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SECTION REVIEW

MASSACHUSETTS BAR ASSOCIATION

MASSACHUSETTS LAWYERS JOURNAL
JULY 2015

COMPLEX COMMERCIAL LITIGATION

The trademark owner's dilemma — vigorous enforcement of rights or bullying?

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A trademark or portfolio of trademarks is often among the most valuable assets of a business. A trademark serves as a fixed representation of a business' brand and its goodwill, and conveys a message to customers and potential customers of the quality of goods and services offered by the business. A trademark owner not only enjoys the exclusive right to use its marks in commerce, but also has the right (and in fact the obligation) to stop others from using similar marks in a manner that causes consumer confusion. Thus, vigorous enforcement of trademark rights is necessary in order to preserve those rights. However, a trademark owner is not permitted to misuse its trademark rights so as to intimidate another business into abandoning a mark that does not conflict with the trademark owner's mark. The question then becomes: where does vigorous enforcement end, and bullying begin?

It is well established that trademark rights do not grant one a complete monopoly on the use of a particular word, words, logo or symbol. Rather, trademark rights only extend to the goods and services in which the trademark owner has used the mark in commerce. As a result, ownership of a trademark does not permit one to stop all uses of similar or even identical marks. Although a few of the most famous marks — think Budweiser or Coca-Cola — are so strong that it is likely that no one else could use those marks for any goods or services, typically that is not the case. Even strong marks like Delta (Delta Airlines, Delta Faucets, Delta Dental), United (United Airlines, United Van Lines) and Columbia (Columbia Records, Columbia Sportswear), are shared by businesses in unrelated fields.

A trademark owner can only prevent others from using similar or even identical marks in a way that is likely to cause consumer confusion — i.e., will lead consumers to believe that the two marks come from the same source, that the sources of the marks are affiliated, or that one source sponsors or authorizes the other source's use of the mark. Thus, trademark rights are limited by the extent to which another's use of a similar mark is likely to cause confusion.

As a result of these competing principles of trademark law — a trademark owner is obligated to vigorously enforce its rights but at the same time must respect the fact that those rights are limited and not monopolistic — a trademark owner frequently is left in a quandary. What measure of enforcement is sufficient to protect its rights without crossing the line? Adding to that tension is the developing concept of "trademark bullying."

The United States Patent and Trademark Office (USPTO) has defined a trademark bully as a business that uses its trademark rights to "harass and intimidate" another business beyond what the law might be "reasonably interpreted to allow." A number of businesses — typically large, powerful businesses with robust trademark portfolios — have been accused of bullying smaller, less-heeled businesses into abandoning trademark rights that do not conflict with the rights of the larger businesses. These alleged "bullies" include such entities as Google, Coach and even the State of New York. Numerous articles in legal and technology journals have addressed the issue. The Trademark Technical and Conforming Amendment Act of 2010 mandates that the USPTO conduct a study on the extent to which trademark bullying has harmed small businesses and to report on the possible need for legislation and/or regulation to combat it.

To date, no law has been enacted or regulation implemented proscribing trademark bullying in trademark infringement actions in federal court or in proceedings before the USPTO. However, a federal statute, 15 U.S.C. § 1114 (2)(d)(iv), does provide for the awarding of damages to a domain name owner who is forced to defend a federal court lawsuit in which a trademark owner, in bad faith, seeks to force the domain holder to abandon a non-conflicting domain name. There is no similar remedy available to defendants in traditional federal court trademark infringement litigation, or in proceedings before the USPTO. Not surprisingly, few who feel bullied are willing to take their case all the way to verdict or judgment. In one such rare instance from 2013, *Already LLC v. Nike Inc.*, the U.S. Supreme Court affirmed the dismissal of Already's counterclaim based on Nike's dismissal of its affirmative trademark claims and provision of a covenant not to sue Already. The Supreme Court rejected Already's argument that Nike was guilty of being a trademark bully and thus should face the prospect of having its marks cancelled despite its recently adopted willingness to drop its trademark claims. The Supreme Court's decision seems to leave open the "out" for trademark owners caught overstating their trademark rights — they can simply dismiss their trademark claims and agree not to pursue the other parties; effectively foreclosing any relief for the allegedly "bullied" parties.

At this point the biggest risk to a trademark owner who "crosses the line" through overly-aggressive enforcement tactics is social media backlash. A number of blogs, including techdirt.com, regularly report on the latest alleged instances of trademark bullying. Further, industry-based blogs and websites have erupted in protest when one industry member is seen as "bullying" another into abandoning trademark rights. Because, as set forth above, the power of a trademark lies in the perception ➤17

COMPLEX COMMERCIAL LITIGATION

The First Circuit may actually be the best choice of bankruptcy venue for intellectual property licensees

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In October 2014, GT Advanced Technologies (GT), a Delaware corporation with a principal place of business in New Hampshire, filed a petition for relief under Chapter 11 of the Bankruptcy Code in the District of New Hampshire. The locus of the filing was somewhat of a surprise to many, given the steady migration of large Chapter 11 cases to the so-called "magnet" bankruptcy venues of Delaware and the Southern District of New York. Although GT's motivation for filing in New Hampshire is unclear, some of the advantages awaiting debtors that file in the First Circuit are apparent, particularly in the realm of intellectual property (IP) licensing. In-licensed IP rights — the right of a debtor as licensee to use IP owned by a third party — are often among the most valuable assets in a business bankruptcy case, but a debtor's ability to maximize that value may vary greatly depending on the venue where the bankruptcy petition is filed.

The starting point for examining this value variance is code section 365, which authorizes a debtor to reject, assume, or assign executory contracts. Although the term "executory contract" is not defined by the code, it is commonly understood to embrace a contract under which both parties have material unperformed obligations. Most IP licenses typically qualify as executory contracts because their standard terms usually create ongoing material obligations, such as the duty to maintain IP, covenants not to sue for infringement, territorial restrictions and the payment of royalties.[1]

Once it is clear that section 365 applies to a debtor's IP in-license, section 365(c) must be considered. That provision precludes a debtor from assuming or assigning an executory contract, i.e., keeping or transferring its license rights, where: (i) "applicable law" excuses the counterparty from accepting performance from or rendering performance to an entity other than the debtor; and (ii) the counterparty does not consent to the assumption or assignment. There is sharp disagreement over the proper interpretation of section 365(c) in a number of respects. Specifically, there is a divide with respect to whether a debtor can assume (keep for itself) an IP license without the consent of the licensor even where there is no intent to assign the license to a third party. A slim majority of federal appellate courts, including the Third Circuit Court of Appeals, interpret the plain language of section 365(c) as creating what has been dubbed a "hypothetical test," which evaluates a debtor's ability to assume based on whether applicable law would permit the debtor hypothetically to assign the license to a third party, even where no assignment is planned. *See, e.g., In re West Electronics Inc.*, 852 F.2d 79 (3d Cir. 1988). Importantly, federal patent, copyright and trademark laws — considered "applicable ➤17