

# Supreme Court Settles Split: Trademark License Rejection Under Bankruptcy Code Does Not Extinguish Licensee's Rights

---

May 24, 2019 Randall Colson, Ian Peck

---

**PRACTICES** Technology Transactions, Trademark and Advertising, Intellectual Property, Restructuring

---

On May 20, 2019, the Supreme Court settled a circuit split concerning whether a debtor's rejection of a trademark license under § 365 of the Bankruptcy Code "deprives the licensee of its rights to use the trademark." In a decision written by Justice Kagan, the Supreme Court held that while a debtor-licensor's rejection of a trademark license results in a pre-petition breach, it does not constitute a rescission of the contract, and thus the licensee may retain the rights granted to it under the license.

Section 365 of the Bankruptcy Code permits a debtor filing for Chapter 11 protection to "reject any executory contract" subject to court approval. However, the bankruptcy code provides some protections for licensees of "intellectual property." Under § 365(n)(1), "if the rejected contract is one 'under which the debtor is a licensor of a right to intellectual property,' the licensee may elect to 'retain its rights...to such intellectual property.'" However, the relevant statutory definition of "intellectual property" does not include trademarks, leading to a long-standing question regarding the effect of a debtor-licensor's rejection of a trademark license.

Here, Tempnology, LLC, which manufactured exercise apparel under the name COOLCORE, granted a non-exclusive license to Mission Product Holdings, Inc. to use the COOLCORE marks. Several years later, Tempnology filed for Chapter 11 bankruptcy and rejected the license agreement. While both parties agreed that the rejection allowed Tempnology to stop performing under the contract and entitled Mission to a pre-petition claim for damages (both non-controversial propositions under bankruptcy law), Tempnology asserted that the rejection also terminated Mission's rights to use the licensed marks.

Tempnology obtained a declaratory judgment from the United States Bankruptcy Court for the District of New Hampshire confirming that its rejection of the license agreement terminated Mission's rights. Thereafter, the United States Bankruptcy Appellate Panel of the First Circuit reversed, holding that rejection does not eliminate the licensee's contractual rights, just as the breach of an agreement outside of bankruptcy does not extinguish the rights of the non-breaching party—a holding consistent with Seventh Circuit case law (*Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012)). Tempnology appealed, and the Court of Appeals for the First Circuit overturned the Bankruptcy Appellate Panel's decision. Because trademark licensors must exercise quality control over goods bearing the licensed marks in order to maintain their trademark rights, the First Circuit concluded that allowing the licensee to use the mark post-rejection would frustrate the statute's intent to "release the debtor's estate from burdensome obligations."

The Supreme Court reversed the First Circuit's decision and adopted the Seventh Circuit's rejection-as-breach approach, holding that "[r]ejection of a contract—any contract—in bankruptcy operates not as a rescission but as a breach." While "[t]he debtor can stop performing its remaining

obligations under the agreement.... the debtor cannot rescind the license already conveyed.” In short, the Supreme Court found that a “debtor-licensor’s rejection cannot revoke the trademark license,” and the licensee can continue to use the trademarks as permitted by the agreement.

While the Supreme Court has now provided trademark licensors and licensees with long-awaited certainty that a debtor-licensor’s rejection of a trademark license does not constitute termination of the licensed rights, the practical effect of this holding remains to be seen. For example, a trademark license could require the licensee to obtain the licensor’s approval before selling a licensed product. If the debtor-licensor fails to respond to the licensee’s request for approval, the licensee may be unable to use the licensed mark. As highlighted in Justice Sotomayor’s concurring opinion, special contractual terms, like this example, or state law could determine whether a particular licensee’s rights practically survive the debtor’s breach.