# Seventh Circuit Issues Important Decision Regarding Trademarks in Bankruptcy

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When a trademark licensor declares bankruptcy, the trustee may reject the trademark license. The trademark licensee then can lose its rights to use the licensed trademark, which obviously can be a disaster for the licensee. The Bankruptcy Code protects patent and copyright licensees from this fate, but not trademark licensees. *See* 11 U.S.C. § 365(n).

On Monday, the Seventh Circuit created a circuit split and issued a very encouraging decision for trademark licensees. In *Sunbeam Products, Inc. v. Chicago American Manufacturing, LLC.*, 2012 WL 2687939 (7th Cir. July 9, 2012), the Seventh Circuit held that a trademark licensee retained its rights to use a licensed trademark even after the bankruptcy trustee for the licensor rejected the license agreement.

Some background is necessary. In 1985, the Fourth Circuit decided *Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043 (4th Cir. 1985). There, the court held that an intellectual property licensee loses its rights to use licensed property if the license is rejected in bankruptcy. Three years later, Congress amended the Bankruptcy Code to permit "intellectual property" licensees to continue to use licensed property after rejection, subject to certain conditions. 11 U.S.C. § 365(n). The Bankruptcy Code's definition of "intellectual property" includes patents, copyrights, and trade secrets, but not trademarks.

Many courts interpreted the omission of trademarks from the definition of "intellectual property" to mean that the *Lubrizol* holding continued to apply to trademark licensees, and they would not retain any license rights upon rejection. This interpretation has been assailed, but never as aggressively as by the *Sunbeam Products* decision. *See In re Exide Technologies*, 607 F.3d 957 (3d Cir. 2010), *cert. denied,* 131 S.Ct. 1470 (2011) (Ambro J., concurring).

Chief Judge Easterbrook, writing for the court in *Sunbeam Products*, found that *Lubrizol* "was mistaken". In the *Sunbeam Products* case, the debtor-licensor made box fans, among other things. It contracted with Chicago American Manufacturing ("CAM") to manufacture the fans, and granted a

patent and trademark license to CAM. The agreement permitted CAM to itself sell box fans it made for the debtor if the debtor could not afford to buy the fans for resale. When the debtor went bankrupt, Sunbeam bought its trademarks. Sunbeam wanted to make fans under the licensed mark without competition from CAM. The trustee rejected CAM's license agreement, and Sunbeam sued CAM for infringement.

The district court held for CAM, permitting CAM "on equitable grounds" to continue to use the licensed mark. The Seventh Circuit rejected "equitable grounds" as the rationale for the decision, but affirmed it anyway. The court held that the omission of trademarks from section 365(n) was not a codification of *Lubrizol*. Instead, the court stated that "an omission is just an omission." The court then noted that a rejection under the Bankruptcy Code was a breach of contract, in this case by the licensor, "but nothing about this process implies that any rights of the other contracting party have been vaporized." *Id.* at *3. The rejection "merely frees the estate from the obligation to perform and has absolutely no effect upon the contract's continued existence." *Id.* at *4 (citations and internal quotations omitted). As such, rejection, even if effected, did not terminate the licensee's rights.

After *Sunbeam Products,* trademark licensees in the Seventh Circuit now share "the same rights" under the Bankruptcy Code as other intellectual property licensees. Whether Sunbeam will appeal to the Supreme Court, and then, whether the Court will grant certiorari, remains to be seen.

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