Supreme Court: Trademark Licensees Can Use Trademarks Even after Licensor Rejects License in Bankruptcy

May 20, 2019

Earlier today, in an 8-1 decision written by Justice Kagan, the Supreme Court in *Mission Product Holdings, Inc. v. Tempnology, LLC* held that a debtor's rejection of an executory contract under Section 365 of the Bankruptcy Code has the same effect as a breach outside of bankruptcy. Accordingly, a trademark licensor in bankruptcy cannot rescind rights granted under a trademark license.

Debevoise & Plimpton

The Court's opinion is consistent with the position Debevoise advocated for in an amicus brief on behalf of the International Trademark Association (INTA), which described the inter-circuit split regarding the effect of a bankrupt trademark licensor's rejection of a trademark license as the most significant unresolved legal issue in trademark licensing. The Court's opinion provides clear, consistent and equitable rules that not only will facilitate restructuring for debtors in bankruptcy, but also will enhance the value of trademark licenses in the pre-bankruptcy context. Given the importance of trademarks to businesses and the economy, trademark rights often are among a debtor's key assets.

Importantly, the Court expressly noted that its analysis of the Bankruptcy Code is not limited to the rejection of trademark licenses, but extends to all leases and licenses (other than those that are the subject of specific Bankruptcy Code provisions). Thus, for example, the decision establishes clear rules with respect to the effect of a debtor's rejection of executory equipment and other personal property leases.

The Court first reviewed the text of the Bankruptcy Code as it pertains to rejection and concluded that Section 365(g), in particular, "does much of the work." The Court affirmed that rejection constitutes a breach (as opposed to a termination) of the contract, which means the same thing in bankruptcy as it does outside of bankruptcy: "A rejection does not terminate the contract. When it occurs, the debtor and counterparty do not go back to the pre-contract positions. Instead, the counterparty retains the rights it has received under the agreement. As after a breach, so too after a rejection, those rights survive."

The Court rejected Respondent's main argument to the contrary, which had relied on a supposed negative inference arising out of Congress' adoption of Section 365(n) of the

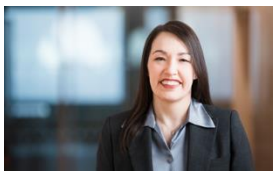
Bankruptcy Code, which established a special rule for all licenses of intellectual property other than trademarks. The Court said that such a negative inference is unsupported. Although Congress enacted Section 365(n) to protect other forms of licensed intellectual property in response to the much criticized *Lubrizol* decision, the Court concluded that Congress' express repudiation of *Lubrizol* for those contracts "does not show any intent to ratify that decision's approach for almost all others. Which is to say that no negative inference arises. Congress did nothing in adding Section 365(n) to alter the natural reading of Section 365(g) – that rejection and breach have the same results."

The Court also rejected Respondent's trademark-specific argument that unless a debtor's rejection of a trademark license had the effect of terminating the licensee's right to use the mark, "the debtor will have to choose between expending scarce resources on quality control and risking the loss of the asset." The Court was not persuaded that distinctive features of trademarks should result in a contrary construction of Section 365 that would govern not just trademark agreements, "but pretty nearly every executory contract." The Court explained that adopting Respondent's argument "would allow the tail to wag the Doberman."

Justice Sotomayor concurred in the result and wrote separately to highlight two points. First, she noted that under applicable non-bankruptcy law, under certain circumstances, the terms in a licensing contract, or state law, for example, might result in a breach that terminates a licensee's rights. Second, Justice Sotomayor noted that if the Bankruptcy Code, as a result of Section 365(n), treats trademark licenses differently than other forms of intellectual property, Congress would have the "option to tailor a provision for trademark licenses, as it has repeatedly in other contexts."

Justice Gorsuch dissented because he would have dismissed the petition as moot.

Please do not hesitate to contact us with any questions.



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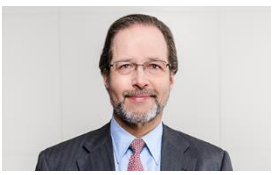

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