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"Rejection" of a Trademark License in Bankruptcy Is a Breach, Not a Rescission

Bankruptcy protection under Section 365 does not give brand owners/debtor-licensors the unilateral right to rescind trademark licensing agreements.

In a closely watched decision involving both trademark and bankruptcy law, the U.S. Supreme Court, in an 8-to-1 vote in *Mission Product Holdings, Inc. v. Tempnology, LLC*, No. 17-1657, held that a debtor-licensor's decision to reject a trademark license agreement in bankruptcy is a breach of the agreement, not a rescission. Therefore, the licensee retains its rights to use the licensed trademarks.

This case came to the Supreme Court on appeal from the U.S. Court of Appeals for the First Circuit, which held that the licensee's right to use the debtor's trademarks did not survive rejection of the license agreement. This decision was in direct conflict with the U.S. Court of Appeals for the Seventh Circuit's holding in *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC*, 686 F.3d 372 (7th Cir. 2012), that a debtor-licensor's rejection of a contract did not rescind the licensee's trademark rights pursuant to the agreement.

The Supreme Court's decision resolves the circuit split that grew from the Bankruptcy Code's definition of "intellectual property," which includes patents and copyrights, but not trademarks. In clarifying the effect of bankruptcy on executory trademark licenses, the decision relied primarily on the plain language of Section 365 and general bankruptcy principles, finding the term "breach" lacks a defined meaning and is not a specialized bankruptcy term. Simply put, it has the same meaning in the Code that it does in contract law. "Outside bankruptcy, a licensor's breach cannot revoke continuing rights given to a counterparty under a contract," Justice Kagan wrote. "And because rejection 'constitutes a breach,' the same result must follow from rejection in bankruptcy."

This case provides trademark licensees with assurances that their rights to use a trademark cannot be unilaterally terminated upon rejection of a trademark license agreement in bankruptcy. At the same time, this decision will no doubt have an impact on trademark license negotiations, how licensors craft termination provisions going forward, the value of trademark rights subject to licenses in a bankruptcy, and what actions a licensor may take to preserve rights in its trademarks after rejection of a license agreement.


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