

BUYER BEWARE: Acquiring a Product Line May Put Trademark at Risk

Spinning off an existing product line as a separate on-going business poses risks to trademark rights if the buyer and seller will use the same mark on related goods after the spin-off. The trademark cannot be sold outright with the spun-off product line because the mark would no longer identify a single source of the trademarked goods and could be deemed abandoned. The buyer, however, will pay a premium only if it acquires the perpetual right to use the mark in its new business. A frequently-used means of balancing these interests is an exclusive, royalty-free, perpetual license, which allows ownership of the mark to remain unified (protecting the seller's interests) while permitting the buyer to use the mark. Such a license typically requires the licensee/buyer to submit to the licensor/seller's quality-control standards, with the licensor having the right to terminate the license if those standards are violated.

The use of a perpetual license for the buyer to use the mark, however, can run afoul of the law's hostility to agreements of indefinite duration. In many jurisdictions, including Illinois, contracts of indefinite duration are terminable at will unless the agreement clearly states that it is not terminable at will. For example, in *Jespersen v. Minnesota Mining and Mfg. Co.*, 183 Ill.2d 290 (1998), the Illinois Supreme Court held that a distribution agreement that "may be terminated for material breach" was in fact terminable at will, because "may" was viewed as being permissive and admitting the possibility of other grounds for termination. Thus, if the license granted as part of the spin-off is not crystal clear, the door may be opened for future opportunistic behavior by the seller.

Such was the case for our client, Deutsche Wurlitzer GmbH. Until 1985, Deutsche Wurlitzer was a subsidiary of The Wurlitzer Company ("TWC"), the venerable producer of pianos, organs, jukeboxes and other goods, through which TWC manufactured and marketed jukeboxes under the WURLITZER brand, including the well-known WURLITZER "Bubbler" jukeboxes that helped propel the career of singers such as Elvis Presley and Rosemary Clooney. In 1985, TWC sold Deutsche Wurlitzer as an ongoing business to one of its larger customers. Because TWC was going to remain in the musical instruments business, the parties agreed that TWC would grant Deutsche Wurlitzer a royalty-free license for the WURLITZER mark that shall "continue in force without limit of period but may be cancelled by the Licensor for material breach." In the event of material breach, Deutsche Wurlitzer was entitled to notice and an opportunity to cure, or to submit the issue to arbitration.

TWC eventually went bankrupt and was acquired by Baldwin Piano. On March 24, 2003, Baldwin terminated Deutsche Wurlitzer's license without alleging breach and filed suit for trademark infringement the same day. Baldwin argued that, under the rule in *Jespersen*, Deutsche Wurlitzer's license was terminable at will as a matter of law.

The district court agreed with Baldwin, holding that the licensee's express right to cure after notice of breach and other rather elaborate termination provisions were insufficient to overcome the common-law presumption. The district court held that the word "may" in the phrase "may be cancelled by the Licensor for material breach" made the termination provision permissive, not exclusive, so breach was merely one of multiple possible grounds for termination, including "at-will" termination. The court thus found Baldwin's termination to have been proper, and permanently enjoined Deutsche Wurlitzer from all further use of the WURLITZER mark. We filed an appeal on Deutsche Wurlitzer's behalf with the United States Court of Appeals for the Seventh Circuit.

Oral argument before the appellate court was dominated by pointed questioning from Judge Frank Easterbrook, a former University of Chicago law professor and leading scholar in the "law and economics" school of legal reasoning that seeks to harmonize legal decision-making with optimal economic results. Judge Easterbrook authored a unanimous decision: the injunction was vacated, and the case was remanded with instructions to enter judgment in favor of Deutsche Wurlitzer.

The Court of Appeals reaffirmed the general rule that "[i]nterpreting contracts so that major clauses fall out usually is not a sensible way to understand the parties' transaction." *Baldwin Piano, Inc. v. Deutsche Wurlitzer GmbH*, 392 F. 3d 881, 883 (7th Cir. 2004). Applying this rule, the Court held that the parties would not have included elaborate provisions governing termination for cause if they had intended to give the licensor the right to avoid those provisions by terminating without cause. Moreover, the Court held that "[t]he 1985 transaction as a whole is hard to understand unless Deutsche Wurlitzer received an enduring rather than evanescent interest in using the WURLITZER mark on jukeboxes." *Id.* at 883. The appellate court held that judges must have a "general acquaintance with commercial practices" so that they do not upset the parties' bargain in favor of general legal theories.

Deutsche Wurlitzer's experience illuminates the potential pitfalls in using trademark licenses in the context of corporate spin-offs. While the Seventh Circuit's ruling shows that the license is still a viable means of facilitating joint use of a trademark after a spin-off, that victory came after extensive proceedings before the district court, a fully-litigated appeal, and the substantial commercial inconvenience of complying with an injunction against use of the mark around which Deutsche Wurlitzer had built its business. When using a license in the context of a spin-off, counsel must make the license absolutely clear that it is terminable only for cause and not terminable at will. With these precautions, both parties should be able to use the same mark "without limit of period" and without risk of having their rights impaired or revoked by the courts.

— by Brett August and Sanjiv Sarwate

Firm Update/Announcements

Partnership

Sanjiv Sarwate ... has been named a partner in the Chicago office. Sanjiv's practice is focused on all aspects of trademark, unfair competition, and copyright law, with a particular emphasis on international trademark practice and litigation.

Presentations

Phillip Barengolts ... was a panelist on January 13, 2005, at Northwestern University School of Law Intellectual Property Law Society's discussion on "Playing the high-stakes name game: Trademark law and the Internet; Let the Music Play: Copyright law and the Digital Revolution."

Chad J. Doellinger ... was a panelist at the American Intellectual Property Law Association's 28th Mid-Winter Institute held in Orlando, Florida. The topic was "Trademarking a Nano Business: The Battle for Investor Visibility." Chad also spoke on "Navigating The Year's New Landmarks in Trademark Law" at the Center for Intellectual Property Law's 49th Annual Conference on Developments in Intellectual Property Law at The John Marshall Law School on February 25, 2005.

Jonathan S. Jennings ... spoke on "Right of Publicity Developments" to the Entertainment Law Society of The John Marshall Law School on March 2, 2005. Jonathan also organized the ABA's Intellectual Property Law Section's CLE teleconference that will take place on March 29, 2005, concerning the pending U.S. Supreme Court pharmaceutical patent case *Merck v. Integra*. Finally, Jonathan will be a judge for the Arlyn Miner Moot Court program at Northwestern University School of Law on April 6, 2005.

Mark V. B. Partridge ... will speak on "Intellectual Property and Career and Business Protection" at the American Society of Mechanical Engineers Mega RAC on March 19, 2005, in Rosemont, Illinois.

Robert W. Sacoff ... will speak on a program at United Nations headquarters in New York City on March 30, 2005, on "Mediation and Arbitration of Intellectual Property Disputes," jointly sponsored by the World Intellectual Property Organization (WIPO) and the ABA Section of Intellectual Property Law. Program details are available at <http://www.abanet.org/intelprop/2005wipo/home.html>.

Belinda J. Scrimenti ... served on the Project Team for the INTA Anticounterfeiting Forum held February 7-8, 2005, in Washington, D.C. At the event, she also served as the moderator of the industry breakout lunch and spoke on the topic, "The Borders Beyond—Using U.S. and Foreign Customs Agencies To Halt Exportation and Importation of Counterfeits Worldwide."

Uli Widmaier ... gave a presentation on January 25, 2005, together with Prof. Doris Long of the John Marshall Law School, on "Dilution Beyond Repair? Federal Trademark Dilution in the Digital Age," at the John Marshall Law School Center for Intellectual Property Law. Uli

will be giving a presentation on March 14, 2005, on "Fair Use in View of KP Permanent Make-Up" at the 2005 Intellectual Property Spring Seminar of the Michigan Institute for Continuing Legal Education, Kellogg Center, East Lansing, MI.

Joseph N. Welch II ... gave a presentation on February 8, 2005, at the Chicago Bar Association on "Evidentiary Aspects of Trademark and Related Surveys".

Publications

The Intellectual Property Law Handbook recently published for sale by IICLE, features three chapters on trademark and unfair competition law, all authored by **Bradley L. Cohn**. The chapters cover trademark creation, maintenance, registration, litigation, licensing, assignment, and loss of rights.

In 2005, Lexis Publishing launched an on-line edition of the one volume treatise by **David Hilliard** and **Joseph N. Welch II**, *Trademarks and Unfair Competition Deskbook*, which can be accessed at www.lexis.com and is also available in a printed edition. The *Deskbook* was recently cited and quoted at length in *Bumble Bee Seafoods, L.L.C. v. UFS Indus.*, 71 U.S.P.Q.2d 1684 (S.D.N.Y. 2004).

Jonathan S. Jennings co-authored the ABA Intellectual Property Law Section's "Statement on H.R. 683, The Trademark Dilution Revision Act of 2005," that the Section submitted to the Subcommittee on Courts, the Internet and Intellectual Property of the Committee on the Judiciary, U. S. House of Representatives.

Mark V. B. Partridge's article on "How to Win Domain Name Cases" appears in the February 2005 issue of *Managing Intellectual Property*. His article entitled "Using Patents and Copyrights to Create Strong Brands" appears in the February 2005 issue of *The Licensing Journal*.

In January 2005, **Uli Widmaier** co-authored (with Kathryn Barrett Park, trademark counsel for General Electric Company) the U.S. Group Response to AIPPI Question 188, "Conflicts between Trademark Protection and Free Speech."

Appointments

Mark V. B. Partridge has been appointed to serve on the INTA Panel of Neutrals as a mediator for trademark disputes.

Noteworthy

Two members of the firm participated in a meeting in Orlando, Florida, on January 27, 2005, between INTA, AIPLA, IPO and the ABA to discuss and reach a consensus on proposed legislative changes to the Federal Trademark Dilution Act: **Jonathan S. Jennings**, as part of the ABA Intellectual Property Law Section's delegation, and **Joseph N. Welch II**, as part of AIPLA's delegation.