

CLIENT ALERT

Supreme Court Allows Licensee to Continue Using Trademark after Rejection

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In *Mission Product Holdings Inc. v. Tempnology LLC*, No. 17-1657, the Supreme Court has held that a debtor's rejection of an executory contract does not abrogate the rights others enjoy under that contract. Although the Court's ruling specifically dealt with rights to a trademark license, the reasoning appears broader than that. The Supreme Court has in effect done away with a debtor's right to reject any lease, concession, license, or agreement and then prevent a counterparty from enjoying the use of the rights previously granted. This is welcome news for creditors and will pose challenges for debtors.

The Supreme Court's ruling has its roots in a 35-year-old decision, *Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In *Lubrizol*, the Fourth Circuit permitted a debtor to reject a patent license to allow the debtor to monetize the patent for greater value. The Fourth Circuit's decision was subject to intense criticism and resulted in the enactment of Section 365(n) of the Bankruptcy Code, 11 U.S.C. §365(n), which allows the licensee of an intellectual property license to continue using the license notwithstanding the rejection. One would think this would end the matter, but unfortunately Congress did not include trademarks in the definition of "intellectual property" in the Bankruptcy Code. 11 U.S.C. §101(35A). Some courts began holding that Congress must have intentionally omitted trademarks, while other courts held that the omission was unintentional and meaningless.

In *Sunbeam Products Inc. v. Chicago American Manufacturing LLC*, 686 F.3d 372 (7th Cir. 2012), the Seventh Circuit rejected the Fourth Circuit's holding in *Lubrizol* and held that a counterparty could continue to use a trademark license even after the licensor had rejected the license in bankruptcy. Although there was a circuit split between the Fourth and Seventh Circuits, most courts began to follow the Seventh Circuit's holding in *Sunbeam*. Later, however, the First Circuit, in a divided opinion, sided with the Fourth Circuit in *Lubrizol* and rejected the Seventh Circuit's holding in *Sunbeam*, ruling that it was unfair to require a debtor to maintain a post-rejection trademark and that Congress must have meant to exclude protection of trademarks when it enacted Section 365(n). *Mission Product Holdings Inc. v. Tempnology LLC (In re Tempnology LLC)*, 879 F.3d 389 (1st Cir. 2018).

The Supreme Court reversed and broadly held that a counterparty is free to use rights granted to it under a contract notwithstanding its rejection, as the law provides outside the context of bankruptcy. The only dissent was from Justice Gorsuch, who opined that the appeal should be dismissed as moot given that the trademark license at issue had expired. Justice Sotomayor wrote a concurring opinion, noting that because Bankruptcy Code Section 365(n) did not include trademarks, the Supreme Court's ruling meant that parties to rejected trademark licenses may have

more rights than parties to other rejected intellectual property licenses, for which the non-debtor party must continue to pay and otherwise perform under the rejected agreement in order to continue to use the license.

The Supreme Court's ruling brings some harmony to creditors under the Bankruptcy Code. Previously it was only tenants with real property leases and non-trademark intellectual property licensees that could continue to use rights under rejected contracts. The Supreme Court's ruling appears to go much further, granting such rights to all counterparties. For example, a debtor cannot reject an equipment or aircraft lease and then re-lease the property to someone else for a higher value. Again, this is welcome news for creditors, but not so much for debtors.

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