BAP Holds That Rejection of a Trademark License Does Not Automatically Terminate Licensee's Rights

In the case of *Mission Product Holdings, Inc. v. Tempnology LLC* (*In re Tempnology LLC*), 559 B.R. 809 (B.A.P. 1st Cir. 2016), the United States Bankruptcy Appellate Panel for the First Circuit held that, although trademarks and trade names are not included within the Bankruptcy Code's definition of "intellectual property," the licensee's rights to use a debtor/licensor's trademarks were not automatically terminated by the debtor's rejection of the agreement in bankruptcy.

BACKGROUND FACTS

Tempnology LLC ("Tempnology" or the "Debtor") was a company that developed chemical-free cooling fabrics for use in consumer products under the brand name "Coolcore." *Id.* at 1-2. Mission Products Holdings, Inc. ("Mission") is a company in the business of marketing and distributing innovative sports technologies. *Id.* at 811.

Tempnology and Mission were parties to a co-marketing and distribution agreement (the "Agreement") granting Mission, among other things, exclusive distribution rights within the United States for an array of Tempnology products, a non-exclusive license to use certain intellectual property ("IP") (but not the trademarks or logo), and a limited license to use trademarks and the logo during the term of the Agreement. *Id.* at 811-13.

In June 2014, Mission exercised its rights to terminate the Agreement without cause, triggering the two-year wind-down period. *Id.* at 813. In July 2014, Tempnology issued a notice of termination for cause, asserting that Mission had breached the Agreement. *Id.* The dispute resulted in a two-phase arbitration process. *Id.* In June 2015, the arbitrator rendered a decision in the first phase of arbitration that the Agreement remained "in full force and effect." *Id.* The second phase of the arbitration—as to whether either party had breached the Agreement—was not decided because Tempnology filed a chapter 11 bankruptcy case in September 2015. *Id.*

The first day following its bankruptcy filing, Tempnology filed a motion to reject certain executory contracts,[1] including the Agreement with Mission, and a motion to allow Tempnology to sell substantially all of its assets free and clear of liens, claims, encumbrances and other interests. *Id.*

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[1] Under 11 U.S.C. § 365(a), subject to court approval, a debtor may reject its executory contracts.

Mission filed an objection to the sale motion and the rejection motion, including a notice of election pursuant to 11 U.S.C. § 365(n)(1)(B), [2] arguing that notwithstanding the Debtor's rejection of the Agreement, by making an election under § 365(n), Mission retained its exclusive product distribution rights as well as its rights under the IP license and the trademark license and that it could continue to exercise without interference from Tempnology or the purchaser of its assets. *Id.*

The Bankruptcy Court ruled that: (1) Mission's election pursuant to 11 U.S.C. § 365(n) protected Mission's rights as a non-exclusive licensee only as to any patents, trade secrets, and copyrights; [3] (2) Mission's election pursuant to 11 U.S.C. § 365(n) provided no protectable interest in the Debtor's trademarks or trade names; and (3) Mission's election pursuant to 11 U.S.C. § 365(n) provided no protectable interest in the Debtor's "Exclusive Products" and the "Exclusive Territory" as those terms were defined in the Agreement. *Id.* at 814. [4]

THE BANKRUPTCY APPELLATE PANEL'S DECISION

On appeal, Mission argued that the Bankruptcy Court committed error by, among other things: (1) ruling that Mission's § 365(n) election applied only to the IP license and not to the product distribution rights granted in the Agreement; and (2) ruling that Mission did not retain any rights to use Tempnology's trademark and logo because those items are not included in the Bankruptcy Code's definition of "intellectual property." *Id.* at 817.

First, the United States Bankruptcy Appellate Panel for the First Circuit (the "BAP") explained that, "[u]pon rejection of an executory contract, the licensee's § 365(n) election applies only to its rights to intellectual property and not to any other rights that it might have received under the executory contract." *Id.* (emphasis added). Therefore, the BAP concluded that the Bankruptcy Court did not err in ruling that the exclusive product distribution rights granted to Mission in the Agreement were unprotected by its § 365(n) election. *Id.* at 818.

Second, the BAP held that although Mission's rights to use the trademarks were not protected by its § 365(n) election, Tempnology's rejection of the Agreement did not automatically "vaporize Mission's trademark rights under the Agreement[,]" and that "[w]hatever post-rejection rights Mission retained in the Debtor's trademark and logo are governed by the terms of the Agreement

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[2] 11 U.S.C. § 365(n) protects licensees of "intellectual property" by permitting them to elect to retain certain rights granted to them under the contract, despite the debtor's rejection thereof.
[3] With respect to the Debtor's trademarks, the Bankruptcy Court concluded that, to the extent the Agreement granted Mission a non-exclusive right to use certain of the Debtor's trademarks and trade names, 11 U.S.C. § 365(n) did not protect Mission's trademark license or use of logos post-rejection.
[4] The Bankruptcy Court determined that the distribution rights granted to Mission under the Agreement were unrelated to the IP license and, although the IP license itself was protected under 11 U.S.C. § 365(n), the distribution rights were not.

and applicable non-bankruptcy law." *Id.* at 822-23 (emphasis added).

CONCLUSION

The *Tempnology* decision is significant because it is the first decision to adopt the United States Court of Appeals for the Seventh Circuit's holding in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012), which held that a debtor's rejection of a trademark license, which was part of a larger supply agreement, did not automatically extinguish the licensee's right to use the debtor's trademarks under that agreement.

This ruling is different from courts which have determined that a debtor's rejection of a license *is* an automatic termination of a licensee's right to use the debtor's trademarks post-rejection, *see, e.g., In re Old Carco LLC*, 406 B.R. 180 (Bankr. S.D.N.Y. 2009), or courts which have allowed licensees to retain their § 365(n) rights in trademarks based on equitable considerations, *see In re Crumbs Baker Shop, Inc.*, 522 B.R. 766 (Bankr. D.N.J. 2014).

Mission filed an appeal in the United States Court of Appeals for the First Circuit and its Opening Brief is currently due to be filed on or before February 21, 2017.

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This Goodsill Alert was prepared by Johnathan C. Bolton (jbolton@goodsill.com or (808) 547-5854) of Goodsill's Creditors' Rights and Bankruptcy Practice Group.