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## Recent Case Highlights Loophole in Bankruptcy Code That Permits Termination of Rights Under Prepaid, Exclusive Trademark License

Under a recent Delaware bankruptcy court decision, trademark licensees, even holders of exclusive, perpetual licenses, are at risk of losing their intellectual property rights if the registered owner and licensor of the trademark files for bankruptcy.

The case, *In re Exide Technologies*, involved a license for the trademark “Exide” for use with industrial battery products. The license was granted in 1991, long before any bankruptcy case was in prospect. Because the license was part of a sale of Exide Technologies’ industrial battery business for a purchase price in excess of \$135 million, it was an exclusive, perpetual, prepaid license. The sale also included purchase of real estate and equipment, provided for the hiring of employees and required that Exide Technologies agree not to compete in the industrial battery market for ten years. Years later, after termination of the non-competition agreement, Exide Technologies reentered the industrial battery market. In 2002, Exide Technologies filed for bankruptcy and then moved to reject the trademark license, so that Exide Technologies could use the trademark on an exclusive basis. The Bankruptcy Court granted Exide Technologies’ motion, holding that the decision to reject the license in order to reunify its brand was a valid exercise of Exide Technologies’ business judgment.

The decision by the *Exide Technologies* court was made possible by a “loophole” in the Bankruptcy Code’s definition of intellectual property. Congress, in the mid-1990’s, took action to protect licensees of intellectual property from losing rights in the event of a bankruptcy of their licensors. This legislation, codified in Bankruptcy Code §365(n), permits licensees of “intellectual property” to retain rights to use the intellectual property even in the event of a rejection of an intellectual property license in bankruptcy. Congress, however, neglected to include trademarks with the Bankruptcy Code definition of intellectual property. As a result, trademark licensees are vulnerable to loss of intellectual property rights in bankruptcy. The problem is particularly serious for holders of exclusive, prepaid licenses who make a substantial investment in developing a trademark, relying on licensed rights to use the mark in perpetuity.

Despite the Bankruptcy Code’s lack of explicit protection for trademark licensees, there are a range of options for structuring and documenting licenses to minimize the risk that a licensee will lose rights to a trademark in bankruptcy. If you would like to learn more about the issues raised by the *Exide Technologies* decision or about techniques for protecting rights to trademarks in bankruptcy, please contact your attorney at Ropes & Gray or any of the following:

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