

TRADEMARK LICENSEE RIGHTS EXPANDED BY RECENT SCOTUS DECISION

By Jessica L. Copeland and James J. Zawodzinski
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Due to a variety of circumstances, individuals and businesses alike may find themselves with significant secured and unsecured debt. This is common when an individual burdens herself with too much “bad debt” in the form of unsecured credit lines or, alternatively, when an entity’s sales do not support its spending or growth patterns. The United States Bankruptcy Code (the “Bankruptcy Code”) provides a pathway to allow these individuals and entities (together, the “debtor”) to seek relief from some or all of their debts.

The Bankruptcy Code affords the debtor numerous protections. One such protection is the ability to reject^[1] executory contracts (*i.e.*, a land lease, or as pertinent here, a trademark licensing agreement) under Section 365 of the Bankruptcy Code. Section 365 makes clear that the debtor’s rejection of an executory contract is equivalent to a breach of the contract that has been, or will be, rejected.

Equally important, the United States Patent and Trademark Office provides protection over an individual’s or business’s brand, recognized name, company design, or unique expression as it relates to products or services through the issuance of a trademark registration.

Recently, the Supreme Court of the United States analyzed Section 365 in the context of a trademark licensing agreement. In *Mission Product Holdings, Inc. v. Tempnology, LLC.*, the question presented was whether “rejection” of a trademark licensing agreement under Sections 365(a), 365(g) and 365(n) of the Bankruptcy Code deprives the licensee of its rights to use the trademark. This decision comes at a critical time for the intellectual property world when protection and enforcement of a trademark are integral to an individual’s or business’s success and, on the same token, integral to a debtor’s ability to either liquidate or restructure its debts.

In a win for the rights of a trademark licensee whose agreement is the subject of a bankruptcy proceeding, the Supreme Court held that a debtor’s rejection of trademark license under Section 365 has the same effect as a breach of that trademark license agreement outside of a bankruptcy proceeding. The Supreme Court noted that “[a] rejection breaches a contract but does not rescind it. And that means all the rights that would ordinarily survive a contract breach, including those conveyed [], remain in place.” The debtor “can stop performing its remaining

Attorneys

James Zawodzinski Jr.

Practices & Industries

Bankruptcy, Restructuring &
Commercial Litigation

Intellectual Property & Technology

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obligations under the agreement. But the debtor cannot rescind the license already conveyed. So the licensee can continue to do whatever the license authorizes.”

The Supreme Court’s holding ends a nearly decade-long debate and split among the Circuit Courts regarding the status of trademark licenses in bankruptcy proceedings. Now, trademark licensees faced with a licensor’s impending bankruptcy can rest a bit easier knowing that: (1) merely rejecting a trademark license during a pending bankruptcy proceeding does *not* rescind the license, and that (2) trademarks are still wholly enforceable during a pending bankruptcy proceeding.

But what does this mean for the licensor/debtor? Indeed, the rationale for permitting a debtor (or trustee) to determine whether to assume or reject executory contracts, is the question of whether the contract would benefit the estate. Necessarily, a debtor/licensor wishing to reject a license agreement has determined that its obligations under the agreement are not beneficial to the estate. So, the “win” for the licensee here results in somewhat of a “loss” for licensor, who is now preempted from rescinding a license agreement, thereby losing even more value in its brand and the bankruptcy estate. What if part of the restructuring would otherwise bundle certain IP to be sold at auction unencumbered? What if then it becomes a situation where the Marks that are subject to the license agreement are not valued as high? If the potential buyer cannot exclusively own the Marks, does it then diminish their overall value to the estate?

Finally, in her concurring opinion, Justice Sotomayor, points out that issues remain with regard to whether a licensee’s rights would survive a breach under *applicable non-bankruptcy* law. Justice Sotomayor notes that “special terms in a licensing contract or state law could bear on that question in individual cases.”

For more information on the interplay of intellectual property and bankruptcy law, contact Jessica L. Copeland and James J. Zawodzinski, or another member of Hodgson Russ’s Intellectual Property or Bankruptcy Practices.

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[1] When a debtor files for bankruptcy, it can either assume an executory contract and continue to perform pursuant to a court motion, or reject the contract and return the equipment (if applicable) to the creditor.