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TRADEMARK LICENSEE RETAINS LICENSE RIGHTS AFTER REJECTION IN BANKRUPTCY

By Sherrie M. Flynn

In a recent decision, the Supreme Court held that a chapter 11 debtor-licensor's rejection of a trademark license agreement under Section 365 of the Bankruptcy Code does not terminate the license granted in the agreement. In *Mission Product Holdings, Inc. v. Tempnology, LLC*, 139 S.Ct. 1652 (2019), the trademark license at issue was an executory contract (a contract not fully performed by either party). Bankruptcy law permits a debtor to reject an executory contract if, in the debtor's judgement, the contract is no longer a benefit to the debtor. The question before the Supreme Court was whether the debtor-licensor's rejection of the trademark licensing agreement deprives the licensee of its rights to use the trademark. The Supreme Court held it does not, ruling that a rejection of an executory contract breaches the contract, which allows the licensee to attempt to collect damages from the debtor's estate, but the rejection does not permit the debtor to rescind the contract. Therefore, all the rights conveyed to the licensee in the trademark licensing agreement remain in place, so long as the licensee continues to perform its obligations under the contract.

The Court's decision went against most previous decisions by lower courts, which held a licensor's rejection of a trademark license

agreement in bankruptcy terminated the license and the licensee's rights to use the trademarks. In its ruling, however, the Supreme Court made it clear that rejection of a trademark licensing agreement and, with very limited exceptions, other executory contracts, under the Section 365 of the Bankruptcy Code has the same effect as a breach of contract outside of bankruptcy, and that a rejection cannot rescind rights previously granted. The Supreme Court's ruling affords the same rights under bankruptcy to licensees of trademarks as it does for other types of intellectual property such as patents.



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