



Creditors' Rights and Bankruptcy Practice Group
GOODSILL ALERT

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**SUPREME COURT RULES THAT A DEBTOR-LICENSOR'S
REJECTION OF A TRADEMARK LICENSE DOES NOT DEPRIVE
THE LICENSEE OF ITS RIGHTS TO USE THAT TRADEMARK**



Today, in the case of *Mission Product Holdings, Inc. v. Tempnology, LLC*, 17-1657 (May 20, 2019), the U.S. Supreme Court held that a debtor-licensor's rejection of a trademark licensing agreement does not deprive the licensee of its rights to use the trademark. The Supreme Court explained that a rejection of the contract under section 365 of the Bankruptcy Code breaches the contract but does not rescind it, meaning that, all the rights that would ordinarily survive a contract breach remain in place.

BACKGROUND FACTS

Tempnology, LLC ("Tempnology") was a company that manufactured clothing and accessories designed to stay cool when used in exercise and marketed those products under the brand name "Coolcore," using trademarks (e.g., logos and labels) to distinguish the gear from other athletic apparel. *Id.* at 1-2. In 2012, Tempnology entered into a contract with Mission Product Holdings, Inc. ("Mission"), which gave Mission an exclusive license to distribute certain Coolcore products in the United States and a non-exclusive license for Mission to use the Coolcore trademarks, both in the United States and around the world. *Id.* The agreement was set to expire in July 2016. *Id.* In September 2015, Tempnology filed a petition for Chapter 11 bankruptcy. *Id.*

The Bankruptcy Court in Mission's case approved Tempnology's rejection of its executory licensing agreement with Mission. *Id.* at 3. That meant that (1) Tempnology could stop performing under the contract; and (2) Mission could assert a pre-petition

claim in the bankruptcy proceeding for damages resulting from Tempnology's nonperformance. *Id.* Tempnology also thought that the rejection of the contract terminated the rights it had granted Mission to use the Coolcore trademarks. *Id.*

Tempnology argued that, although some provisions of the Bankruptcy Code provide that if the debtor-licensor rejects an agreement in bankruptcy, the licensee can continue to use the property (typically, a patent), so long as it makes whatever payments the contract demands, neither Section 365(n) nor any similar provision in the Bankruptcy Code covers **trademark licenses**. *Id.* at 4. So, Tempnology reasoned that the debtor's rejection must extinguish the rights that the agreement had conferred on the trademark licensee. *Id.* The Bankruptcy Court agreed that held that Tempnology's rejection of the licensing agreement revoked Mission's right to use the Coolcore marks. *Id.*

The Bankruptcy Appellate Panel reversed the decision of the Bankruptcy Court, focusing on Section 365(g)'s statement that rejection of a contract "constitutes a breach." *Id.* "Outside bankruptcy," the court explained, "the breach of an agreement does not eliminate rights the contract had already conferred on the non-breaching party." *Id.* "So neither could a rejection of an agreement in bankruptcy have that effect." *Id.*

The Court of Appeals for the First Circuit rejected the Bankruptcy Appellate Panel's view, and reinstated the Bankruptcy Court's decision terminating Mission's license. *Id.* at 5. The majority in the Court of Appeals' decision endorsed that court's inference from Section 365(n) and similar provisions. *Id.* It next reasoned that special features of trademark law counseled against allowing a licensee to retain rights to a mark after the licensing agreement's rejection. *Id.*

The U.S. Supreme Court granted certiorari to resolve a division among the First and Seventh Circuits on this issue. *Id.*

THE SUPREME COURT'S DECISION

The Supreme Court held that, under section 365 of the Bankruptcy Code, a debtor's rejection of an executory contract in bankruptcy has the same effect as a breach outside bankruptcy. *Id.* at 16-17. Specifically, the Court explained, "[c]onstruction of Section 365 means that the debtor-licensor's rejection cannot revoke the trademark license." *Id.*

The Supreme Court explained that the parties and courts of appeals offered two starkly different views. *Id.* at 8. According to the first view, a rejection has the same consequence as a contract breach outside bankruptcy—It gives the counterparty a claim for damages, while leaving intact the rights the counterparty has received under the contract. *Id.* According to the second view, a rejection has more the effect of a contract rescission in the non-bankruptcy world—Though also allowing a damages claim, the rejection terminates the whole agreement along with all rights it conferred. *Id.*

The Court explained: “Today, we hold that both Section 365’s text and fundamental principles of bankruptcy law command the first, rejection-as-breach approach.” The Court explained, “Rejection of a contract— any contract—in bankruptcy operates not as a rescission but as a breach.” *Id.*

The Court explained that, in licensing agreements involving trademarks, the licensor not only grants a license, but provides associated goods or services during its term; and the licensee pays continuing royalties or fees. *Id.* at 10. If the licensor breaches the agreement outside of bankruptcy, everything said above goes and the breach does not revoke the license or stop the licensee from doing what it allows. *Id.* The Court explained: “. . . because rejection constitutes a breach, the same consequences follow in bankruptcy.” *Id.* The debtor can stop performing its remaining obligations under the agreement, but the debtor cannot rescind the license already conveyed, so the licensee can continue to do whatever the license authorizes. *Id.*

CONCLUSION

The Supreme Court’s decision today in *Mission Product Holdings, Inc. v. Tempnology, LLC*, 17-1657 (May 20, 2019) is an important clarification of the rights of trademark licensees in bankruptcy and resolves a long-standing circuit split on this issue.



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