

**BLOGS**

Trademarks

## Supreme Court Holds That Rejection of a Trademark License by a Bankrupt Licensor Does Not Deprive The Licensee of Its Rights to the Trademarks

The U.S. Supreme Court has resolved a circuit court split by holding that a bankrupt licensor's rejection of a trademark license under section 365 of the Bankruptcy Code does not deprive the licensee of its rights to the licensed trademarks. *Mission Prod. Holdings, Inc. v. Tempnology, LLC*, 587 U.S. \_\_\_, 2019 WL 2166392 (May 20, 2019). The decision holds that the licensor's rejection of the trademark license under bankruptcy law constitutes a breach of the license by the licensor and that the legal effects of that breach on the licensee's rights to the trademarks are determined under applicable non-bankruptcy law. The decision overrules a number of lower court decisions, including the First Circuit's decision in *Mission*, holding that a licensor's rejection of a trademark license in bankruptcy effectively rescinds the license, thereby depriving the licensee of its rights to the licensed trademarks.

This case arose when Tempnology entered into a five-year trademark license agreement with Mission Product Holdings that authorized Mission to utilize the "Coolcore" trademarks in connection with its distribution of clothing and accessories. Tempnology then filed a Chapter 11 bankruptcy case during the term of the trademark license. The trademark license constituted an executory contract (*i.e.*, a contract under which performance remained due by both parties) that could either be rejected or assumed by Tempnology under section 365 of the Bankruptcy Code. After authorizing Tempnology to reject its contractual duties under the trademark license, the bankruptcy court held that Tempnology's rejection of the license terminated Mission's rights to use the trademarks, a holding that was affirmed by the First Circuit. The Supreme Court reversed, holding that Tempnology's election to reject its trademark license with Mission constituted a breach of the trademark license under the Bankruptcy Code, but not a rescission or termination of the license. The Supreme Court noted that, under applicable non-bankruptcy law (*i.e.*, trademark and contract law), a breach of a trademark license by the licensor would not result in the rescission or termination of the licensee's rights to use the trademarks. Consequently, the Court concluded that since rejection of a trademark license by the licensor in bankruptcy only constitutes a breach and not a rescission of the license, the licensee's right to use the trademarks under the rejected license continues for the remaining term of the license. However, as noted in Justice Sotomayor's concurrence, the licensee remains bound by other terms of the license and trademark law. This arguably

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would include the obligations to maintain the nature and quality of the goods or services offered under the trademarks.

This decision will be the subject of an upcoming Gray Plant Mooty webinar scheduled for July 11, 2019, where the panelists will discuss its applicability in the franchise context. Registration details for the webinar will be announced soon.