soc. Coop. a.r.l. ("Cantine"), a producer of wine in Vinci, Italy, also sold wine products which bore the

. . . [and] the only effective way to protect the public . . . is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.").

26. GILSON LALONDE, *supra* note 5, § 6.04.

27. 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (5th ed. 2020).

28. Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1121 (5th Cir. 1991); Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977).

29. Lanham (Trademark) Act of 1964 § 14, 15 U.S.C. § 1064 (2018).

30. Lawn Managers, Inc. v. Progressive Lawn Managers, Inc., 390 F. Supp. 3d 975, 976 (E.D. Mo. 2018); 15 U.S.C. § 1064; FreecycleSunnyvale v. Freecycle Network, 626 F.3d 509, 512 (9th Cir. 2010).

31. *See generally* Barcamerica Int'l USA Tr. v. Tyfield Imps., 289 F.3d 589 (9th Cir. 2002).

32. *Id.* at 592.

33. *Id.*

same Leonardo Da Vinci mark since 1972, and has sold its wine American importers since 1979.[34] In 1996, Tyfield Importers, Inc. ("Tyfield") became the "exclusive United States importer and distributor of Cantine wine products bearing the 'Leonardo Da Vinci' mark."[35] Cantine became aware of Barcamerica's registration of the same mark when it was in the process of "prosecuting its first trademark application in the United States."[36] Cantine determined that Barcamerica was no longer selling wine products with the marks, and sought to have the mark declared abandoned and therefore cancelled in an action with the Patent and Trademark Office ("PTO").[37] Barcamerica moved to suspend the cancellation proceeding, and the PTO granted the motion.[38] Barcamerica then moved for a preliminary injunction to prevent Cantine and Tyfield from continued use of the "Leonardo Da Vinci" mark.[39] The district court denied the motion on the grounds that there was a "serious question as to whether [Barcamerica] will be able to . . . overcome [the] claim of abandonment."[40] Barcamerica then appealed.[41]

On appeal, Barcamerica argued that even though there was a lack of supervision over the mark, it was not considered a naked license because Renaissance made objectively "good wine," and therefore the public was not deceived.[42] To support this argument Barcamerica relied on the testimony of its principal, George Gino Barca, stating that he "occasionally [and] informally tasted . . . the [Renaissance] wine" and that he relied on the reputation of a "world-famous winemaker" employed by Renaissance at the time the agreements were signed.[43]

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34. *Id.*

35. *Id.*

36. *Id.* at 593.

37. *Id.*

38. *Id.*

39. *Id.*

40. *Id.*

41. *Id.*

42. *Id.* at 597.

43. *Id*. at 592.

However, the court held that whether the wine was good or bad was irrelevant to the determination of whether the license had become "naked" and therefore abandoned.[44] The court concluded that Barcamerica and Renaissance lacked "the type of close working relationship required to establish adequate quality control in the absence of a formal agreement."[45] The court held that "[b]oth the terms of the licensing agreements and the manner in which they were carried out show that [Barcamerica] engaged in naked licensing of the 'Leonardo Da Vinci' mark."[46] Further, the court held that "it is well established that where a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is *inherently deceptive* and constitutes abandonment of any rights to the trademark by the licensor."[47]

There are, however, instances where courts have found adequate quality control without the involvement of the licensor.[48] Where there is a "special relationship between the parties, such as a familial relationship or a long period of close business association[,]" courts have held that licensors were justified in relying on licensees for quality control.[49] For example, courts have found that a special relationship existed where the licensor and licensee were commonly owned, and where "family members . . . cooperated in

44. *Id*. at 597–98.

45. *Id*. at 597; *See, e.g*., Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1122 (5th Cir. 1991*)* (The licensor and licensee were engaged in a close working relationship for eight years); Transgo, Inc. v. AJAC Transmission Parts Corp., 768 F.2d 1001, 1017–18 (9th Cir. 1985) (The licensor was the manufacturer of 90% of the components sold by the licensee and had a ten year working relationship); Taffy Original Designs, Inc. v. Taffy's, Inc., No. 65C345, 1966 WL 7124, at *9 (N.D. Ill. 1966) (The licensor and licensee were sisters and in business together for seventeen years, licensee's company was a continuation of the sisters' prior company, and the licensor occasionally visited the licensee's store and was satisfied with the quality of the merchandise offered); Arner v. Sharper Image Corp., No. CV94-1713 ABC (BOR), 1995 WL 873730, at *5 (C.D. Cal. 1995) (The licensor enjoyed a close working relationship with its licensee's employees and the license agreement provided that the license would terminate if certain employees ceased to be affiliated with licensee).

46. *Barcamerica*, 289 F.3d at 597.

47. *Id*. at 598 (citing *First Interstate Bancorp v. Stenquist*, 1990 U.S. Dist. LEXIS 19426, 16 U.S.P.Q. 2d 1704, 1706 (N.D. Cal. 1990)).

48. Edward K. Esping, Annotation, *Granting of "Naked" or Unsupervised License to Third Party as Abandonment of Trademark*, 118 A.L.R. Fed. 211 (1994).

49. 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:57 (5th ed. 2020).

running related businesses[,]" among other scenarios.[50] This seems to indicate that in the event of a bankruptcy and lack of supervision by a debtor-licensor, it is possible that the mark will not be forfeited so long as the licensor-licensee relationship is of the kind that courts recognize as establishing adequate quality control, and the licensee maintains the original quality of the mark.

On the opposite end of the spectrum, in *Monster, Inc. v. Dolby Laboratories Licensing Corp.* ("*Monster, Inc.*"), the court held that naked licensing, and therefore abandonment, did not occur because the licensor exercised proper quality control.[51] In *Monster, Inc.*, Plaintiff-Licensee Monster, Inc. ("Monster") sought "judicial declaration that the Monster Headphone Mark [did] not infringe any trademark rights of [Defendant-Licensor] Dolby Laboratories Licensing Corporation ('Dolby') in its Dolby Headphone Mark."[52] Dolby then filed a counterclaim against Monster alleging trademark infringement to which Monster responded with a claim that Dolby engaged in naked licensing.[53] Dolby argued that Monster was "estopped from claiming naked licensing based upon a failure to police the quality of Monster's use of the trademark[]" because a licensee is precluded from "challenging the validity of the licensor's trademark based upon conduct that occurred during the life of its license, particularly with respect to the licensee itself."[54] The court found that, "[a]ssuming Monster may nevertheless challenge the validity of the trademark based upon evidence of Dolby's failure to police others' use of the mark," there was adequate quality control by licensor Dolby, and therefore, naked licensing did not occur.[55] The court in

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50. *Id.*; *Doeblers' Pennsylvania Hybrids, Inc. v. Doebler*, 442 F.3d 812, 824 (3d Cir. 2006), as amended, (May 5, 2006) ("[L]itigants were closely-held business entities owned and managed by family members and which included a high degree of interlocking ownership and control[,]" and therefore enjoyed a "special relationship.").

51. Monster, Inc. v. Dolby Labs. Licensing Corp., 920 F. Supp. 2d 1066, 1078 (N.D. Cal. 2013).

52. *Id.* at 1070.

53. *Id.*

54. *Id.* at 1076–77; *see also* Pac. Supply Coop. v. Farmers Union Cent. Exch., 318 F.2d 894, 908 (9th Cir. 1963); STX, Inc. v. Bauer USA, Inc., No. C 96–1140 FMS, 1997 WL 337578 at *10 (N.D.Cal. June 5, 1997); Creative Gifts, Inc. v. UFO, 235 F.3d 540, 548 (10th Cir. 2000); Prof'l Golfers Ass'n of Am. v. Bankers Life & Cas. Co., 514 F.2d 665, 671 (5th Cir. 1975).

55. *Monster, Inc.*, 920 F. Supp 2d at 1077.

Monster, Inc. noted that "[t]he Ninth Circuit has not settled on an exact standard of proof required for establishing a naked licensing claim," but because the theory "is essentially one of forfeiture of trademark rights," the standard has been described as "stringent."[56]

In *Monster, Inc.*, Dolby required its licensee Monster "to abide by its guidelines for use of the mark and use of the Dolby headphone technology."[57] As a precondition to use of the mark, Dolby also required its licensees to send "prototype products for testing to ensure" that quality standards were met.[58] Additionally, Dolby "require[d] licensees to abide by certain guidelines for its use and display" of the trademark.[59] Dolby also employed a monitoring software which would identify "similar, potentially confusing marks[] in the marketplace[,] . . . a compliance team in the field, evaluation of customer reports, and partner[ed] with customs officials[]" to police the mark.[60] Further, Dolby "engage[d] in enforcement efforts" if unauthorized or infringing uses were found.[61] While there were lapses in Dolby's policing of the mark and quality, these lapses did not meet the stringent standard required by the naked licensing doctrine.[62] Accordingly the court found that Dolby exercised proper quality control and therefore naked licensing could not exist.[63]

This legal framework presents a problem when it comes to bankruptcy because a restructuring licensor will likely be unable to engage in quality control due to its limited resources. Although the level of quality control a licensor needs will depend on the product and license at issue,[64] quality

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56. *Id.* at 1076 (citing *FreecycleSunnyvale*, 626 F.3d 509, 514–15 (9th Cir. 2010).

57. *Monster, Inc.*, 920 F. Supp 2d at 1077.

58. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.* at 1078.

64. *See* Theodore Chiacchio, *Top Tips for Maintaining Adequate Quality Control Over Trademark Licensees*, IPWATCHDOG (Dec. 2, 2019), https://www.ipwatchdog.com/2019/12/02/top-tips-maintaining-adequate-quality-control-trademark-licensees/id=116485/ [https://perma.cc/D3Y5-CFC7] ("A determination as to whether or not a trademark owner/licensor maintains

control can be expensive.[65] For a debtor-licensor with scarce resources, costly quality control might not be possible. Likewise, a liquidating licensor will not be able to exercise quality control because it will have to sell off its assets as part of the bankruptcy estate.[66] Because the mark must be sold along with the goods or services attached to it, a purchaser of the assets at auction must maintain quality control or risk abandonment.[67] As this Comment later proposes, this issue may be resolved by contract or by amendment of the Lanham Act.

B. A Background of Bankruptcy Law and its Intersection with Intellectual Property Law

Bankruptcy aims to provide debtors with a fresh start and to distribute funds equitably to creditors.[68] In a 1934 decision, the Supreme Court stated that the purpose of bankruptcy law is to give "the honest but unfortunate debtor . . . a new opportunity in life and a clear field for future effort, unhampered by the pressure and discouragement of preexisting debt."[69] This is accomplished through the discharge of burdensome debts of the debtor.[70]

Upon the filing of bankruptcy, a separate legal entity called the bankruptcy estate is created.[71] A bankruptcy estate is comprised of "the debtor's assets at the moment of filing, as well as the proceeds of such property and

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sufficient control over a licensee's products or services is a fact-intensive analysis determined on a case-by-case basis.").

65. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1665 (2019) (Although this argument was raised by the losing party, the Supreme Court noted it and did not seem to reject it).

66. *Chapter 7 – Bankruptcy Basics*, U.S. CTS., https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-7-bankruptcy-basics [https://perma.cc/QL4D-3XL7].

67. GILSON LALONDE, *supra* note 13, § 6.07.

68. 9 AM. JUR. 2D *Bankruptcy* § 6 (2020); *Process - Bankruptcy Basics*, *supra* note 6.

69. Local Loan Co. v. Hunt, 292 U.S. 234, 244 (1934).

70. *Process - Bankruptcy Basics*, *supra* note 6.

71. 11 U.S.C. § 541(a) (2018).

any additional property interests the estate may acquire later."[72] Next, a mechanism called an "automatic stay" is instated to prevent any action against the debtor or property and to "preserve the bankruptcy estate until all of the debtor's assets can be collected and its creditors brought together to adjudicate their rights in the estate."[73]

A corporate entity can file bankruptcy under Chapter 7 or Chapter 11 of the Bankruptcy Code.[74] When a company files for bankruptcy under Chapter 7 of the Bankruptcy Code, its assets are liquidated at auction, funds are distributed to creditors, and the company ceases to exist.[75] Chapter 11, by contrast, envisions a reorganization process where the existence of the debtor survives.[76] Upon the filing of bankruptcy, the debtor becomes a "debtor in possession," and the debtor's business and management remain in place.[77] In a Chapter 11 case, the debtor will generally repay its creditors with allocations of its income over time.[78] "In order to best maximize the value of the estate, the debtor in possession may be forced to breach contracts that, at the time of bankruptcy, are economically inefficient."[79] Section 365(a) of the Bankruptcy Code provides that a trustee "may assume or reject any executory contract or unexpired lease of the debtor."[80] While the Bankruptcy Code does not define the term "executory contract," it is generally

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72. Peter S. Menell, *Bankruptcy Treatment of Intellectual Property Assets: An Economic Analysis*, 22 BERKELEY TECH. L.J. 733, 752 (2007).

73. *Id.*

74. *See Chapter 7 – Bankruptcy Basics*, *supra* note 66.

75. *Process - Bankruptcy Basics*, *supra* note 6; *see Chapter 7 – Bankruptcy Basics*, *supra* note 66.

76. *Process - Bankruptcy Basics*, *supra* note 6.

77. *Chapter 11 - Bankruptcy Basics*, U.S. CTS., https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-11-bankruptcy-basics [https://perma.cc/URH4-F4SQ].

78. *Id.*

79. Clayton A. Smith, Comment, *It's Not You, It's Us: Assessing the Contribution of Trademark Goodwill to Properly Balance the Results of Trademark License Rejection*, 35 EMORY BANKR. DEV. J. 267, 271 (2019); *see* COLLIER ON BANKRUPTCY ¶ 1.01, *supra* note 6.

80. 11 U.S.C. § 365(a) (2018).

considered to be a contract "on which performance is due to some extent on both sides."[81]

Rejection of an executory contract constitutes a breach.[82] One type of executory contract is a trademark license agreement to the extent that there is performance due on both sides.[83] Such a license grants "one party the right to use another party's mark (i.e., to engage in otherwise infringing activity) in a specified manner, generally in exchange for a royalty or other payment."[84] Because a trademark license is only valid if "the licensor exercises control over the nature and quality of the goods and/or services sold by the licensee under the licensed mark[,]" issues of naked licensing, and therefore abandonment, arise in the context of bankruptcy of the licensors.[85] The implications of a breach of an executory contract, specifically a trademark license agreement, were discussed in *Mission*, and will be explained in depth in the next section.

For a Chapter 7 debtor, the survival of a trademark, if at all, will not exist with the original owner.[86] The debtor's assets, including its intellectual property portfolio, will be sold at a bankruptcy auction, the debtor will be wound up (i.e., voluntarily dissolved), and will cease to exist.[87] A trademark cannot be sold "in gross," meaning separate from the underlying goods or services.[88] The mark must be sold along with, or appurtenant to, the goods

81. *In re* Tempnology, LLC, 879 F.3d 389, 395-96 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC 139 S. Ct. 1652 (2019); *see In re* FBI Distrib. Corp., 330 F.3d 36, 40 n.5 (1st Cir. 2003) (quoting NLRB v. Bildisco & Bildisco, 465 U.S. 513, 522 n.6).

82. 11 U.S.C. § 365(g) ("[T]he rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease . . . immediately before the date of the filing of the petition . . .").

83. *In re Tempnology, LLC*, 879 F.3d at 395–96.

84. 4 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 20:54 (4th ed. 2019).

85. MCCARTHY, *supra* note 21, § 18:38.

86. *Chapter 7 – Bankruptcy Basics*, *supra* note 66.

87. CAL. CORP. CODE § 1903(a) (West 2020) (using "voluntary dissolution" and "winding up the corporation" synonymously); *Chapter 7 – Bankruptcy Basics*, *supra* note 66.

88. 15 U.S.C. § 1060 (2018).

or services associated with it.[89] A purchaser at a bankruptcy auction could buy the entire company including the trademark(s) and then maintain quality control so as to avoid abandonment. Alternatively, a purchaser could buy a segment of the company along with only certain marks pertaining to that segment and maintain quality control.

For example, if Starbucks were to file for Chapter 7 bankruptcy, one could purchase the entire company and continue its predecessor's operations in a similar line of business while engaging in quality control. Alternatively, it could purchase only the coffee beans segment or the retail store segment and maintain similar quality so that the licensee's rights do not terminate. If the business or assets associated with a trademark were not purchased at auction, or if quality control was not maintained, the mark would evaporate.

For a Chapter 11 debtor, however, the survival of a trademark license could have a significant impact on its ability to successfully reorganize because the approval of a Chapter 11 reorganization plan rests with the creditors of the debtor. To receive a discharge under Chapter 11, the debtor must propose a plan of reorganization that outlines how the debtor will repay its creditors.[90] The debtor's creditors will then vote on this plan.[91] If the plan does not propose to pay the creditors enough, the creditors will presumably vote against it, however the court has the discretion to approve the plan notwithstanding.[92] Notably, a Chapter 11 debtor cannot receive a discharge of its prebankruptcy liabilities without a plan approval.[93] In other words, for a Chapter 11 debtor to receive its fresh start, its creditors, or the court, must approve its plan of reorganization based on the voting requirements set forth in Chapter 11 of the United States Code section 1129. In certain cases, approval may be unlikely if the debtor is required to use its limited funds to maintain the quality of a trademark because the cost of quality control varies depending on the nature of the mark.[94] Once the Chapter 11 debtor's plan is approved, it must still make its payments under the plan, or else risk

89. *Id.*

90. *Process - Bankruptcy Basics*, *supra* note 6.

91. *Id.*

92. *See Chapter 11 - Bankruptcy Basics*, *supra* note 77.

93. *Id.*

94. *See* 11 U.S.C. § 1129 (2018).

dismissal of its bankruptcy case or conversion to a Chapter 7 bankruptcy.[95] This potential outcome is in direct contravention of the fresh start for deserving debtors.

C. Lubrizol Enters

The court in *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.* (*"Lubrizol"*) was the first to decide the effect of rejection of an intellectual property license, specifically a patent, after the licensor filed for bankruptcy.[96] In *Lubrizol*, Richmond Metal Finishers ("RMF"), a debtor-licensor, entered into a technology licensing agreement with Lubrizol granting a nonexclusive patent license to use a "metal coating process technology."[97] Over a year later, RMF filed for Chapter 11 bankruptcy and sought to reject the license agreement.[98] The Fourth Circuit indicated that the licensing agreement was executory as to each party and was executory under Title 11 of United States Code, § 365(a).[99] The court held that "Lubrizol would be entitled to treat rejection as a breach and seek money damages," but stated it could not retain its rights under the original licensing agreement by continuing to use the technology.[100] Specifically, the court reasoned:

> Even though § 365(g) treats rejection as breach, the legislative history of § 365(g) makes clear that the purpose of the provision is to provide only a damages remedy for the non-bankrupt party . . . [T]he statutory 'breach' contemplated by § 365(g) controls, and provides only a money damages remedy for the non-bankrupt

95. 11 U.S.C. § 1112(b)(4)(N) (listing "material default" under a confirmed Chapter 11 plan as sufficient "cause" for dismissal or conversion).

96. *See* Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc., 756 F.2d 1043, 1044–45 (4th Cir. 1985).

97. *Id.* at 1045.

98. *Id.*

99. *Id.*

100. *Id* at 1048.

> party. Allowing specific performance would obviously undercut the core purpose of rejection under § 365(a)[.][101]

Therefore, the Fourth Circuit concluded that a "rejection of an intellectual property license deprived the licensee of all rights previously granted under the license."[102] Congress enacted § 365(n) to, in effect, overrule the decision in *Lubrizol*.[103] Section 365(n) allows a licensee of "intellectual property" to "retain certain rights under the contract," notwithstanding rejection by the debtor-licensor.[104] Section 365(n) specifically provides:

> (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 by such rejection . . . or (B) to retain its rights . . . under such contract . . . to such intellectual property . . . as such rights existed immediately before the case commenced . . . (2) If the licensee elects to retain its rights, as described in paragraph (1)(B) of this subsection, 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 for any period described in paragraph (1)(B) of this subsection for which the licensee extends such contract . . . .[105]

The Senate Report asserts that the purpose of the enactment of § 365(n) was "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 pursuant to § 365 in the event of the licensor's bankruptcy."[106] While § 365(n) protects licensees of intellectual property, the term "intellectual property" as used in the Bankruptcy Code does not include

101. *Id.*

102. *In re* Tempnology LLC, 559 B.R. 809, 816 (B.A.P. 1st Cir. 2016).

103. *Id.*; 11 U.S.C. § 365 (2018).

104. *In re Tempnology LLC*, 559 B.R. at 816 (rev'd on other grounds).

105. 11 U.S.C. § 365(n).

106. S. REP. NO. 100–505, at 1 (1988), *as reprinted in* 1988 U.S.C.C.A.N. 3200, 3201–02.

trademarks.[107] Section 101(35A) of the Bankruptcy Code defines intellectual property.[108] It provides:

> The term "intellectual property" means—(A) trade secret; (B) invention, process, design, or plant protected under title 35 [relating to patents]; (C) patent application; (D) plant variety; (E) work of authorship protected under title 17 [relating to copyrights]; or (F) mask work protected under chapter 9 of title 17 [relating to microchips]; to the extent protected by applicable nonbankruptcy law.[109]

The silence of section 101(35A) on trademarks left room for debate as to what to do with trademark licenses upon rejection, which was seemingly resolved by *Mission*.[110] However, the decision was based in bankruptcy law and did not consider the impact in trademark law and potential policy violations.[111] While some legal scholars have argued that the statute should be amended to incorporate "trademarks into the definition of intellectual property in 11 U.S.C.S. § 101(35A)," to "create uniformity for all areas of intellectual property,"[112] trademarks are different from patents and copyrights in many respects, underscoring the importance for dissimilar treatment.[113] One of the most notable differences is that trademarks are not separable from the underlying business, whereas with patents and copyrights, this is not the case.[114] Therefore, it is reasonable to treat trademarks differently from other types of intellectual property and not apply a uniform rule to all.

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107. *In re Tempnology, LLC*, 559 B.R. at 818–19.

108. 11 U.S.C. § 101(35A).

109. *Id.*

110. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1661 (2019).

111. *Id.*

112. Victoria Elizabeth Jaworowski, Note, *Stop the Silence: Why Bankruptcy Law Needs to Include Protection for Trademarks*, 13 CHARLESTON L. REV. 365, 377 (2019).

113. *See generally Trademark, Patent, or Copyright?*, U.S. PATENT AND TRADEMARK OFFICE, https://www.uspto.gov/trademarks-getting-started/trademark-basics/trademark-patent-or-copyright [https://perma.cc/9XT3-JJJG].

114. *Id.*

III. THE SPLIT

Before the Supreme Court answered the question regarding what to do with trademark licenses upon bankruptcy rejection, a circuit split developed.[115] In *Sunbeam Products v. Chicago American Manufacturing LLC* ("*Sunbeam*"), the Seventh Circuit held that rejection of a trademark license agreement during a bankruptcy did not terminate the licensee's rights to use the trademark.[116] In contrast, in *Mission*, the First Circuit held that rejection of a trademark license *did* terminate the licensee's rights to use the trademark.[117]

A. Sunbeam Products v. Chicago American Manufacturing LLC

In *Sunbeam*, Judge Easterbrook of the Seventh Circuit rejected *Lubrizol* by holding that "rejection did not terminate the licensee's rights to use the trademarks."[118] Lakewood Engineering & Manufacturing Company ("Lakewood"), a box fan manufacturer, entered into a licensing agreement with Chicago American Manufacturing LLC ("CAM"), granting CAM the right to use Lakewood's trademarks on its own production of box fans.[119] Under the contract, Lakewood was required "to provide CAM with motors and cord sets (CAM was to build the rest of the fan) and to pay for the completed fans that CAM drop-shipped to retailers."[120] When Lakewood began to struggle, "several of [its] creditors filed an involuntary bankruptcy petition against it" under Chapter 7.[121]

115. Sunbeam Prod., Inc. v. Chicago Am. Mfg., LLC, 686 F.3d 372, 377 (7th Cir. 2012); *In re* Tempnology, LLC, 879 F.3d 389, 392 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

116. *Sunbeam*, 686 F.3d. at 377.

117. *In re Tempnology, LLC*, 879 F.3d at 392.

118. Robert L. Eisenbach, *Throwing Shade at Sunbeam: Following Lubrizol and Not the Seventh Circuit, the First Circuit Leaves Another Trademark Licensee Rejected and out of Luck*, COOLEY: IN THE (RED) (Jan. 22, 2018), https://bankruptcy.cooley.com/2018/01/articles/business-bankruptcy-issues/throwing-shade-sunbeam-following-lubrizol-not-seventh-circuit-first-circuit-leaves-another-trademark-licensee-rejected-luck/ [https://perma.cc/X4DQ-QF5U].

119. *Sunbeam*, 686 F.3d. at 374.

120. *Id.* at 376.

121. *Id.* at 374; 2 COLLIER ON BANKRUPTCY § 301 (Richard Levin & Henry J. Sommer eds., 16th ed. 2020); 15 COLLIER ON BANKRUPTCY § 15.01 (Richard Levin & Henry J. Sommer eds., 16th ed. 2020) (An involuntary petition occurs where a third-party holder of a claim petitions

The trustee sold Lakewood's business at a bankruptcy auction and Sunbeam bought the business, including Lakewood's trademarks.[122] However, the Chapter 7 trustee rejected the executory portion of the CAM contract.[123] CAM nonetheless continued to make and sell Lakewood-branded fans.[124] Sunbeam then filed an adversary action against CAM and argued "that CAM had to stop making and selling fans once Lakewood stopped having requirements for them."[125] The bankruptcy court held that the Chapter 7 trustee's rejection of the trademark licensing agreement did not terminate the licensee's right to continue using the mark, deciding on policy grounds that a licensor should not be able to "take back trademark rights it bargained away."[126] Sunbeam appealed.[127]

In rejecting the *Lubrizol* holding, the Seventh Circuit looked to what would have happened outside of bankruptcy in the event of a licensor's breach of contract.[128] The Seventh Circuit stated that "[o]utside of bankruptcy, a licensor's breach does not terminate a licensee's right to use intellectual property."[129] To support its holding, the Seventh Circuit provided the following hypothetical:

> Suppose that, before the bankruptcy began, Lakewood had broken its promise by failing to provide the motors. CAM might have elected to treat that breach as ending its own obligations, . . . but it also could have covered in the market by purchasing motors and

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for the bankruptcy of the debtor, whereas a voluntary petition is where a debtor files for bankruptcy).

122. *Sunbeam*, 686 F.3d. at 374.

123. *Id.*; *see also Chapter 7 – Bankruptcy Basics*, *supra* note 66. ("[A] trustee gathers and sells the debtor's nonexempt assets and uses the proceeds of such assets to pay holders of claims (creditors) in accordance with the provisions of the Bankruptcy Code.").

124. *Sunbeam*, 686 F.3d. at 374.

125. *Id.* at 375.

126. *In re* Lakewood Eng'g & Mfg. Co., 459 B.R. 306, 343–46 (Bankr. N.D. Ill. 2011).

127. *Sunbeam*, 686 F.3d. at 375.

128. *Id.* at 376.

129. *Id.*

> billed Lakewood for the extra cost. CAM had bargained for the security of being able to sell Lakewood-branded fans for its own account if Lakewood defaulted; outside of bankruptcy, Lakewood could not have ended CAM's right to sell the box fans by failing to perform its own duties, any more than a borrower could end the lender's right to collect just by declaring that the debt will not be paid.[130]

It then concluded that "[w]hat § 365(g) does by classifying rejection as breach is establish that in bankruptcy, as outside of it, the other party's rights remain in place."[131] The Seventh Circuit acknowledged that it created a circuit-split but reasoned that "[b]ecause the trustee's rejection of Lakewood's contract with CAM did not abrogate CAM's contractual rights, this adversary proceeding properly ended with a judgment in CAM's favor."[132]

B. *Mission Prod. Holdings, Inc. v. Tempnology, LLC*

The circuit split regarding what to do with a trademark license remained until the Supreme Court decided *Mission*. But before the issue reached the Supreme Court, the bankruptcy court in 2015 decided that a licensor's bankruptcy rejection of a trademark agreement terminates the licensee's right to continue using the trademark.[133] The Bankruptcy Appellate Panel, ("BAP") then reversed the bankruptcy court's holding.[134] The BAP decision was next appealed to the First Circuit, which reinstated the

130. *Id.* at 376–77.

131. *Id.* at 377.

132. *Id*. at 378.

133. *In re* Tempnology, LLC, 541 B.R. 1, 2 (Bankr. D.N.H. 2015).

134. *In re* Tempnology LLC, 559 B.R. 809, 825 (B.A.P. 1st Cir. 2016). A Bankruptcy Appellate Panel, or "BAP," is an appellate court that hears appeals from a bankruptcy court. Not every circuit has a BAP, and, for those that do, an appellant has a choice of appealing a bankruptcy court decision to either a district court judge or the circuit's BAP. A BAP is composed of three bankruptcy court judges, and a BAP decision gets appealed to the Circuit Court of Appeals. From the Circuit Court of Appeals, a decision gets appealed to the US Supreme Court. *What is a Bankruptcy Appellate Panel?*, U.S. CTS.: NEWS (Nov. 26, 2012), https://www.uscourts.gov/news/2012/11/26/court-insider-what-bankruptcy-appellate-panel [https://perma.cc/AE67-JDCU].

bankruptcy court's decision.[135] Notably, the First Circuit rejected the Seventh Circuit's decision, thereby deepening the circuit split.[136]

1. Case Background and The Bankruptcy Court Decision

Tempnology, LLC was the creator of a chemical free fabric designed to keep wearers cool during exercise.[137] Tempnology manufactured its clothing and accessories under the brand name "Coolcore."[138] Tempnology entered into an agreement with Mission Product Holdings, Inc. ("Mission").[139] The agreement provided Mission with certain rights, one of which was "a non-exclusive license" to use the Coolcore trademarks in the United States and around the world.[140]

Tempnology then filed for bankruptcy under Chapter 11 and attempted to reject the license agreement.[141] At the time, a minority of courts held that "'Congress intended the bankruptcy courts to exercise their equitable powers to decide, on a case by case basis, whether trademark licensees may retain the rights listed under § 365(n).'"[142] However, the bankruptcy court held that "the omission of trademarks from the definition of intellectual property in § 101(35A) indicates that Congress did not intend for them to be treated the same as the six identified categories," and therefore, Mission's rights to Tempnology's trademarks and logos were terminated post-rejection.[143] The bankruptcy court reasoned that most courts follow the "negative inference that the omission of trademarks from § 101(35A) means

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135. *In re* Tempnology, LLC, 879 F.3d 389, 405 (1st Cir. 2018), *rev'd sub nom.*; Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

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

137. *Id*. at 392.

138. *Id*.

139. *Id*.

140. *Id*. at 393.

141. *Id*. at 394.

142. *In re* Tempnology, LLC, 541 B.R. 1, 7 (Bankr. D.N.H. 2015) (quoting *In re* Crumbs Bake Shop, Inc., 522 B.R. at 772); *see also In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010) (Ambro, J., concurring).

143. *In re Tempnology, LLC*, 541 B.R. at 8.

that *Lubrizol's* holding was not overruled with respect to trademark licenses and those rights are not afforded any protection under § 365(n)."[144]

2. The BAP Decision

Mission appealed from the bankruptcy court's decision, and the BAP affirmed in part and reversed in part.[145] While the BAP agreed with the bankruptcy court's holding that "section 365(n) failed to protect Mission's rights to [Tempnology's] trademarks, it disagreed as to the effect of that conclusion."[146] The BAP reversed the bankruptcy court's holding that rejection of the executory contract extinguished the licensee's rights.[147] The panel instead followed the Seventh Circuit's ruling in *Sunbeam* that rejection does not terminate a licensee's rights to use the trademark.[148] The BAP reasoned that the rejection was in effect a breach of contract, which "does not necessarily terminate a licensee's rights" under nonbankruptcy law and similarly, under section 365(g) such rejection "likewise does not necessarily eliminate those rights."[149] Accordingly, the BAP "reversed the bankruptcy court's determination that Mission no longer had protectable rights in [Tempnology's] trademarks."[150]

3. The First Circuit Decision

The BAP decision was appealed again and the First Circuit held that Mission's rights to use Tempnology's trademarks did not survive rejection.[151] The First Circuit based its decision on Congress's supposedly

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144. *Id*. at 7; *see e.g.*, *In re* Old Carco LLC, 406 B.R. 180, 211 (Bankr. S.D.N.Y. 2009); *In re* Dynamic Tooling Sys., Inc., 349 B.R. 847, 856 (Bankr. D. Kan. 2006); *In re* HQ Global Holdings, Inc., 290 B.R. 507, 513 (Bankr. D. Del. 2003); *In re* Centura Software Corp., 281 B.R. 660, 674–75 (Bankr. N.D. Cal. 2002).

145. *In re* Tempnology LLC, 559 B.R. 809, 825 (B.A.P. 1st Cir. 2016).

146. *In re Tempnology*, *LLC*, 879 F.3d at 395.

147. *Id*.

148. *Id*.

149. *Id*.

150. *Id*.

151. *Id*.

intentional decision to exclude "trademarks" from the list of "intellectual property eligible for the protection of section 365(n)," especially since "relatively obscure property" like "'mask work protected under chapter 9 of title 17'" is included on the list.[152] The First Circuit also reasoned that because there is no "catchall or residual clause" it is not even plausible to infer the encompassment of forms of intellectual property other than those explicitly listed.[153]

While the First Circuit acknowledged *Sunbeam*, it declined to follow in the Seventh Circuit's footsteps on the grounds that "Congress's principal aim in providing for rejection was to 'release the debtor's estate from burdensome obligations that can impede a successful reorganization.'"[154] First Circuit Judge Torruella, in a dissenting opinion, argued that the BAP was "correct to follow the Seventh Circuit[]" in holding that a debtor's rejection of a trademark license agreement "should be guided by the terms of the Agreement, and non-bankruptcy law, to determine the appropriate equitable remedy of the functional breach of contract."[155] He referred to the Senate Report to explain the purposeful omission of trademarks from section 365(g).[156] Judge Torruella contended that the omission was not intended to leave trademark licensees without protection, but rather to "allow more time to study."[157] He quoted the relevant portion of the Senate Report which provides:

> [T]he bill does not address the rejection of executory trademark[s] . . . While such rejection is of concern because of the interpretation of [§] 365 by the Lubrizol court and others, . . . such contracts raise issues beyond the scope of this legislation. In particular, trademark . . . relationships depend to a large extent on control of the quality of the products or services sold by the licensee. Since these matters could not be addressed without more extensive study, it was determined to postpone congressional action in this

152. *Id.* at 401.

153. *Id.*

154. *Id.* at 402 (citing *Bildisco & Bildisco*, 465 U.S. at 528).

155. *Id.* at 407.

156. *Id.* at 406.

157. *Id.* (citing *Sunbeam*, 686 F.3d at 375).

> area and to allow the development of equitable treatment of this situation by bankruptcy courts.[158]

This language seems to suggest that trademarks should not be in the same basket as other types of intellectual property. The excerpt from the Senate Report also undermines the holding in *Mission*, suggesting that it was incorrectly decided because there are so many differences between trademarks and other types of intellectual property, such as patents and copyrights. Further, Judge Torruella argued that the majority decision "makes bankruptcy more a sword than a shield, putting debtor-licensors in a catbird seat they often do not deserve."[159] Additionally, he argued that the majority effectively took the role of the legislature "through the creation of bright-line rules in the face of congressional intent" when concluding that a "section 365(a) rejection eliminates a licensee's rights to the bargained-for use of a debtor's trademark effectively treats a debtor's rejection as a contract cancellation, rather than a contractual breach, putting the court at odds with legislative intent."[160] Therefore, the dissent suggested that Tempnology's rejection of the trademark license agreement with Mission should have been "guided by the terms of the Agreement, and non-bankruptcy law, to determine the appropriate equitable remedy of the functional breach of contract."[161]

4. The Supreme Court Decision

Finally, the Supreme Court granted certiorari and held that the debtor's rejection of the trademark licensing agreement could not revoke the license and did not "deprive[] the licensee of its rights to use the trademark."[162] Therefore, in the event of bankruptcy, the licensee has the option to assert damages or continue use of the mark.[163] The Supreme Court reasoned that under 11 U.S.C. § 365, a "debtor's rejection of an executory contract in bankruptcy ha[d] the same effect as a breach outside bankruptcy[,]" and thus,

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158. *Id.* (citing S. REP. NO., 100-505, at 4–5).

159. *Id.* at 407; *In re* Exide Techs., 607 F.3d 957, 967–68 (3d Cir. 2010) (Ambro, J., concurring).

160. *In re Tempnology, LLC*, 879 F.3d at 407.

161. *Id.*

162. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1657–58 (2019).

163. *Id.* at 1659.

"[s]uch an act could not rescind rights that the contract previously granted."[164] As a result of such a breach, "the debtor and counterparty do not go back to their pre-contract positions," but rather, "the counterparty retains the rights it has received under the agreement,"[165] meaning that licensees can either assert damages arising from rejection of the contract or continue to use the mark post-rejection. The Supreme Court noted that its holding is consistent with what happens in other contexts under section 365.[166] It offered as an example section 365(h), which provides that in the event a landlord files for bankruptcy and rejects a current lease, the tenant is not forced to move out but may continue to live and pay rent until the conclusion of the lease term.[167]

In her concurrence, Justice Sotomayor pointed out that "[t]he Court does not decide that every trademark licensee has the unfettered right to continue using licensed marks postrejection."[168] The question of "whether the licensee's rights would survive a breach under applicable non-bankruptcy law" remains.[169] For example, within trademark law, issues such as naked licensing and consumer confusion could arise out of the majority decision. As will be explored below, these issues could be resolved either by contract or amendment of the current law.[170]

164. *Id.* at 1666.

165. *Id.* at 1662.

166. *Id.* at 1663.

167. *Id.* at 1659; 11 U.S.C. § 365(h) (2018) (providing that "If the trustee rejects an unexpired lease of real property under which the debtor is the lessor and— (i) if the rejection by the trustee amounts to such a breach as would entitle the lessee to treat such lease as terminated by virtue of its terms, applicable nonbankruptcy law, or any agreement made by the lessee, then the lessee under such lease may treat such lease as terminated by the rejection; or (ii) if the term of such lease has commenced, the lessee may retain its rights under such lease (including rights such as those relating to the amount and timing of payment of rent and other amounts payable by the lessee and any right of use, possession, quiet enjoyment, subletting, assignment, or hypothecation) that are in or appurtenant to the real property for the balance the term of such lease and for any renewal or extension of such rights to the extent that such rights are enforceable under applicable nonbankruptcy law.").

168. *Mission*, 139 S. Ct. at 1666.

169. *Id.*

170. *Id.* at 1667. The dissenting opinion by Justice Gorsuch argued that the court's jurisdiction was in doubt so he would decline to proceed on the merits. He also reasoned that the issue was moot because "after the bankruptcy court ruled, the license agreement expired by its own terms

IV. ANALYSIS

While the Supreme Court decision in *Mission* attempted to resolve confusion among the circuits and provide clarity for parties to licensing agreements where the licensor files for bankruptcy, there are several unexplored repercussions. For instance, as Justice Kagan noted in the majority opinion, the decision could create difficulty in the reorganization of trademark licensors.[171] Such a difficulty could lead to an inability to reorganize under Chapter 11 of the Bankruptcy Code and a potential dissolution of the company altogether. The decision also presents issues under Chapter 7 of the Bankruptcy Code as the fate of the mark is unclear when sold at a bankruptcy auction due to concerns of naked licensing and/or consumer confusion.[172] As is proposed later in this section, potential solutions include additions or modifications to standard contract provisions as well as amendments to the Lanham Act and/or the Bankruptcy Code to ameliorate some of the negative aftereffects of the decision.

A. Increased Difficulty in Reorganization of Trademark Licensors

Mission held that "in the event that a bankrupt licensor rejects an intellectual property license, section 365(n) allows a licensee to retain its licensed rights—along with its duties—absent any obligations owed by the debtor-licensor."[173] This holding however, did not take into account the probability that a lack of adequate quality control may result when the debtor-licensor is relieved of its obligations under the agreement.

In *Mission*, Tempnology argued that a reorganizing licensor would have to make a choice between expending scarce resources on quality control and risking the loss of a valuable asset at the hands of naked licensing.[174] If a debtor-licensor is no longer able to engage in "quality control," the license

so nothing [the court] might say here could restore Mission's ability to use Tempnology's trademarks.

171. *Id*. at 1666.

172. *See generally Chapter 7 – Bankruptcy Basics*, *supra* note 66; 15 U.S.C. § 1127 (2018); 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:4 (5th ed. 2020).

173. *In re* Tempnology LLC, 559 B.R. 809, 816 (B.A.P. 1st Cir. 2016) (citing *In re* Exide Techs., 607 F.3d 957 (3d Cir. 2010) (Ambro, J., concurring)).

174. *Mission*, 139 S. Ct. at 1665.

will become a "naked" license[175] If naked licensing occurs, the licensee may still be able to use the mark, but as could anyone else, making the debtor company less valuable.[176] Such a choice makes reorganization more difficult.

While Justice Kagan acknowledged that the decision might impede a trademark licensor's ability to reorganize, she explained that this concern is trademark specific and not supported by section 365.[177] Even if unsupported by section 365, the issue of increased difficulty of reorganization for trademark licensors remains a possibility.

The First Circuit in *Mission* pointed out that "the approach taken by *Sunbeam* entirely ignores the residual enforcement burden it would impose on the debtor just as the Code otherwise allows the debtor to free itself from executory burdens."[178] As previously noted, one residual burden arises if the debtor-licensor is required to spend money to maintain the quality of the trademark. Expending funds in bankruptcy to maintain the quality of a trademark creates difficulty for the debtor-licensor because there would necessarily be less money to distribute to other creditors. If this is the case, creditors will be less likely to vote to approve the debtor's bankruptcy plan.[179] Accordingly, it will be difficult for the debtor to get a discharge, which is in direct contravention with the Bankruptcy Code's goal of providing a fresh start to debtors.[180] "As the full measure of a debtor's fresh start flowing from the bankruptcy is vital to Congress' mission in enacting the Bankruptcy Code, anything which would frustrate the mission must be scrutinized carefully."[181]

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175. GILSON LALONDE, *supra* note 13, § 6.07; 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 3.10 (2020).

176. GILSON LALONDE, *supra* note 175, § 3.10.

177. *Mission*, 139 S. Ct. at 1665.

178. *In re* Tempnology, LLC, 879 F.3d 389, 404 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

179. 11 U.S.C. § 1129 (2018); *Chapter 11 - Bankruptcy Basics*, *supra* note 77.

180. *Chapter 11 - Bankruptcy Basics*, *supra* note 77.

181. Cherise M. Wolas, *Is the Debtor Left Standing When the Music Stops: Assumption and Rejection of Executory Recording Contracts by Insolvent Musicians*, 9 LOY. ENT. L.J. 259, 282 (1989).

The Intellectual Property Owners Association ("IPOA"), in its Amicus Brief to the Supreme Court, argued that the Court of Appeals overstated the meaning of quality control when considering the effects of the ability of the licensee to continue use of the mark, however, it acknowledged that quality control obligations could be quite burdensome.[182] The IPOA further argued that "'[o]nly minimal quality control' is typically needed to avoid these consequences."[183] However, the IPOA went on to explain that "[j]ust as important, adequate quality control 'varies with the circumstances.'"[184] It acknowledged the importance of consideration of the "type of goods or services being licensed."[185] For instance, "consumers may expect greater quality consistency from a restaurant franchise than they expect from licensed merchandise for their favorite sports team."[186]

The IPOA made the concession that "some licensing arrangements may require a level or type of quality control that impedes the debtor-licensor from successfully reorganizing."[187] It argued that "'there are already incentives for licensees to maintain the licensor's quality control provisions' even where the licensor files a bankruptcy petition."[188] However, as explained above, this usually is not enough to maintain quality unless the licensor and licensee enjoy a special relationship.

Additionally, if a plan is not approved by the creditors under Chapter 11, the company may be forced to convert the case to Chapter 7, requiring a winding up of affairs, a sale of assets, and ultimately dissolution.[189] A

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182. Brief of the Intellectual Property Owners Association as Amicus Curiae in Support of Neither Party at *15–16, Mission Product Holdings, Inc. vs Tempnology, LLC, 587 U.S 397 (2018) (No. 17-1657).

183. *Id.* at *13; Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387 (5th Cir. 1977).

184. Brief of the Intellectual Property Owners Association as Amicus Curiae in Support of Neither Party, *supra* note 182, at *14; Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East., 542 F.2d 1053, 1060 (9th Cir. 1976).

185. Brief of the Intellectual Property Owners Association as Amicus Curiae in Support of Neither Party, *supra* note 182, at *14.

186. *Id.* at *14–15.

187. *Id.* at *26.

188. *Id.* at *16.

189. *Chapter 11 - Bankruptcy Basics*, *supra* note 77.

Chapter 11 debtor chooses to file under Chapter 11 rather than Chapter 7 in order to remain in business and survive the bankruptcy process.[190] If the debtor company cannot get a plan approved, the company may not survive and the business impact could be catastrophic.[191] Conversion under Chapter 7 means that employees would lose their jobs and stockholders would likely lose their investments since they are considered low priority creditors.[192]

For example, Circuit City, a "superstore," faced an inability to compete with popular stores like Best Buy, Home Depot, and Lowes, and filed for Chapter 11 bankruptcy in 2008 with the hopes of reorganizing to reduce costs and increase profitability.[193] Because Circuit City could not meet the requirements of the plan set by the court and its creditors, the company converted the case under Chapter 7 and began to close all of its stores.[194] Circuit City's assets, along with its trademarks, were liquidated and sold at auction.[195] While Circuit City's assets were purchased in 2009 by a company called Systemax, it was not until 2018 that the company was revived, and revival is not a possibility for all companies that file for bankruptcy.[196]

As Circuit City's case illustrates, the Chapter 11 debtor's chance at a fresh start and continued existence hinge on the ability to get a plan approved. While there were no issues of quality control in Circuit City's case, committing to engage in quality control under Chapter 11 may allow the mark to survive temporarily. However, it is still possible that the case could be converted to a Chapter 7 liquidation, and such efforts to keep the trademark alive could work to the company's detriment by impeding its

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190. *Id.*

191. *Chapter 11 - Bankruptcy Basics*, *supra* note 77; 11 U.S.C. § 507 (2018).

192. 11 U.S.C. § 507.

193. *See* Karen Jacobs, *Circuit City Files for Bankruptcy*, REUTERS (Nov. 10, 2008), https://www.reuters.com/article/us-circuitcity/circuit-city-files-for-bankruptcy-idUSTRE4A936V20081111 [https://perma.cc/GD57-ULQ5].

194. Karen Jacobs et al., *Circuit City to Liquidate, Shutter Stores*, REUTERS (Jan. 16, 2009), https://www.reuters.com/article/us-circuitcity/circuit-city-to-liquidate-shutter-stores-idUSTRE50F1VW20090116 [https://perma.cc/WB3A-W2K8].

195. THE LAW AND PRACTICE OF TRADEMARK TRANSACTIONS: A GLOBAL AND LOCAL OUTLOOK § 7.29 (Irene Calboli & Jacques De Werra eds., 2016).

196. Lauren Thomas, *Circuit City to Relaunch Online Next Month, with Stores on the Horizon*, CNBC (Jan. 9, 2018, 12:01 PM), https://www.cnbc.com/2018/01/09/circuit-city-to-relaunch-online-next-month-with-stores-on-the-horizon.html [https://perma.cc/8AK7-QM95].

reorganization and forcing a wind up. While a conversion and forced wind up may not always be the case, particularly if the costs of engaging in quality control are low, as further discussed below, possible solutions in this scenario include placing a provision in the contract that allows the debtor-licensor to reject the trademark license while simultaneously cutting off the licensee's right to use the trademark. However, this option has repercussions for licensees, particularly if they have invested time and money building their business around use of the trademark.

Alternatively, if there are quality control measures in place by the purchaser, the trademark may survive.[197] A solution to this would include putting a provision in the contract providing that in the event of bankruptcy of the licensor, the licensee would become the owner of the trademark. However, a problem arises under this solution where the license is a non-exclusive license, meaning that others also have the right to use the mark.[198] For example, if Coca-Cola filed for bankruptcy, and it had executed a license of its word mark to a diner and a small manufacturer of apparel, and the mark survived bankruptcy, there would be an increased likelihood of consumer confusion because consumers would not know where the mark originated, and therefore, the source of the mark would be distorted.

Even when the license is exclusive, if the licensor and licensee's businesses are different, it may be impermissible to assign the mark to the licensee.[199] Such an assignment would be to sell the mark separate from the underlying product or service, which directly violates the rule against assignments in gross.[200] Even if a trademark assignment "expressly assigns the goodwill associated with the trademark, the assignment may be ineffective if the assignee's products are not nearly the same as the assignor's goods."[201] Such a rule ensures "both continuity of type of goods and quality

197. GILSON LALONDE, *supra* note 13, § 6.07; *see also Barcamerica Int'l USA Tr. v. Tyfield Imps.*, 289 F.3d 589, 595 (9th Cir. 2002).

198. 2 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 6.03 (2020).

199. Scott D. Locke and Jessica J. Kastner, *Violation of the Assignment-In-Gross Rule for Trademarks*, LAW.COM, N.Y. L.J. (June 30, 2020, 10:35 AM), https://www.law.com/newyorklawjournal/2020/06/30/violation-of-the-assignment-in-gross-rule-for-trademarks/?slreturn=20200927230217 [https://perma.cc/X5QT-KEAD].

200. *Id.*

201. *Id.*

under the assigned trademark."[202] However, if the licensor and licensee have similar businesses then such a solution may work.[203]

Notwithstanding permissibility, there may be scenarios where it does not make sense for a licensee to become the new owner of the trademark after bankruptcy of the licensor. In the Coca-Cola illustration above, if Coca-Cola filed for bankruptcy, it would make little sense for its valuable trademark to transfer to the owner of the small apparel manufacturing company. Not only will the mark no longer be backed by the original trademark owner, losing its identification as to its source, but some licensees may lack the negotiating power to get such a provision into a contract due to their inferior bargaining position. Thus, while assignment of ownership to the licensee upon bankruptcy of the licensor is possible in some scenarios, it may not always be a viable solution.

The policy behind the law against naked licensing focuses on protection from consumer confusion, promotion of fair competition, and protection of goodwill.[204] Allowing trademark licensees to continue use of a trademark after the licensor has filed for bankruptcy may give rise to consumer confusion because the source of the goods or services at issue may be distorted if a debtor no longer has the ability to supervise a licensee's use of a mark.[205] This option may violate the underlying policy of trademark law, which is rooted in the "public's interest in not being misled as to the origin and quality of goods that consumers buy."[206] Whether a lack of quality control comes from the reorganization, dissolution, or sale of a company, the potential for abandonment as a result of naked licensing lingers because trademark owners are obligated "to control the quality of goods or services provided under the licensed trademark."[207]

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202. *Id.*

203. *Id.*

204. 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 1.03 (2020).

205. *Id.*; Smith, *supra* note 79, at 290.

206. *In re* Tempnology, LLC, 879 F.3d 389, 404 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

207. Tom Kulik, *Leaving a Mark II: Why Trademark Licensees Need to Beware the Holding in Mission Products Holdings v. Tempnology, LLC*, ABOVE THE LAW (June 10, 2019, 4:48 PM), https://abovethelaw.com/2019/06/leaving-a-mark-ii-why-trademark-licensees-need-to-beware-the-holding-in-mission-products-holdings-v-tempnology-llc/ [http://archive.today/hR17t].

B. Amendment of the Lanham Act

A possible solution to the loss of the of trademark rights where there is a lack of quality control by the licensor is a congressional amendment of the Lanham Act to include an exception in the event a trademark licensor files for bankruptcy. Such a provision could state: "In context of bankruptcy, licensees will maintain the right to use the mark irrespective of supervision or lack thereof, for a specified period so long as the licensee maintains the quality of the products or services." This specific carve-out will provide more latitude to a licensee in the event that the licensor files for bankruptcy, allowing the mark to survive the bankruptcy and alleviate some of the risk that arises out of the *Mission* decision. This exception would also coincide with trademark policy because if equivalent quality is maintained, the mark will continue to serve as a source identifier, protect goodwill, avoid consumer confusion, and promote fair competition.[208]

Further, the exception could include an additional time limit that begins to run at the date of filing of the bankruptcy petition in order to prevent an unfair disadvantage to the licensee. Currently, under the Lanham Act, the presumption of abandonment arises after three consecutive years of nonuse.[209] In 1996, Congress amended the code to expand the time limit to three years rather than the two years of nonuse.[210] This legislative history indicates that there came a point when two years was deemed insufficient, possibly justifying an additional time period in the context of bankruptcy. An additional time limit will allow licensees who may have expended a significant amount of funds in connection with the sale and marketing of their products the time to plan and begin thinking about other options.

However, in the event of Chapter 7 liquidation, it is unclear whether the mark would survive. This uncertainty lies in the fact that the asset may either be purchased or abandoned.[211] In the scenario where the company dissolves and the licensor's rights under the agreement are sold at auction,

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208. GILSON LALONDE, *supra* note 204, § 1.03.

209. 15 U.S.C. § 1127 (2018).

210. Sandra Edelman, *Why Wait Three Years? Cancellation of Lanham Act Section 44(e) and 66(a) Registrations Based on Non-Use Prior to the Three-Year Statutory Period for Presumption of Abandonment*, 104 THE TRADEMARK ASS'N 1366, 1372 n.29 (2014).

211. *Process - Bankruptcy Basics*, *supra* note 6.

the mark may become abandoned if there is a lack of quality control by the new purchaser.[212]

C. The Best Option to Overcome the Issues with the Mission Decision

As previously noted, in bankruptcy, the core policy is to help the unfortunate but honest debtor achieve its fresh start.[213] In trademark law, the core policies are to ensure consumer recognition as to the source of goods and services, to promote fair competition, and to protect the goodwill of the business.[214] However, these policies have been undermined by the Supreme Court's holding in *Mission*. To achieve a result in line with the policies underlying both trademark law and bankruptcy law, Congress will need to override and fix the holding in *Mission*. As Justice Sotomayor pointed out, the impact of the decision on restructuring licensors may be significant, but that impact did not alter the outcome of the case.[215] Rather, the Supreme Court left "Congress with the option to tailor a provision for trademark licenses, as it has repeatedly in other contexts."[216]

D. Advice to Practitioners

In the absence of a congressional response to *Mission*, attorneys of licensors could negotiate termination rights in the event the licensor files for bankruptcy causing "contract law principles . . . [to] determine the parties' respective rights."[217] To illustrate, licensors may try to contract around the decision by inserting a provision that includes language as simple as: "in the event the Licensor files bankruptcy and rejects the trademark licensing agreement, the Licensee's right to continued use of the trademark will

212. GILSON LALONDE, *supra* note 13, § 6.07.

213. *See* discussion *supra* Part II.B.

214. GILSON LALONDE, *supra* note 204, § 1.03.

215. Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652, 1667 (2019) (Sotomayor, concurring).

216. *Id.*

217. Michael J. Kasdan, Sapna W. Palla & Kristyn Hansen, *In Landmark Decision, Supreme Court Rules Trademark Licensees Retain Rights Even After Rejection by Licensor in Bankruptcy*, NAT'L L. REV. (May 28, 2019), https://www.natlawreview.com/article/landmark-decision-supreme-court-rules-trademark-licensees-retain-rights-even-after [https://perma.cc/T7P9-AU26].

terminate upon rejection." As noted above, such a provision could be the difference between a debtor-licensor surviving bankruptcy and not surviving.

Indeed, a contract provision such as the one above would let a licensor terminate a licensing agreement upon filing bankruptcy, which could reduce its quality control obligations and potentially allow the licensor to renegotiate the licensing agreement or find a new licensee. The reduction of quality control obligations would free up precious resources to allocate to creditors under a Chapter 11 plan. The potential renegotiation of the licensing agreement would give the debtor the chance to possibly bring more money into the estate, which could also be used to repay creditors. This termination would therefore allow the debtor to propose a Chapter 11 plan that would allocate more money to creditors and would be more likely to get approved through the voting process. Such a provision would likely put the licensee in a position to negotiate for a lesser royalty rate to alleviate the risk of a potential bankruptcy by the licensor.

In the absence of such contract provisions, debtors would have less money to allocate to creditors, making plan rejection and conversion to Chapter 7 more likely in instances where the debtor may not have enough funds to get a plan confirmed.[218] Conversion would be disastrous to the Chapter 11 debtor because it would result in the cessation of the debtor's business. Licensors' attorneys therefore need to be aware of the downstream risk to their clients if such provisions are not negotiated—leaving the *Mission* holding intact could make the difference between the client's survival and dissolution. Courts should be willing to uphold such provisions to provide licensors a better chance to reorganize and survive bankruptcy.

Another reason that courts should help debtors reorganize is that creditors must either accept a debtor's Chapter 11 plan or receive at least as much money under the Chapter 11 plan as they would under a Chapter 7 liquidation.[219] Because creditors will often receive more under a Chapter 11 reorganization than they would under a Chapter 7 liquidation—and never less—it is in the interest of creditors for the debtor to be able to reorganize.[220]

218. *See generally Chapter 11 - Bankruptcy Basics*, *supra* note 77.

219. 11 U.S.C. § 1129(a)(7) (2018).

220. *Id.*

However, while it has been argued that "monetary damages for breach are more than sufficient remedies for Mission under § 365,"[221] the option to continue use of the trademark may be important because claims made against a bankruptcy estate are often paid only cents on the dollar, "making it likely that a continuing license is far more valuable to the licensee."[222] In fact, it is possible that the licensee might not be entitled to any payment at all.[223] When a debtor files for bankruptcy, the creditors are grouped into classes and ordered in terms of priority.[224] For example, in corporate bankruptcies, attorneys and other professionals are priority "administrative expense claimants" under section 507(a)(2) and will get paid in full before all other creditors.[225] Unsecured trademark licensees are non-priority creditors that are paid only after priority creditors have been paid in full.[226]

As an alternative to a provision allowing a licensor to terminate a licensee's rights to use a mark upon the licensor's bankruptcy filing, the contract could contain a term which provides that a licensor be required to provide a written commitment to continue to maintain quality control or to "agree to assign the trademark (and any registration) to the licensee" upon insolvency of the licensor.[227] A licensing agreement could also require that

221. Smith, *supra* note 79, at 303.

222. *In* Mission Product *Ruling, Supreme Court Clarifies Longstanding Circuit Split on Effects of Bankruptcy on Trademark Licenses*, IPWATCHDOG (May 20, 2019), https://www.ipwatchdog.com/2019/05/20/mission-product-ruling-supreme-court-clarifies-longstanding-circuit-split-effects-bankruptcy-trademark-licenses/id=109440/ [https://perma.cc/79J5-7G4N].

223. *Id.*

224. 11 U.S.C. § 507 (stating that "(a) [t]he following expenses and claims have priority in the following order: (1) First (A) Allowed unsecured claims for domestic support obligations . . . (C) If a trustee is appointed . . . the administrative expenses of the trustee . . . (2) Second, administrative expenses[,] . . . unsecured claims of any Federal reserve bank[,] . . . and any fees and charges assessed against the estate under chapter 123 of title 28. (3) Third, unsecured claims allowed under section 502(f) of this title. (4) Fourth, allowed unsecured claims, but only to the extent of $10,000 for each individual or corporation . . . for— (A) wages, salaries, or commissions . . . or (B) sales commissions earned by an individual or by a corporation with only 1 employee, acting as an independent contractor in the sale of goods or services for the debtor in the ordinary course of the debtor's business . . . .").

225. *Id.*

226. *Id.*

227. Milton Springut, *Supreme Court Bankruptcy Decision Has Major Impact on Trademarks and Licenses*, LAW.COM: N.Y. L.J. (June 12, 2019), https://www.law.com

"if the licensor cannot commit to doing so, the licensor would appoint the licensee as its agent to file renewals with the Trademark Office and fees incurred deducted from any royalties due[,]" and the licensee will maintain quality.[228] This may give the licensor the opportunity to eliminate expensive obligations and allow the licensee to continue using the mark.

Nonetheless, in light of the potential for consumer confusion and naked licensing resulting from a lack of supervision post-bankruptcy, the decision in *Mission*, "[a]s a practical matter, [] may lead to higher licensing fees to account for the greater risk on the part of the licensor."[229] Attorneys of licensors may also try to push for agreements with shorter terms to prevent "further degradation of the debtor's fresh start options" in the event that a licensor becomes obligated, upon filing bankruptcy, to expend scarce financial resources to maintain the quality of the mark for an extended period of time.[230] For now, attorneys for parties to a licensing agreement must be aware of the bankruptcy implications of the *Mission* holding and prepare to address them in contract negotiations to give their clients the best possible representation.

V. CONCLUSION

While the *Mission* decision is seemingly licensee friendly, there are several undesirable results that arise out of the decision, which include an undermining of the twin aims of the Bankruptcy Code, as well as the likelihood of consumer confusion, naked licensing, abandonment, and even dissolution of the debtor. Consequently, it is crucial that practitioners remain aware of the potential effect that could result from *Mission*. As noted above, the case may have tremendous implications for reorganizing licensors. Attorneys for trademark licensors should try to negotiate for provisions in trademark licensing agreements, such as termination of a licensee's right to use the mark, in order to contract around the holding in *Mission (to the extent*

/newyorklawjournal/2019/06/12/supreme-court-bankruptcy-decision-has-major-impact-on-trademarks-and-licenses/ [https://perma.cc/TCD7-YJHS].

228. *Id*.

229. Anthony J. Dreyer et al., *US Supreme Court Holds That Bankrupt Companies Cannot Rescind Trademark Licenses*, SKADDEN (May 21, 2019), https://www.skadden.com/insights/publications/2019/05/us-supreme-court-holds-that-bankrupt-companies [https://perma.cc/PU5V-HP5M].

230. *In re* Tempnology, LLC, 879 F.3d 389, 404 (1st Cir. 2018), *rev'd sub nom.*, Mission Prod. Holdings, Inc. v. Tempnology, LLC, 139 S. Ct. 1652 (2019).

this is permissible). Attorneys for trademark licensees should try to ensure that their clients get something in return for such provisions to create a mutually beneficial bargain, such as a lower royalty rate to account for the risk of loss. If the parties do not agree to such a provision, or if such a provision is unenforceable, then the licensee will be able to continue using the trademark, even upon the licensor's rejection of the agreement in bankruptcy, which may open the doors for the problems set forth above.

In the absence of such provisions, congressional intervention will likely be necessary.[231] Otherwise, the twin aims of the Code will not be met with regard to trademark licensing agreements, companies could be wound up, employees could lose their jobs, and investors could lose their investments. Congress could amend the Bankruptcy Code by adding a trademark-specific provision as suggested by Justice Sotomayor. Alternatively, Congress could amend the Lanham Act to include an exception to the rule regarding naked licensing in the context of bankruptcy. For now, congressional intervention of the bankruptcy and trademark codes may be premature.

While there is still no perfect solution or ideal rule for both licensors and licensees for now, if practitioners—especially those who represent trademark licensors—remain aware of the issues discussed in this Comment, and negotiate prudently, they will be able to craft a mutually beneficial agreement for their clients that avoids the dangers created by *Mission*.

231. Menell, *supra* note 72, at 754 (2007) ("[S]ection 365(e)(1) invalidates any termination or modification clause of an executory contract (or lease) conditioned upon the insolvency or financial condition of a debtor, the filing of a bankruptcy petition, or the appointment of a bankruptcy trustee."); *see* 11 U.S.C. § 365(e) (2018). *But see* F. Scott Kieff & Troy A. Paredes, *An Approach to Intellectual Property, Bankruptcy, and Corporate Control*, 82 WASH. U. L. Q. 1313, 1313-1314 (2004) ("proposing use of special purpose entities for holding IP assets to exclude them from bankruptcy estates").