

You Can't Reject My Trademark License—Can You?

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In 2015, we wrote about the District of New Hampshire Bankruptcy Court's decision in *In re Tempnology, LLC*. That decision was significant because it bucked a recent trend in bankruptcy jurisprudence to permit trademark licensees to retain their trademark rights even after debtor trademark licensors reject their licenses under Section 365(a) of the Bankruptcy Code. Despite the trend, the court held that because the Bankruptcy Code did not expressly permit trademark rights to continue post-rejection, as it did expressly for other intellectual property rights, the licensee's trademark rights were extinguished upon rejection.

Then, in 2017, we wrote about the Bankruptcy Appellate Panel ("BAP") for the First Circuit's reversal of that decision, keeping with the trend in other circuits to allow trademark rights to continue post-rejection. In January 2018, the First Circuit Court of Appeals reversed the BAP and reinstated the Bankruptcy Court's decision, creating a circuit split that the Supreme Court may take up—that is, if Congress doesn't fix the

problem first (which it created and can easily fix).

Under Section 365(a) of the Bankruptcy Code, a debtor has the right to reject executory contracts, meaning that the parties to any rejected contract are relieved of their obligations to perform. However, Congress included an exception for “intellectual property” licenses in Section 365(n), which allows licensees to continue using the licensed intellectual property through the end of the term of the license even if the debtor rejected that license under Section 365(a). Under the Bankruptcy Code, “intellectual property” is a defined term, which includes both copyrights and patents, but it does not include trademarks.

The circuit split is largely due to a Senate report issued when Section 365(n) was enacted, which stated that trademark rights were intentionally excluded from Section 365(n) because they were different from other intellectual property rights. As a result, before including trademark rights in Section 365(n), the issue required “more extensive study” and until then, Congress would “allow [for] the development of equitable treatment of this situation by bankruptcy courts.”

In the First Circuit’s *Tempnology* decision, the court relied heavily on the language of 365(n), the definition of intellectual property, and Congress’s “principal aim in providing for rejection” to support its conclusion that trademark rights do not continue when an executory contract is rejected by the debtor. The court found that Congress’s “principal aim”—*i.e.*, to “release the debtor from burdensome obligations”—could not be accomplished because of a trademark owner’s obligations to exercise quality control over the mark. Saddling a debtor trademark licensor with those obligations would force it to “choose between performing executory obligations arising from the continuance of the license or risking the permanent loss of its trademarks, thereby diminishing their value to Debtor [or a successor].”

The First Circuit rejected the BAP’s reasoning—which followed the recent trend in other circuits—to allow trademark licensees to continue using their licensed marks based in large part upon the Senate report’s language regarding equitable treatment by the bankruptcy courts. In particular, the First Circuit accused other circuits, as well as the dissent in this case, of giving far too much weight to the Senate report, especially because the provision at issue contains no ambiguity. Moreover, the court found that allowing trademark rights to continue post-rejection does not result in equitable treatment; rather, in addition to the burden upon the debtor, it would result in increased uncertainty, inconsistent rulings and hair-splitting, and higher costs on parties. Given these considerations, the court found in favor of a “categorical approach” of excluding trademark rights from protection under the Bankruptcy Code.

The dissent, to no surprise, disfavored the categorical approach, and instead advocated for equitable treatment, essentially on a case by case basis, consistent with the Senate report. It argued that the majority’s approach was not only too harsh, but inconsistent with “congressional intent.”

Although the Supreme Court recently extended the time for the trademark licensee from the *Tempnology* case to file a Petition for Writ of Certiorari, this is an issue that Congress can (and should) solve quickly and easily. Section 365(n) was enacted in 1988; 30 years is enough time for “more extensive study.” And because bankruptcy courts cannot agree on what constitutes equitable treatment—or even whether equitable treatment is entitled—the “let the courts figure it out” approach has not been particularly successful. To provide clear guidance and an understanding of rights and remedies to trademark licensors, licensees, as well as purchasers of assets or companies in bankruptcy, Congress should decide whether trademark rights continue post-rejection or not. It seems unfair for the fate of a trademark license to be subject to the jurisdiction in which the licensor files for bankruptcy protection.