

*“When licensing trademark rights, you need to think about a host of issues at the outset including the impact of a licensor declaring bankruptcy.”*

## **Mission Product Holdings, Inc. v. Tempnology, LLC: Will the Supreme Court Clarify the Rights of Trademark Licensees Upon Rejection?**

### **Q: COULD YOU EXPLAIN THE SIGNIFICANCE OF THE UPCOMING ARGUMENTS BEFORE THE SUPREME COURT IN THE CASE OF MISSION PRODUCT HOLDINGS, INC. V. TEMPNOLOGY, LLC?**

**A:** The *Tempnology* case originated in the First Circuit and landed before the Supreme Court last fall. The First Circuit ruled that a trademark licensee lost all rights to continue using licensed marks when the trademark licensor commenced bankruptcy and rejected the applicable license agreement. Other circuit courts would have allowed the trademark licensee continued usage rights even after rejection. The Supreme Court granted review to resolve the circuit split on this fundamental issue. Briefing has concluded and argument is set for February 20.

### **Q: WHY IS THERE SUCH GREAT UNCERTAINTY ON THIS ISSUE LEADING TO WIDELY DIFFERENT RESULTS AMONG THE LOWER COURTS?**

**A:** The Bankruptcy Code does not squarely provide any protection for trademark licensees upon rejection of a license by a trademark licensor. Licensees of other types of intellectual property do have explicit protection in the Bankruptcy Code, but Congress intentionally omitted trademarks from the definition of “intellectual property” covered by that statutory protection. Without the benefit of any clear statutory language, the courts have been left to reach their own conclusions. Some courts, like the Seventh Circuit, have issued opinions favorable to trademark licensees in allowing continued usage. In contrast, decisions from other courts, like the First Circuit, deny trademark licensees any right to continue using marks when the licensor commences a bankruptcy case and rejects the license. There is no obviously fair compromise between the two positions – if licensors are forced to honor trademark license agreements post-bankruptcy, the values of the trademark rights in the bankruptcy estate are diminished because the rights are less marketable. At the same time, if rejection means that the license suddenly “goes away,” that might seriously harm a licensee who relies upon licensed use of a mark in operating its business.

### **Q: HOW CAN LICENSEES PROTECT THEMSELVES IF A LICENSOR FILES FOR BANKRUPTCY?**

**A:** When licensing trademark rights, you need to think about a host of issues at the outset including the impact of a licensor declaring bankruptcy. Currently, the rights of a licensee in the event of rejection would depend in part on the court approving of the rejection. Ideally, after the Supreme Court rules later this spring, the law on this issue at least will be uniform across the land whatever result the Court reaches. At this point, a trademark licensee should be aware that a bankruptcy filing by its licensor could lead to rejection of the license agreement. A trademark licensee should consider what steps it would take if the Supreme Court upholds the First Circuit’s *Tempnology* decision and denies licensees continued usage rights upon rejection. Of course, not every trademark licensor is a candidate for bankruptcy and not every agreement is ripe for rejection. That said, the time for thinking through such issues is before they occur not afterwards. Depending upon the industry and circumstances, trademark licensees also should consider making a point of taking licenses for brands from multiple licensors such that the bankruptcy of one licensor does not run the risk of devastating the business.

### **Q: WHAT DO YOU PREDICT WILL HAPPEN IN THE TEMPNOLOGY CASE?**

**A:** The Supreme Court might not decide the case at all. The licensor has argued that the case should be dismissed on mootness grounds given that the particular license agreement terminated by its own terms long ago. The Supreme Court may come to the conclusion that it should await another case with different facts to issue a ruling in this area.

If the Court determines the case is not moot and reaches the merits of the arguments, a better sense of the likely outcome will exist after oral argument occurs this month. Because a majority of the justices currently favor narrow statutory construction, there is a decent chance the Court will affirm the First Circuit on the basis of the current statutory text and note the availability of Congress to amend the statute to provide a different outcome that would protect trademark licensees moving forward.

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