

## CLIENT ALERT

### No Money, No Problem – For the Licensor that Is. The Supreme Court and Trademark Licenses in Bankruptcy

Feb.20.2019

After months of negotiations, drafts, compromises, and attorney's fees, you finally enter into a licensing agreement granting you the right to use someone else's trademark. Months or perhaps years later, the licensor files for bankruptcy and the bankruptcy trustee rejects the license agreement. Can you continue to use the trademark or does the licensor's rejection of the licensing agreement effectively prohibit your continued usage of the mark?

For over 30 years the licensee's fate was an open question left under the purview of individual bankruptcy courts. Finally, on October 26, 2018, the U.S. Supreme Court granted *certiorari* in the First Circuit case *Mission Product Holdings, Inc. v. Tempnology, LLC* to resolve the stark circuit split regarding a licensee's ongoing trademark usage rights following the rejection of a license agreement by the trustee under the U.S. bankruptcy code. This issue boils down to the effect of "rejection" on the licensee's rights to use the trademark. Notably, in the realm of patent and copyright licensing agreements, this issue was settled long ago. Congress created a protection in U.S. bankruptcy law that allows licensees of intellectual property to retain their contractual rights even after a licensing agreement has been rejected by the licensor who has filed for bankruptcy. However, trademarks were conspicuously omitted from the statutory definition of "intellectual property" in the Bankruptcy Code, and thus from the protections granted to licensees under the statute, thereby leading to this case.

#### Bankruptcy Law

Upon filing for bankruptcy, a bankruptcy estate is created comprised of all the debtor's legal or equitable interests in property, including the debtor's intellectual property and contractual rights. Unique to bankruptcy law is the authority granted to a debtor or bankruptcy trustee – for IP purposes, the licensor – to either "assume" or "reject" the debtor's executory contracts entered into before bankruptcy. Essentially, the debtor or trustee must weigh the costs and benefits of a given executory contract and determine whether it is in the best interests of the estate to retain it or not. In assuming the contract, the debtor or trustee simply agrees that the estate will continue to perform and satisfy the debtor's obligations under the contract. On the other hand, rejection of an executory contract "constitutes a breach" and has the effect of rendering said contract non-enforceable against the debtor-licensor. Whereas the debtor-licensor is relieved of its obligations under the agreement upon rejection, this gives rise to a breach-of-contract claim by the licensee.

In 1985, the Fourth Circuit Court of Appeals held in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc* that a debtor-licensor's rejection of a patent license agreement in bankruptcy stripped the licensee of any continued rights to use the licensed intellectual property. This decision understandably caused significant alarm and uncertainty within the intellectual property community, pressuring Congress to enact the Intellectual Property Licenses in Bankruptcy Act three years later. This Act added significant protection for licensees of "intellectual property" even after the licensor's bankruptcy and rejection of the license, but trademarks are glaringly absent from the definition of "intellectual property" in the Bankruptcy Code, and the legislative history of the Act suggests that this omission was no error or oversight.

Whether or not Congress's failure to extend protections of licensed rights to trademark licensees was purposeful, the effect is the same: the licensee's right to continue using a licensed trademark after rejection of the license agreement by the debtor-licensor rests in the hands of the bankruptcy courts. This ambiguity has caused a split in the circuits with the First and Fourth Circuits on one side and the Seventh Circuit on the other.

But now, the Supreme Court has decided to settle the issue. Oral arguments are set for today, Wednesday, February 20, 2019. We will be sending an update after the arguments with highlights. Stay tuned.

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