

Bankruptcy Dispute Regarding “Coolcore” Trademark Heats Up in the First Circuit

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In December 2015, the TMCA [blogged](#) about a decision in *In re Tempnology, LLC*, in which the Bankruptcy Court for the District of New Hampshire held that a debtor’s rejection of a licensing agreement in bankruptcy

terminated the licensee’s rights to continue using the “Coolcore” brand for chemical-free cooling fabrics. Back then, we noted that the decision was pending on appeal before the Bankruptcy Appellate Panel for the First Circuit (the “BAP”). The BAP has spoken, and its [decision](#) rejects the bankruptcy court’s approach—rooted in case law from 1985—in favor of the modern trend of expanding protection for trademark licensees.

Here are some highlights from our December 2015 post that are relevant to a discussion of the BAP’s decision:

- In 1985, the Fourth Circuit held that a licensee under an IP licensing agreement rejected by a debtor-licensor loses the right to continue using licensed IP, in the case of *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985).
- In 1988, Congress enacted Section 365(n) of the Bankruptcy Code, which provides for licensees to retain their rights, including exclusivity rights, to use “intellectual property” and continue paying royalties for the duration of an executory licensing agreement that is rejected by a debtor-licensor.
- The Bankruptcy Code’s definition of “Intellectual Property” does not include trademarks.
- Until 2010, courts commonly read the omission of trademarks from the definition of “Intellectual Property” to create a “negative inference” that Congress intended for

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Lubrizol to govern trademark licensing rights when a debtor rejects a licensing agreement. Under the “negative inference” approach, a licensee must cease producing and selling goods bearing the licensed trademark, frequently on relatively short notice.

- In the past six years, the Federal Courts of Appeals for the Third, Seventh, and Eighth Circuits have rejected the “negative inference” in decisions that permit licensees to continue using licensed trademarks to produce and sell goods.

Back to *In re Tempnology*, after the debtor rejected a co-marketing and distribution agreement providing a non-exclusive license to use the “Coolcore” trademark and logo, the counterparty, Mission Products Holdings, Inc., sought to preserve its rights under Section 365(n). The bankruptcy court applied the “negative inference” and held that Mission could not retain its rights to use Tempnology’s trademarks and logos. It further found that Section 365(n) did not protect Mission’s exclusive distribution rights.

The BAP affirmed the bankruptcy court’s conclusions that Mission’s exclusive distribution rights, as well as its trademark rights, were unprotected by Section 365(n). However, it reversed the bankruptcy court’s finding that the debtor’s rejection of the agreement terminated Mission’s rights in the trademark and logo. The BAP adopted the rationale set forth in *Sunbeam Products v. Chicago American Manufacturing*, 686 F.3d 372 (7th Cir. 2012), *cert. denied*, 133 S. Ct. 790 (2012): rejection of an agreement by a debtor does not “vaporize” the licensee’s trademark rights under the agreement. The BAP found, like the Seventh Circuit, that such post-rejection rights are governed by non-bankruptcy law.

Thus, although Section 365(n) does not protect a licensee’s trademark rights, a debtor’s rejection of a contract conferring a trademark license—the same act that would trigger Section 365(n) if the Bankruptcy Code’s definition of “Intellectual Property” included trademark rights—does not nullify the contract. Rather, the act is tantamount to a breach and gives rise to state law contract damages or other applicable remedies for the counterparty, in this case Mission. As the BAP’s decision highlights, this result is consistent with Section 365(g) of the Bankruptcy Code, which deems a debtor’s rejection of an executory contract it has not assumed to be a breach of the agreement immediately before the date the debtor filed its bankruptcy petition. In such an instance, a counterparty like Mission is generally left with a claim for damages as of the petition date and its substantive contractual rights remain intact, excluding a right of specific performance against the debtor.

The BAP’s decision is a victory for the right of trademark licensees to use licensed marks, but considering the issues that go hand-in-hand with trademark use, it may be a limited one. Parameters of the licensee’s use of a trademark (i.e., Section 365(n)’s specification that a licensee may retain and exercise contractual rights to use the trademark for the duration of the contract), the status of the licensee’s non-trademark rights under the same agreement with the debtor (i.e., Mission’s distribution rights), and the debtor-licensor’s rights against the licensee remain unclear.

Our December 2015 post points out a drafting lesson derived from the *Tempnology* case that holds true—to separate IP licensing agreements from agreements on matters

unrelated to IP, such as distribution. As the BAP's decision shows, bootstrapping non-IP rights to an IP agreement likely will not achieve protection of those rights under Section 365(n). Additionally, as we noted before, bundling various IP rights in an integrated agreement may help secure the protections of Section 365(n).

Mission has appealed the BAP's decision to the First Circuit Court of Appeals. At this time, appellate briefing is not complete, but there can be little doubt that the appeal is an opportunity for the First Circuit to expound upon the applicability and scope of Section 365(n). Whether and to what extent the First Circuit embraces the approaches of the lower courts and/or other circuits remains to be seen.