Supreme Court: Bankrupt Trademark Licensor Cannot Terminate Trademark License

MissionProduct Holdings Inc. v. Tempnology LLC, 587 U.S. _______, 2019 WL 2166392 (2019)

In May 20, 2019decision, the U.S. Supreme Court resolved a long-standing split in federalappeals court case law on whether a trademark licensor, in a federal bankruptcyproceeding, could terminate a trademark license and effectively end thelicensee's right to use the mark, even though the licensee has not breached thelicense agreement. If the answer to that question is yes, then the trademarklicensee would be left with a claim for damages for breach of the licenseagreement against a bankrupt and no right to use the mark.

The Supreme Courtinterpreted sections of the U.S. Bankruptcy Code which allow a trustee in bankruptcyto reject executory contracts of the bankrupt party. The Court held that such arejection gives the trademark licensee a claim for breach against the bankruptlicensor, but does not strip the licensee of the right to continue to use thetrademark under the terms of the license agreement. As a result of thisdecision, Congress may decide to revise Section 365(n) of the bankruptcy code.That section allows licensees of "intellectual property" other thantrademarks to retain their license rights by continuing to pay royalties,even after a bankrupt licensor rejects the license. Congress could decide toamend this section to include trademarks in the definition of intellectualproperty and provide a mechanism for the quality control required under trademarklicenses in the U.S.

This decision will facilitate Merger & Acquisition transactions in which the seller sells part of a business, and the seller and buyer both want to continue to use the house mark of the business. Before the Supreme Court's *Tempnology* decision, the seller of part of a business would often require the buyer to take a royalty-free perpetual license to use the shared house mark. The seller would retain ownership of the mark. The buyer would then have to bear the risk that the seller/trademark licensor could reject the license if the seller went bankrupt. To try to eliminate this risk, the buyer in such situations often tried instead to negotiate to buy the mark for the goods and services being acquired. That solution, however, also raised issues of the consequences of divided ownership of the mark. The Supreme Court's decision in *Tempnology* gives some additional negotiating leverage to M&A transaction sellers who wish to retain total control of the mark by only granting a license to use the mark to the M&A transaction buyer of part of the overall business. The elimination of the bankruptcy termination risk—and the resulting greater likelihood that a licensee will have the full license term to use the mark and recoup its investment—may also help other trademark licensors to obtain larger advance royalty payments or guaranteed royalty payments from licensees. –*DE*

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