THOMPSON COBURN LLP

insights

TYPES NOT MAPPED YET May 21, 2019 | TTR not mapped yet | David A. Warfield

# Supreme Court decides key trademark licensee issue in bankruptcy

On May 20, 2019, the U.S. Supreme Court ruled a trademark licensee can continue to use the trademark after a bankrupt licensor rejects the license agreement. The case is *Mission Product Holdings, Inc. v. Tempnology, LLC*. Some lower courts had ruled that rejection of trademark license agreement terminated the licensee's rights to use the trademark.

The bankruptcy laws permit a debtor to either "assume" or "reject" an executory contract, i.e. a contract in which performance is still due from both parties. Rejection permits a bankrupt company to rid itself of money-losing contracts, thereby increasing the likelihood it can reorganize.

In the *Mission Product* case, a company called Tempnology, LLC, marketed exercise clothing under the brand name "Coolcore," using trademarked logos and labels. Tempnology granted Mission Products a non-exclusive license to use the Coolcore trademarks. In 2015, however, Tempnology filed for bankruptcy protection and asked the bankruptcy court for permission to reject the license agreement with Mission Products. The bankruptcy court granted the motion and ruled that Mission Products could no longer sell products using the Coolcore trademarks after the rejection. Mission Products appealed and the case eventually went all the way to the U.S. Supreme Court, which agreed to hear the case to resolve a split in how lower courts had decided the issue.

The Supreme Court focused on the consequences of rejecting an executory contract. Some lower courts had ruled a trademark license agreement was terminated after rejection and that the licensee's rights to use the trademarks were likewise terminated. Other lower courts had held that the rejection was merely a "breach" by the licensor of the trademark license agreement and that the trademark licensee could continue to use the trademarks post-rejection.

The Supreme Court sided with the "rejection-as-breach" line of cases. Justice Kagan, who wrote the opinion, said a "rejection of an executory contract in bankruptcy has the same effect as a breach outside bankruptcy." Since Tempnology's breach of the license agreement outside of bankruptcy would not have terminated Mission Products' rights to use the trademarks, the Supreme Court found that the result should be the same if the breach (in the form of the rejection) occurred during the bankruptcy case.

The ruling is good news for trademark licensees. It removes the risk that a licensor could file bankruptcy and terminate the licensee's rights to use the trademark.

A few quick takeaways:

1. This opinion only applies to trademark *licensors* who file bankruptcy and reject license agreements. A bankrupt *licensee* that rejects a license agreement cannot continue to use the trademarks after rejection.

2. Trademark licenses are treated differently under the Bankruptcy Code than licenses of other types of intellectual property, such as patents and copyrights. This is because section 101(35A) of the Bankruptcy Code, which defines "intellectual property," does not include trademarks. A completely different set of rules applies to the rejection of patent or copyright licenses. See Section 365(n) of the Bankruptcy Code.

3. The ruling does not expand the licensee's rights to use trademarks post-rejection beyond what would have otherwise existed. For instance, the licensee cannot use the trademarks post-rejection beyond the term set forth in the rejected agreement.

## authorsTest

### david

David A. Warfield