
Bad Breakup Trademark Wakeup

Supreme Court Rules that Terminated Licenses Cannot Prevent Use of Trademarks

By: Chris Eggert & Lisa Holubar | May 24, 2019

On May 20, 2019, in *Mission Product Holdings, Inc. v. Tempnology LLC, n/k/a Old Cold LLC*, the Supreme Court settled a circuit split between the Seventh and First Circuits regarding what happens to a trademark licensee’s rights under a trademark license after that license is rejected by the licensor in bankruptcy. The Seventh Circuit had held in *Sunbeam Products, Inc. v. Chicago Am. Mfg., LLC*, 686 F.3d 372 (7th Cir. 2012) that a bankrupt company could not prevent continued use of the mark by rejecting a contract in bankruptcy. The Seventh Circuit had reasoned that even outside of the bankruptcy context a breach of a trademark license by a licensor did not impact the licensee’s right to continue using the mark. In contrast, the First Circuit had held in the decision below that the licensor could reject the contract and the licensee could not preserve its exclusive distribution rights. 879 F.3d 389.

The Supreme Court granted certiorari and reversed the First Circuit, holding that a bankrupt trademark licensor cannot, by rejecting the license, prevent a licensee’s continued use of the trademark post-rejection. The Supreme Court found that the protections afforded to bankrupt companies under the Bankruptcy Code do not extend as far as rescinding the license, finding instead that such unilateral rejections of the licensing obligations would breach the contract instead of constituting a rescission of it, and all rights that would ordinarily survive a contract termination would survive a termination in bankruptcy, including the right to use the licensed trademark. The opinion focused primarily on the interpretation of 11 U.S.C. §365(g), which states: “the rejection of an executory contract or unexpired lease of the debtor constitutes a breach of such contract or lease.” Because breach of contract is not a bankruptcy term of art, the licensor’s breach within bankruptcy would be treated no differently than had the breach occurred outside of bankruptcy.