

## **Case Study Report:**

**Mrs. Fields Brand, Inc. v. Interbake Foods LLC:  
a trademark license agreement dispute**

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## Abstract

The case Mrs. Fields Brand, Inc. v. Interbake Foods LLC is about a trademark license agreement dispute. For years, Mrs. Fields Brand, well-known cookie company, conducted their business by selling their goods directly to retail stores. Later the cookie company changed their business model to a licensing model, a deal was agreed, giving Interbake the right to produce and sell products under Mrs. Fields brand. But, when their annual net sales fell below a certain threshold, Interbake attempted to terminate the agreement, stating commercial unviability of the company and occurrence of material adverse events. To prevent the termination of the contract Mrs. Fields sued Interbake claiming that only they had the right to terminate the contract. This propelled a legal battle where the court ruled in favour of Mrs. Fields. Additional claims made by Interbake were also dismissed by the court. Meaning that the contract termination was invalid, as a result, both parties were required to see out the remainder of the contract.

## 1 Introduction

This report is about a trademark license agreement dispute between an American franchisor in the snack food industry, Mrs. Fields, and Interbake Foods LLC, an industry expert in high quality cookies products. Mrs. Fields was well known for their cookies, selling them to retail stores, which was their primary business.

However, in 2012 they opted for a different strategy: they wanted to sell goods under a licensing agreement. That's when Mrs. Fields and Interbake Foods LLC struck a deal and entered into a five year trademark licensing agreement. This agreement meant that Interbake now could sell Mrs. Fields' goods in different retail stores.

Between 2014 and 2015, several disagreements arose, such as Interbake's repeated attempts to buy out Mrs. Fields but the cookie company kept on rejecting Interbake's offer. In 2016, when Mrs. Field's annual sale for the year 2015 fell short of a certain threshold, Interbake terminated their contract agreement that they had in 2012.

This led both parties to blame each other for not following the contract terms, resulting in Mrs. Field rejecting the termination done by Interbake, claiming that only they had the right to do so, not Interbake. As a reply, Mrs. Field sued Interbake so that they can prevent the termination of the contract, seeking a Temporary restraining order (TRO). These legal actions would kick start a legal battle between the two parties that would last approximately 14 months.

## 2 Case Background

Mrs.Fields, the cookie company, primarily sold their goods to retail stores. However, in 2012 they chose to go for a different strategy: they wanted to sell goods under a licensing agreement. That's when Mrs. Fields and Interbake Foods LLC agreed on a five year trademark licensing deal. This agreement meant that Interbake could now sell Mrs. Fields' goods in different retail stores.

### Several key license agreement provisions:

- Interbake has to pay 2 million USD to Mrs. Field as Guaranteed Minimum Royalties (GMRs) every year for the last four years of the contract
- Early termination is allowed if Mrs. Field's annual net sales fell below \$20 million in any given year.
- Interbake could terminate the contract If Mrs. Fields fundamentally changed the brand, made Interbake's performance "Commercially Unviable," or if a "Material Adverse Event" (MAE) occurred.
- Mrs. Fields has to maintain the brand image, continue to advertise and promote the brand generally at past levels of support.

## Timeline of Events

Interbake's sales of Mrs. Fields branded products fell below the 20 million USD threshold in 2015. Based on this, Interbake claimed that it had the right to terminate the trademark license agreement that the both parties had agreed to back in 2012—and that's exactly what they did.

In April 2016, Interbake Foods LLC attempted to terminate its trademark license agreement early with Mrs. Fields. However, Mrs. Fields disagreed with the early termination and disputed that only Mrs. Field had the right to terminate the agreement under the contract terms, not Interbake. In response to Interbake, Mrs. Fields sued Interbake to prevent the contract being terminated and subsequently sought a temporary restraining order (TRO).

### Interbake Foods LLC

Interbake in 2014 wanted to buy out the cookie company for 30-32 million USD, which rose to 50 million USD in 2015, both of which offers Mrs. Field declined, leaving a bad taste in their mouth. Later it was pointed out that Mrs. Field had their own problems: Cookie Confusion, Stagnant Brand, Quality Concerns. From Interbake's perspective, they believed Mrs. Fields had failed to support the brand, making it hard for Interbake to succeed. Hence, Interbake claimed that Mrs. Fields failed to market and promote the brand as it once used to at previous years - breaching their agreement. Interbake also claimed that Mrs. Fields disapproved of using a third party pre packaged cookie jar and engaged in poor marketing efforts that resulted in hurting the sales of Interbake. All in all, Interbake was displeased with the declining sales and wanted to exit the contract so that they could look for better business opportunities elsewhere.

### Mrs. Fields Brand

On the other hand, Mrs. Fields' were confident about their products, brand & quality and were determined not to sell their brand despite financial difficulties. They also argued that Interbake knew about the quality of the cookies and brand issues before both parties agreed to sign the contract. They wanted to see out the contract and maintain control over the brand perception and licensing.

Therefore, the legal battle was triggered when Interbake chose to terminate the trademark license agreement with Mrs. Fields in April 2016. Which then led the cookie company to sue Interbake so that they could prevent the termination of the contract.

## 3 Primary Legal Issues

This trademark license agreement dispute involved several legal problems. But there were two main legal issues that were involved. These are:

- **Whether Interbake Foods LLC had the right to terminate the trademark license agreement due to the low sales of Mrs. Fields Brand:** Interbake claimed that it could terminate the existing contract because of low annual net sales of Mrs. Fields products which happened in 2015. The threshold being 20 million USD. But Mrs. Filed argued that only it had the right to terminate the contract on that condition, not Interbake.
- **Whether Interbake Foods LLC could terminate trademark license agreement due to a "Materially Adverse Event" or "Commercial Unviability" caused by Mrs. Fields Brand:** Interbake believed that Mrs. Fields' actions, such as cookie quality concerns and failing to support the brand, made Interbake's performance "commercially unviable" justifying termination. Mrs. Fields argued that if any brand related issues were known before the contract was signed then why Interbake was still keen to buy out Mrs. Fields, contradicting its claim of "commercial unviability".

In addition to the significant ones, there were some minor legal issues that the court considered relevant. Those were: Whether Mrs. Fields showed poor marketing efforts or failed to support them as required under the contract. Whether Mrs. Fields violated any confidentiality agreements or breached an audit provision.

## 4 Cyber Law Implications

There were no noteworthy cyber law implications such as data security, data privacy, intellectual property issues in the case. This case was mainly a contractual dispute where the primary points were trademark licensing, contract termination and brand handling.

Although the Mrs. Fields trademark was in fact an intellectual property, the dispute was purely based on the contract terms and its enforcement - not about any data privacy, infringement or cybersecurity.

## 5 Judicial or Regulatory Outcomes

Mrs. Fields Brand and Interbake Foods LLC were involved in a legal battle that lasted approximately 14 months. There were several legal issues that were involved, notably there were two significant ones along with some minor ones. The case proceeded through the whole legal process, including litigation and arguments from both sides. The court that was responsible for the case was the Delaware Court of Chancery. All the rulings of the court have been listed below:

- **Legal Issue:** Whether Interbake Foods LLC had the right to terminate the trademark license agreement due to the low sales of Mrs. Fields Brand

Interbake claimed that they could terminate the contract because Mrs. Fields' annual net sales fell below the 20 million USD threshold in 2015. But Mrs. Fields argued that only they had the right to terminate the contract under that condition, not Interbake.

**Court Ruling:** In favour of Mrs. Fields. It was ruled that only Mrs. Fields had the right to terminate the agreement if annual net sales fell below the 20 million USD threshold, making Interbake's termination invalid.

- **Legal Issue:** Whether Interbake Foods LLC could terminate trademark license agreement due to a "Materially Adverse Event" or "Commercial Unviability" caused by Mrs. Fields Brand

Interbake believed that Mrs. Fields' actions, such as concerns about cookie quality and the failure to provide the right support to the brand, made Interbake's performance "commercially unviable" - justifying termination. Mrs. Fields argued that Interbake was contradicting its claim of "commercial unviability". Because if any brand related issues were known before the contract was signed then why Interbake was still eager to buy the cookie company.

**Court Ruling:** In favour of Mrs. Fields. Interbake failed to provide any proof regarding a material adverse event or Mrs. Fields' actions that made their business "commercially unviable".

Furthermore, In addition to the significant ones, there were some minor legal issues that the court considered relevant. As for the other minor legal issues the court considered:

- **Legal Issue:** Whether Mrs. Fields Brand failed to provide proper marketing support as required under the contract terms.

**Court Ruling:** In favour of Mrs. Fields. The Court found insufficient proof against Interbake's claim.

- **Legal Issue:** Whether Mrs. Fields Brand broke any confidentiality agreements

**Court Ruling:** In favour of Mrs. Fields. The Court ruled that they did not.

- **Legal Issue:** Whether Mrs. Fields Brand breached an audit provision

**Court Ruling:** In favour of Mrs. Fields. The Court found no such breaches

## Conclusion of the Case

The Delaware Court of Chancery ruled in favour of Mrs. Fields Brand - rejecting all the claims and termination arguments of Interbake. The court stated that Interbake did not have the right to terminate the agreement based on the 20 million USD annual net sales clause. Interbake failed to provide any viable proof that Mrs. Fields Brand had sabotaged its business or made its business "commercially unviable." No "material adverse event" (MAE) had occurred because Interbake was aware of the cookie quality and the brand issues prior to signing the trademark license agreement.

## Aftermath of the Court Ruling

Since Interbake's attempt to terminate the contract proved to be invalid, the contract remained in force. It remained to be effective as it was before the agreement was put on trial by both parties. Interbake was unable to venture forward with their future plans and partnerships, notably with Back to Nature, as the deal fell apart. Since the court ruling invalidated Interbake's early exit, the decision most likely created a strained business relationship between the two companies. Mrs. Fields maintained control over its brand and the licensing rights as per the contract terms for the remainder of the contract period.

## The Key Legal Frameworks Involved

The court mainly relied on Delaware contract law principles and legal documents related to contract and trademark interpretation, licensing and commercial agreements while deciding this case. Since the court was located in Delaware, it was governed by Delaware law. The court applied Delaware contract interpretation principles, which focuses on the plain meaning and language of the contract, external evidence like emails, good faith and intentions of the parties. Trademark Law, specifically Lanham Act, 15 U.S.C. §§ 1051 et seq. was indirectly relevant as well as Corporate & Business Law Principles.

## 6 Broader Implications

Cases such as this impacts the society, industry, corporate world in many different ways. The case mainly covers the importance of interpretation of contract language, contract laws, business and trademark principles.

Companies now would create contracts with clear termination clauses that are easy for both parties to understand, clauses don't contain ambiguous language, ensuring clarity for all involved. Termination clauses would be written in a more comprehensive way, not just considering financial struggles, it should extend way beyond that and should also provide valid reasons for contract termination. This approach would set higher standards for license terminations.

As we saw in this case, vague terms such as "commercially unviable" were being used as a scapegoat to escape tight situations. In the future, businesses will think twice before using such languages to create their contracts. They would understand that well structured and ideal agreements needs avoiding such languages that creates confusion and ambiguity.

Company emails also played a crucial role in this case, this highlights the importance of proper, clear and professional communication in corporate environment. Businesses would now adopt better and more structured communication practices.

Overall, this case would encourage the corporate world to give more importance to clarity and transparency while engaging in agreements, conducting business, and managing licensing and trademark matters.

## 7 Critical Analysis

**Room left for ambiguity in their Contractual agreement:** The case highlights the importance of concise contractual wordings. Ambiguous clauses create loopholes, allowing bad-faith people to exploit them, as was seen in this case when Interbake believed that they had the right to terminate the contract when Mrs. Fields' annual net sale fell below a certain threshold.

**Interbake overlooked contract terms before deciding to terminate the agreement:** Interbake attempted to terminate the agreement between them and Mrs. Fields, stating low annual net sales. But later it was proven invalid by the court, because according to the contract terms, only the cookie company had the rights to terminate the contract under the circumstances. Hence, this oversight proved costly for Interbake Foods LLC. A more careful assessment of the contractual terms would've served them much better and would have helped them avoid such legal battles, business and reputation damages.

**Misinterpretation of the contract clauses:** The contract granted the right to terminate the agreement only to Mrs. Fields if the annual net sale of the company fell below the threshold. Interbake

assuming that they also had the right just shows blatant misjudgment of the contract clauses.

**Interbake failed to consider long term implications:** In 2012 Mrs. Fields Brand and Interbake Foods LLC struck a trademark licensing agreement. Later in 2014 Interbake wished to buy out the cookie company which was rejected by Mrs. Fields. Interbake then made another offer to buy the cookie company with a significantly higher bid, which also got rejected. Then later in 2016 Interbake chose to terminate their contract with the cookie company, citing low sales. When this case was put on trial Interbake claimed that Mrs. Fields' quality of the cookies were bad and that they had poor brand management. A crucial point that came into play was that Interbake already knew about the quality of the cookies and the brand management prior to signing the agreement. Despite this later they even wanted to buy the cookie company. Later, Interbake's claims were dismissed as court decided in favour of Mrs. Fields. Failing to consider these implications led to Interbake losing the legal battle which could've been avoided if they properly considered all the potential consequences.

In the end, it felt like a cheap move on interbake's part. We may never know if Interbake genuinely thought their claim to terminate the contract was valid or not, but their attempt to terminate the contract agreement looked like they were playing the victim card. While in reality Mrs. Fields were the victim of a contractual breach by Interbake. Overall, the court found Interbake's claims to invalid and they lost the legal battle, damaging their reputation in the process

## 8 Recommendations

- **Companies should use concise words** while preparing contracts. In terms of termination clauses, clear contractual wordings should be used instead of vague terms to ensure transparency and avoid ambiguity.
- **Termination clauses should be well defined**, not just financial struggles, no loopholes should exist. It should contain well specified reasons for termination.
- The corporate world should go for a more **professional approach in communication practices**. Whether digital or be it face to face - they can play a crucial part in legal cases in the future if needed.
- Carefully **assess all possible consequences** before making a critical decision. Improper decisions later may lead to legal disputes, business losses and reputational damage.
- Companies **should follow fair business practices**. Before going ahead with claims and arguments, one should make sure that the claims are backed by actual contract terms or facts, as courts prioritize fairness over everything.

## 9 Conclusion

The Mrs. Fields Brand, Inc. v. Interbake Foods LLC case highlights how much of an impact proper contract interpretation can have. We also saw how failed negotiations, business losses can influence a company's mindset and decision making, often leading to less than ideal choices of action. Furthermore, the case underlines the importance of precise termination clauses as well as clear communications in business agreements. Misjudging any or several aspects of the clauses can lead to legal actions taken against the companies, resulting in them getting involved in prolonged legal battles. All in all, well defined and unambiguous clauses, along with ensuring fair business practices, will help companies avoid disputes, protect the interests of all parties and gain long term stability in the future.

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