

World Trademark Review Daily

**Alleged trademark sub-licence is assignable in bankruptcy
United States - McDermott Will & Emery UK LLP**

**Assignment
Licensing**

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In *In re XMH Corp* (Case 10-2596, August 2 2011), considering the fate to befall certain trademarks upon an owner's bankruptcy, the US Court of Appeals for the Seventh Circuit Court has determined that a trademark licence is not assignable without the owner's express permission or in the absence of a clause explicitly authorising assignment, and that a trademark licence cannot be implied from a contract for services.

XMH Corp and its subsidiaries, including one called Simply Blue, filed for [Chapter 11](#) bankruptcy relief. XMH sought to sell Simply Blue's assets, including a contract for services between Simply Blue and Western Glove Works. The contract included a sub-licence from Western Glove Works to Simply Blue of the trademark JAG JEANS used in connection with various items of apparel. The sub-licence as originally executed only lasted for two weeks. The parties also executed a contract for services to be performed during the year after the expiration of the trademark sub-licence, under which Simply Blue agreed to provide a variety of services related to the apparel sold under the JAG JEANS mark. Three months after the expiration of the sub-licence, the parties extended it retroactively to last six months and also extended the services contract. Later the parties opted to renew the services portion of the contract for an additional four years and provide for further renewal options which, if exercised, would extend to 2021.

Whether the contract could be assigned during bankruptcy turned on whether the contract was a trademark licence. Western Glove Works objected to the assignment of the contract under bankruptcy, arguing that the contract was a sub-licence to Simply Blue of the JAG JEANS mark, which Western Glove Works itself had licensed from another company and which could not be assigned without its permission.

The Seventh Circuit recognised the "universal rule" that "a trademark licence is not assignable without the owner's express permission" - that is, "in the absence of a provision authorising assignment". This is because a trademark owner must exercise control over the quality of the trademarked goods. If a licensee were permitted to sub-licence the trademark to a seller over whom the trademark owner, having no contract with the sub-licensee, has no control, the quality of the trademarked product could be degraded without notice, making the trademark deceptive. Because no provision in the Simply Blue/Western Glove Works contract authorised assignment, Simply Blue could not have assigned the trademark sub-licence when it was in force.

Western Glove Works argued that the services provision of the contract which survived the expiration of the trademark sub-licence was an implied sub-licence and, therefore, Simply Blue could not assign that portion of the contract either. The court disagreed, stating that none of the provisions of the contract constituted "any sort of trademark licence". Further, the court instructed that:

" [i]f Western [Glove Works] wanted to prevent [Simply] Blue from assigning the service contract to another firm without Western [Glove Works]'s permission, all it had to do was get [Simply] Blue to agree to designate the contract as a trademark sub-licence, thus triggering the default rule."

Therefore, the Seventh Circuit affirmed the district court's reversal order, thus permitting assignment of the alleged trademark sub-licence without the licensor's consent.

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