

ALERT

Mission Product Holdings – Licenses Cannot Be Rejected

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On May 20, the Supreme Court announced its decision in the much-awaited case of *Mission Product Holdings, Inc. v. Tempnology, LLC* (No. 17-1657). The Court, by an 8-1 majority, held that a bankrupt trademark owner cannot dissolve a previously agreed-to trademark license by rejecting that license under Section 365(a) of the Bankruptcy Code. Section 365(a) typically allows a bankruptcy trustee to reject executory contracts and unexpired leases of the debtor, but the Court in *Mission Product Holdings* held that the rejection “does not rescind” the license.

Respondent Tempnology, LLC, was a clothing manufacturer that marketed its products under the brand name “Coolcore.” In 2012, Tempnology licensed its Coolcore-related trademarks to Mission Product Holdings, Inc., giving the licensee a non-exclusive license to use them in the United States and around the world. In 2015, Tempnology filed a petition for Chapter 11 bankruptcy, and the bankruptcy trustee sought to reject the licensing agreement under Section 365(a).

By the plain language of Section 365(g), “the rejection of an executory contract[] constitutes a breach of such contract.” The breach provides a cause of action for the licensee, but that is not much solace when the licensor is in bankruptcy. What the licensee often desires is to be able to continue using the debtor’s IP. Outside of bankruptcy, those rights would not be terminated by a licensor’s breach. But given the trustee’s authority to reject the license agreement, a Circuit split had emerged as to whether the decision to reject the license terminated the continued ability of the licensee to use the IP.

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Practice Areas

Intellectual Property

The Court in *Mission Product Holdings* resolved that split definitively in favor of the licensee. It held that “a rejection has the same consequence as a contract breach outside bankruptcy: It gives the counterparty a claim for damages, while leaving intact the rights the counterparty has received under the contract.”

Although the Court’s ruling is limited to licenses for trademarks, it places trademark licensees in parity with licensees of other forms of intellectual property (e.g., patents, trade secrets, and copyrights) that are governed by Section 365(n) of the Bankruptcy Code.