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Supreme Court Holds Bankrupt Trademark Licensor Cannot Revoke License

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Trademark licensees now have less reason to be concerned if their licensor files for bankruptcy in the U.S. The U.S. Supreme Court held in *Mission Product Holdings, Inc. v. Tempnology LLC*[1] that a licensor's rejection of a trademark license in bankruptcy does not revoke or terminate the trademark license.

Addressing a split among the lower courts,[2] the Court ruled that, like with the rejection of most contracts, a debtor-licensor's rejection of a trademark license agreement under Section 365 of the Bankruptcy Code constitutes a "breach" of the agreement, not a "rescission" or "termination" of the contract that could cut off underlying rights granted in the agreement. In other words, **a debtor-licensor's rejection of a trademark license agreement does not in and of itself deprive a licensee of its right to use the trademark on a go-forward basis.**

The Court rejected the debtor-licensor's argument that by not expressly providing trademark licensees the protections granted to licensees of certain types of intellectual property (including patents and copyrights) under Section 365(n) of the Bankruptcy Code, Congress intended for trademark license rights to terminate upon rejection, noting that Section 365(n) "does nothing to alter the natural reading of Section 365(g) — that rejection and breach have the same results."[3]

Justice Sonia Sotomayor issued a concurring opinion to point out that: (1) the baseline inquiry remains whether the licensee's rights "would survive the licensor's breach under applicable non-bankruptcy law," and (2) trademark licensees' post-rejection rights and remedies are in some respects broader than those of licensees of the types of intellectual property that fall under Section 365(n) of the Bankruptcy Code, upon whom certain duties are also imposed. For example, a patent licensee invoking Section 365(n) of the Bankruptcy Code must continue to make royalty payments under the contract, and is deemed to have waived certain claims and any setoff rights.

Although this case puts to rest the question of whether, under U.S. bankruptcy law, a trademark licensee loses the right to use the trademark upon rejection of the license by a debtor-licensor in bankruptcy, licensors and licensees still need to think strategically about structuring transactions under non-bankruptcy law and may want to review existing agreements for opportunities to restructure in light of this new understanding. For assistance, please contact any of the authors below or your regular Kirkland contact.

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1. *Mission Prod. Holdings, Inc. v. Tempnology, LLC*, __ U.S. __, __ S. Ct. __, No. 17-1657, 2019 WL 2166392 (2019).↩

2. *Compare Mission Prod. Holdings, Inc. v. Tempnology, LLC* (*In re Tempnology, LLC*), 879 F.3d 389 (1st Cir. 2018), *with Sunbeam Prod., Inc. v. Chicago Am. Mfg.*, LLC, 686 F. 3d 372 (7th Cir. 2012).↩

3. Congress enacted Section 365(n) of the Bankruptcy Code to repudiate the U.S. Court of Appeals for the Fourth Circuit's holding in *Lubrizol Enter. v. Richmond Metal Finishers*, 756 F. 2d 1043 (4th Cir. 1985), that a debtor's rejection of a contract revoked a patent license.↩

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