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GREGORY J. CHINLUND IS A PARTNER AT CHICAGO-BASED MARSHALL GERSTEIN & BORUN LLP. HE CAN BE REACHED AT 312-474-6300 OR AT GCHINLUND@MARSHALLIP.COM..

COLIN I. JAMES IS AN ASSOCIATE AT CHICAGO-BASED MARSHALL GERSTEIN & BORUN LLP. HE CAN BE REACHED AT 312-474-6300 OR AT CJAMES@MARSHALLIP.COM..

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By Gregory J. Chinlund and Colin I. James

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Be careful what you ask for: A cautionary tale for exclusive trademark licensees

A look at the 7th Circuit's recent decision in *TMG Kreations, LLC v. Peter Seltzer; Flat Be Co. Ltd.*

As the saying goes, "Be careful what you ask for because you just might get it." An exclusive trademark licensee may disagree with that old adage in light of the recent decision in *TMG Kreations, LLC v. Peter Seltzer; Flat Be Co. Ltd.* Ultimately and unfortunately for the licensee, the 7th Circuit found that nothing in an exclusive trademark license required the licensor to prevent resale of licensed products within the licensed territory. Thus, the exclusive licensee was not the only party selling the branded products in the territory as the exclusive licensee desired.

The case arose after Peter Seltzer, a manufacturer of chenille products under the registered trademark Kashwére, ran into financial difficulty and sold the assets of his business to TMG Kreations in 2009. Through the asset purchase agreement, TMG acquired the rights to the Kashwére trademark. As part of the deal, however, Seltzer requested and TMG granted to Seltzer an exclusive trademark license so that Seltzer could continue to sell chenille products in Japan under the Kashwére trademark to and only through Seltzer's distributor at that time, Flat Be Co. Ltd. In addition to the asset purchase agreement and the trademark license, TMG and Seltzer entered into a non-compete agreement under which Seltzer agreed not to persuade customers to reduce purchases of chenille products from TMG or to disparage TMG.

Suffice it to say that, over the course of time, the parties came to distrust each other and litigation involving claims of breach of contract and trademark violations ensued. TMG claimed, among other things, that Seltzer violated the terms of the exclusive license by first transferring the agreement to another company (that Seltzer established under the name Kashwere USAJPN LLC) without TMG's permission and without offering TMG a first right of refusal prior to any such transfer, second adopting the name Kashwere USAJPN LLC without disclosing that Kashwere USAJPN LLC was a licensee of TMG, and third registering the Kashwére mark in Japan. Furthermore, TMG claimed that Seltzer violated the license by expanding use of the Kashwére trademark with products not made of chenille and violated the non-compete agreement by selling outside of the Japanese territory and disparaging TMG. On the other side, Seltzer claimed that TMG was complicit with its distributors in an effort to destroy Seltzer's exclusivity in Japan. Specifically, Seltzer asserted that TMG assisted its distributors with reselling (purportedly inferior in quality) chenille products into Japan under the Kashwére label. The entire litigation was dismissed by the district court on cross-motions for summary judgment.

While the 7th Circuit decided that the district court was correct in granting summary judgment for TMG against Seltzer's counterclaims for breach of the license by failing to limit non-Japanese distributors from reselling and by itself directly selling into Japan, summary judgment in favor of Seltzer on TMG's claims for breach of the license was incorrect and reversed.

The 7th Circuit described the litigation as involving each party accusing the other of "wanting the whole world and engaging in nefarious practices to oust the other" from the Kashwére chenille market. The crux of the matter, however, seems to be that Seltzer was not careful about the request for exclusivity and ultimately got only what he asked for — not what Seltzer may have thought he bargained for and definitely not what Seltzer wanted which was a lack of competition under the Kashwére brand in Japan.

So, what can licensees (and licensors) learn from *TMG Kreations, LLC v. Peter Seltzer; Flat Be Co. Ltd.*? Even though the issue of exclusivity appears to have been at the center of the dispute, there are a number of points that both parties should keep in mind prior to entering into a trademark license.

Ostensibly, most important to Seltzer in this case was that by entering into an exclusive arrangement with TMG, he thought that he would be the only source for Kashwére brand chenille products in Japan. Not ensuring that the contract's language applied to more than TMG was a mistake; the contract only limited TMG's direct sales in Japan, but did not address the sales of TMG's distributors or product sold outside of Japan that could be brought into the Japanese market. In scenarios such as the case at hand, if a licensor has a complex supply chain or a broad network of distributors, it may be difficult to wrap up true exclusivity. Thus, a licensee should carefully scrutinize the license grant and any restrictions it wishes to impose on the licensor because, as the 7th Circuit noted, "there are compelling reasons to reject an implicit duty to prevent one's distributors from reselling in an exclusive distributor's territory." Instead, such matters "should be left to the contracting parties to work out."

An important issue illustrated for a licensor in this case is that it should ensure that it has clear restrictions on licensees' and sublicensees' or distributors' use of the trademark. In this case, TMG prohibited Seltzer's use of the Kashwére trademark as part of a corporate name unless Seltzer identified itself as the exclusive licensee of TMG in Japan and did not hold itself out as TMG. Seltzer did not — perhaps unintentionally — adhere to this requirement, and was therefore in breach of the contract and this could have resulted in the cancellation of the license. A licensor should also clearly state (as TMG did here) who is responsible for prosecuting, enforcing and defending rights under the trademark. Seltzer was in further breach of this contract when Flat Be registered the Kashwére trademark despite clear language in the contract forbidding such action.

Finally, both the licensor and licensee should also not gloss over general boilerplate language such as the assignability of a license. In this case, it appears that TMG thought through the assignment language and desired to restrict Seltzer's transfer of the agreement. This assumption arises from both the restriction on assignment as well as the first right of refusal. Seltzer, possibly not contemplating future corporate structure, violated these provisions, although this could have been avoided by more careful drafting of the assignment provision.

Remember: In trademark licensing negotiations, be careful what you ask for because you just might get it.

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