

Bankruptcy, Restructuring & Commercial Law Advisory

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Sunbeam Decision Gives a Ray of Hope to Intellectual Property Licensees

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Licensees of intellectual property, especially trademarks, may breathe easier thanks to a Circuit-splitting decision authored by the Seventh Circuit Court of Appeals earlier this month. In *Sunbeam Products, Inc. v. Chicago American Mfg., LLC*, --- F.3d ----, 2012 WL 2687939 (7th Cir. 2012), the Seventh Circuit has bolstered a nondebtor party's post-contract-rejection rights in intellectual property.

Section 365(n) of the Bankruptcy Code was promulgated by Congress in response to the Fourth Circuit Court of Appeal's decision in *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). In *Lubrizol*, the Court held that when a debtor rejects an intellectual property license, the nondebtor party retains no rights in the intellectual property, but rather it is merely entitled to a money damages remedy. In 1988, three years after *Lubrizol*, Congress amended the Bankruptcy Code by adding Section 365(n), which allows licensees to continue using intellectual property under certain circumstances after the debtor rejects the license. The amendment was not a perfect fix as the Code's definition of intellectual property (and thus the scope of those property rights protected by Section 365(n)) includes patents, copyrights and trade secrets, but excludes trademarks. This omission has been interpreted many different ways, but no court of appeals has picked up the gauntlet and ruled on the topic – until now.

In *Sunbeam Products*, the Court explicitly and vehemently disagreed with the *Lubrizol* decision. Explaining that “nothing about [the contract rejection] process implies that any rights of the other contracting party have been vaporized,” *id.* at *3, the Court held that the nondebtor party retained its rights to use the trademarks included in the rejected contract. The Court also reasoned that Section 365(n) is not implicated when trademarks are involved. Rather, the Court found that because a non-breaching party retains its rights under a breached contract pursuant to applicable non-bankruptcy law, so too would a non-breaching counterparty to a rejected contract retain its rights under the rejected contract.

With two Circuit Courts disagreeing on this important question, it remains to be seen how courts in other jurisdictions will respond. Licensees of intellectual property, especially trademarks, should consult with knowledgeable bankruptcy counsel about the many issues arising from the *Sunbeam Products* decision and how their rights might be impacted.

If you have any questions about this decision or its implications, please call your principal Mintz Levin attorney or one of the attorneys noted on this advisory.

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