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| ▪ Ted Max, Sheppard Mullin                              |     |

## Basics of Licensing: Drafting Issues and Considerations

Theodore C. Max  
Sheppard, Mullin, Richter & Hampton LLP  
30 Rockefeller Plaza, Suite 2400  
New York, New York 10112  
212.332.3602  
tmax@sheppardmullin.com

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## What is a trademark?

Lanham Act §45 (15 U.S.C. §1127):

- The term “trademark” includes any word, name, symbol, or device, or any combination thereof—
  - (1) used by a person, or
  - (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter,
- to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

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## Types of Marks

A trademark could be:

– a name or phrase

- PEPSI
- JUST DO IT

– a logo



– a stylized word mark



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## Types of Marks

▪ A trademark could also be:

– Trade dress – the non-functional features of a product's packaging, appearance or configuration that contributes to the overall commercial impression of the product, e.g., the shape of a Coke bottle.

– Symbols, colors, or even sounds, if they distinctively designate the source of the product.

- NBC's chimes were the first sounds ever registered by the PTO.



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## Types of Marks

- Another type of mark is a service mark, which is used to identify services rather than goods. 15 U.S.C. §1127. For example:
  - LOS ANGELES LAKERS – registered for entertainment services
  - DON'T LEAVE HOME WITHOUT IT – registered by American Express for “charge card services”

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## Strength of Mark

- A mark will only be legally protectable if it is “distinctive” in identifying the owner as the source of the goods or services.

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## 5 categories of trademark “distinctiveness”

- 3 categories of inherently distinctive marks
  - Fanciful, arbitrary, or suggestive
- Descriptive marks
  - Must have “acquired distinctiveness” to be protected
- Generic marks
  - Generic marks tell exactly what the product is and are not protected.
  - A distinctive mark can “genericize” and become unprotectable, e.g. THERMOS or ASPIRIN.

McCarthy on Trademarks and Unfair Competition § 11:2

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## Inherently Distinctive Marks

- Fanciful – coined words or symbols specifically designed to serve as a trademark
  - XEROX, KODAK
- Arbitrary – common words that are arbitrarily applied to the goods or services but do not describe any characteristic of those goods or services
  - APPLE computers, CAMEL cigarettes.
- Suggestive – marks that suggest some quality of the product, but require a “mental leap” to determine the nature of the goods
  - COPPERTONE suntan lotion, CHICKEN OF THE SEA tuna

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## Descriptive Marks and Secondary Meaning

- Descriptive marks describe the good or service, e.g. RAISIN BRAN or CHAP STICK.
- These marks are only protected if they acquire secondary meaning.
  - Secondary meaning: through use and advertising, the public comes to regard the mark as designating the source of products; proven through surveys or other evidence.
- If secondary meaning is shown, the mark will be protected as having “acquired distinctiveness.”
  - See, e.g., Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4 (2d Cir. 1976) (trademarks); Paddington Corp. v. Attiki Importers & Distrib., Inc., 996 F.2d 577 (2d Cir. 1993) (trade dress)

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## Trademark Infringement: Registered Marks

- Plaintiff must show that defendant:
  - (1) without consent,
  - (2) used in commerce,
  - (3) a reproduction, copy or colorable imitation of plaintiff's registered mark, as part of the sale or distribution of goods or services, and
  - (4) that such a use is likely to cause confusion.

15 U.S.C. § 1114

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## Trademark Infringement: Unregistered Marks

Same test, except that the plaintiff must also show that it has a protectable mark (i.e., inherent or acquired distinctiveness)

15 U.S.C. § 1125(a)

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## Likelihood of Confusion

- Courts typically apply a multi-factored test. See, e.g., Polaroid Corp. v. Polared Electronics Corp., 287 F.2d 492, 495 (2d Cir. 1961); AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341 (9th Cir. 1979)
- Each test considers similar factors, such as:
  - 1) Similarity of marks
  - 2) Similarity of products
  - 3) Area and manner of concurrent use
  - 4) Degree of care likely to be exercised by consumers
  - 5) Strength of Plaintiff's mark
  - 6) Whether actual confusion exists
  - 7) Intent of Defendant in selecting its mark

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## Trademark Licensing: The Old View

- In early common law, trademarks were only thought to represent to the consumer the physical source or origin of the product or service with which the trademark was used.
- Under this early “source theory” of protection, trademark licensing was viewed as philosophically impossible, since licensing meant that the mark was being used by persons not associated with the real manufacturing “source.”

McCarthy on Trademarks and Unfair Competition § 18:39

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## Trademark Licensing: The Modern View

- In the 1930s, courts began to hold that trademarks indicate quality as well as physical source.
- “The burgeoning business of franchising has made trademark licensing a widespread commercial practice and has resulted in the development of a new rationale for trademarks as representations of product quality.” *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972).

McCarthy on Trademarks and Unfair Competition § 18:40

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## Quality Theory

- This new “quality theory” supplements the older “source theory” and allows a trademark owner to license its mark.
- A licensor must maintain quality control over products or services bearing the mark.
- If a licensor takes no reasonable steps to control quality, then the license is “naked” and the licensed mark may be found to be abandoned.

McCarthy on Trademarks and Unfair Competition § 18:40

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## 1946 Lanham Act

The Lanham Act has firmly established the quality theory in American law. Although the Lanham Act does not explicitly mention trademark licensing, several provisions clearly contemplate licensing under the quality theory.

E.g. 15 U.S.C. § 45 (“Related Company”), 15 U.S. C. § 5 (use by Related Companies).

McCarthy on Trademarks and Unfair Competition § 18:40

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## Practical Issues to Consider Before Entering License

- There are various practical, non-legal issues that both licensor and licensee should consider before entering into a license arrangement.
- Obviously, first make sure your business partner is a good fit, is in the right business segment, has the same market focus, intends to target the same types of customers and has similar goals for the overall image of the brand.

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## Practical Issues to Consider Before Entering License

- Investigate your potential partner
  - Are they involved in pending lawsuits? Are they litigious?
  - Licensor should verify that licensee is financially able to manufacture products, pay royalties
  - Licensee should verify that licensor owns the rights to the marks, conduct trademark searches, etc.
  - Licensee should inquire regarding other licensee partners of the licensor, and verify that there will not be potential for conflicts

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## Practical Issues to Consider Before Entering License

- Is there an agent bringing the parties together? If so:
  - Is there a flat fee?
  - Who pays the fee?
  - Who is the agent working for?
  - Does the agent have any bias? Do both parties trust the agent's judgment that both parties would benefit from the license?

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## Question 1

- Licensor has only filed intent-to-use applications for registrations of his marks, and has not yet used them in commerce on the goods and services listed in his applications. Does he have the right to license these marks?

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## Answer to Question 1: Yes

- There is no requirement that Licensor use the marks in commerce before licensing them. Under the Lanham Act §5, use by a licensee (even the first use) inures to the benefit of a licensor-applicant.

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- However, Licensor should conduct trademark searches to determine whether it has valid claims to the rights it is licensing to Licensee.

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## Question 2

- If Licensor starts letting Licensee make and sell products bearing the trademark and logo without drafting a formal license agreement, could it lose its alleged rights to these marks?

23

## Answer to Question 2: Not necessarily

- Although assignments of marks under the Lanham Act must be in writing, a license can be oral or implied by the facts.

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- In Nestle Co. v. Nash-Finch Co., Nestle claimed that Nash-Finch had abandoned its DELI-QUIK mark because there was no written license with delicatessens using the mark. But the TTAB found sufficient actual quality control to find that a licensor-licensee relationship existed, and held that the mark had not been abandoned. 4 U.S.P.Q.2d 1085 (T.T.A.B. 1987).

McCarthy on Trademarks and Unfair Competition § 18:43

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- If the parties act as though a license exists, e.g. paying royalties and exercising quality control, a court might later find that a license exists. Such a finding could prevent Licensee or a third party from claiming that Licensor has abandoned its trademark by letting Licensee use it without a written license.

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# Drafting Issues

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- Licensor doesn't want to risk losing his marks, and decides to negotiate a formal license with Licensee
- After discussing the key terms of the license agreement with Licensee, Licensor calls you and says that he wants your firm, the well-established Dewey Cheatum & Howe, to draft a formal written agreement.

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## General Drafting Goals: Clarity

- In evaluating the license, consider whether a judge reviewing the license will understand the document reasonably well.
- If the document requires further explanation or reference to other documents or persons, then it is not as clear as it might be.

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## General Drafting Goals: Clarity

- The complex form of an agreement or the particular intricacies of an industry or license negotiations do not excuse a lack of clarity. These only invite the potential for a dispute and litigation.

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## General Drafting Goals: Clarity

- The ultimate expense of legal and business resources and time to resolve a license dispute will far exceed the expense of seeking and achieving clarity. A license should be precise, simple, consistent and clear.

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## General Drafting Goals: Consistency

- Inconsistent contract provisions will often result in unintended consequences because of ambiguity and differing interpretations.
  - Terms should be defined where possible.
  - Each of the documents that relate to one another should be defined consistently.
  - The use of definitions, terms and numbering of sections should be uniform.

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## General Drafting Goals: Consistency

- If boilerplate must be used, care should be taken to ensure that the boilerplate fits the license and the industry of the licensor. Different licenses may require different boilerplate language due to issues that are particular to a client, its industry or the particular transaction.

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## General Drafting Goals: Simplicity

- In drafting a license, keep sentences short as possible. A license should not be written like a Faulknerian novel with lengthy one-sentence paragraphs.
- Break up sentences if necessary so thoughts are expressed simply. If a clause does not fit, create a separate sentence, even if the resulting two sentences are longer than one single sentence.

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## General Drafting Goals: Simplicity

- Avoid legalese if possible because this makes the license wordy and difficult to understand and read.

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## Question 3

- What issues should you make sure to address in the agreement?

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## Answer to Question 3: Key Issues to Consider

- Ownership of marks
- Grant clause / Exclusivity
- Control over use
- Quality control
- Royalty payments
- Audit provisions
- Geographic scope
- Restrictions on Assignment / Sublicensing
- Best Efforts Clause
- Non-Compete Clause
- Duration
- Brand extension
- Conditions for renewal
- Arbitration or mediation provisions
- Termination rights

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## Question 4

What if the license does not have an ownership clause or a no-challenge clause? Could Licensee later attack the validity of Licensor's alleged rights to its trademark?

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## Answer to Question 4: Maybe

- In most cases, a trademark licensee is estopped from challenging the validity of the licensor's mark under the doctrine of "licensee estoppel."
- Many courts allow a licensee to attack a licensor's mark only on facts arising after the term of the license has expired.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Answer to Question 4: It may not matter

- But even explicit no-challenge clauses could be struck down. The Second Circuit, holding that courts should balance the public interest in favor of challenging invalid trademarks against the private interest in predictable contractual relationships, struck down a license's no-challenge clause because it believed that the public interest in challenging the mark outweighed the licensor's private contract interests.

Idaho Potato Commission v. M & M Produce & Farm Sales, 335 F.3d 130 (2d Cir. 2003).

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## Ownership of Marks

- To be safe, the license should clearly indicate that the Licensor retains ownership of the licensed marks, e.g.:
  - OWNERSHIP OF MARKS: XYZ acknowledges the ownership of the Marks in Tom, agrees that it will do nothing inconsistent with such ownership and that all use of the Marks by Tom shall inure to the benefit of and be on behalf of Tom, and agrees to assist Tom in recording this Agreement with appropriate government authorities. XYZ agrees that nothing in this License shall give XYZ any right, title or interest in the Marks other than the right to use the Marks in accordance with this License and XYZ agrees that is will not attack the title of Tom to the Marks or attack the validity of this License.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Ownership of Marks

- Ownership of other intellectual property, including any trademarks, trade dress, copyrights or patents that are created should be clearly spelled out. This is especially the case with co-branding.



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## Grant Clause

- The grant clause states the scope of the use of the marks that the Licensee is being granted.
- This may be more narrow than the scope of rights acknowledged in the ownership clause.

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## Grant Clause

- The specifics of the grant can be important if there are questions as to the scope of the use by the Licensee.
- May define the terms “goods” or “services.”
- Any rights not specifically licensed are by implication reserved by the Licensor.

Theodore C. Max, [The New Role of Intellectual Property in Commercial Transactions](#) 53

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## Grant Clause

- Example:
  - GRANT OF LICENSE: Licensor grants to Licensee an exclusive, nontransferable license to use the Marks in connection with the goods and services covered by the applications for trademark registration referred to in Schedule A.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Question 5

- Licensor is concerned about making sure that Licensee cannot use the licensed marks in ways that would reflect poorly on the brand. Can he do anything to prevent this?

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## Answer to Question 5: Yes

- You can include a provision in the license agreement expressly restricting or controlling Licensee's use of the marks.

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## Control over use

- Such a provision could involve a detailed system whereby the licensor approves in advance of the way in which the licensed goods are sold and distributed, e.g.:
  - Advertising
  - Packaging
  - Point-of-sales materials
  - Locations and types of stores
  - Limitations on off-price sales

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## Control over use

- The licensee should not be able to use the licensed marks in combination with any other marks without prior approval, e.g.:
  - FORM OF USE: Licensee agrees to use the marks only in the form and manner and with appropriate legends as prescribed from time to time by Licensor, and not to use any other trademark or service mark in combination with any of the Marks without prior written approval of Licensor.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Question 6

- Licensor wants to make sure that it doesn't jeopardize its rights to the marks. How can it do that?

50

## Answer to Question 6: Quality Control

- To avoid having the license constitute an abandonment of Licensor's rights, he should include a quality control provision, and actually follow through in controlling the quality of the licensed products.

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## Question 7

- Is a quality control provision mandatory in a written license?

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## Answer to Question 7: Not necessarily

- The issue is one of actual control, not a contractual right of quality control.
  - “The absence of an express contractual right of control does not necessarily result in abandonment of a mark, as long as the licensor in fact exercised sufficient control over its licensee.”

*Stanfield v. Osborne Indus. Inc.*, 52 F.3d 867 (10th Cir. 1994); see also *Printers Servs. Co. v. Bondurant*, 20 U.S.P.Q.2d 1626 (C.D. Cal. 1991).

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## Quality Control

- The parties should draft a detailed quality control clause, since quality control is one of the most essential components of a license relationship.
- Courts are willing to impose quality control obligations if they are not written. The parties (especially Licensor) should seek agreement on the terms rather than risk subjecting itself to a court’s subsequent determination of what the parties should have done.

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## Quality Control: Affirmative Duty of Licensor

- Quality control is critical because its absence can result in the abandonment of the mark.
- As Judge Posner explained, “The owner of a trademark has a duty to ensure the consistency of the trademarked goods and services. If he does not fulfill this duty, he forfeits the trademark.”

Gorenstein Enterprises, Inc. v. Quality-Care-USA, Inc., 874 F.2d 431 (7th Cir. 1989) (emphasis added).

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## Quality Control: Affirmative Duty of Licensor

- “The Lanham Act places an affirmative duty upon a licensor of a registered trademark to take reasonable measures to detect and prevent misleading uses of his mark by his licensees or suffer cancellation of his federal registration.... The critical question...is whether the plaintiff sufficiently policed and inspected its licensee[’s] operations to guarantee the quality of the products [the licensee] sold.”

Dawn Donut Co. Hart’s Food Stores, Inc., 267 F.2d 358, 366 (2d Cir. 1959).

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## Quality Control: Affirmative Duty of Licensor

- “Failure to exercise such control and supervision for a significant period of time may estop the trademark owner from challenging the use of the mark and business which the licensee has developed during the period of such unsupervised use.”

Sheila's Shine Prods., Inc. v. Sheila Shine, Inc., 486 F.2d 114 (5th Cir. 1973) (citations omitted).

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## Quality Control Provisions

- When drafting, consider:
  - The various quality standards that the Licensee must meet
  - How quality standards will be set
    - Specified in the license, or set from time to time by Licensor?
  - Procedures for submitting samples to Licensor for approval
    - Approval of goods, packaging, advertising

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## Quality Control

- Example:
  - QUALITY STANDARDS: Licensee agrees that the nature and quality of all services rendered by Licensee in connection with the Marks; all goods sold by Licensee under the Marks; and all related advertising, promotional and other related uses of the Marks by Licensee shall conform to standards set by and be under the control of Licensor.

McCarthy on Trademarks and Unfair Competition § 18:64

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- Example:
  - QUALITY MAINTENANCE: Licensee agrees Licensor's to cooperate with Licensor in facilitating Licensor's control of such nature and quality, to permit reasonable inspection of Licensee's operation, and to supply Licensor with specimens of all uses of the Marks upon request. Licensee shall comply with all applicable laws and regulations and obtain all appropriate government approvals pertaining to the sale, distribution and advertising of goods and services covered by this License.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Royalty payments

- It is important to understand the method for calculating royalties before drafting the license. This will vary for different industries and it is crucial to get input from the business people, regardless of whether you represent the licensor or the licensee.

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## Royalty payments

- In defining the payment of royalties, you should consider how royalties are calculated and paid
  - E.g. lump sum, percentage, per unit
  - A stepped percentage royalty that decreases as sales increase is useful in creating a sales incentive for the licensee

Theodore C. Max, [The New Role of Intellectual Property in Commercial Transactions](#) 56

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## Royalty payments

- You should also consider:
  - Guaranteed minimums or quotas
  - How inadequate payment leads to termination
    - E.g. the amount of missed or delayed payments giving the licensor the right to terminate the license
    - Whether the licensor will give the licensee an opportunity to cure a missed payment

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## Question 8

- How can Licensor ensure that Licensee's royalty payments will be correct?

64

## Answer to Question 8: Include an audit provision

- Audit provisions are a useful safety valve by which royalty disputes may be resolved short of judicial intervention.
- Drafted properly, they can establish a quick, inexpensive, efficient, and noncontroversial means of addressing a potentially inflammatory problem.

Theodore C. Max, [The New Role of Intellectual Property in Commercial Transactions](#) 62

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## Audit provisions

- Before drafting an audit provision, consult with auditors – what records will they need to conduct an audit? The license should require that the licensee keep the types of records the auditors will need.

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## Audit provisions

- You might also consider:
  - A threshold discrepancy figure up to which the costs of the audit are borne by the Licensor
  - Naming a neutral auditor in whom both parties have confidence
  - Requiring a written notice and demand for an audit, including provisions for reasonable notice
  - Setting a time in which the audit must be completed

Theodore C. Max, [The New Role of Intellectual Property in Commercial Transactions](#) 57

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## Question 9

- How can you address the possible conflict in the national market between Licensor's trademark and a trademark used in another state across the country?

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## Answer to Question 9:

- You might want to include a clause that restricts the geographic scope of the license to avoid potential confusion.
- Consider the territorial scope of a Licensee's right to manufacture as well as to sell the products.

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## Geographic Scope

- “The licensor also has an important stake in making sure that the licensee has adequate territorial breathing room because the licensor tends to benefit from the success of the individual licensees. In considering territorial limitations the parties may wish to focus upon the impact of competitive activities within the area and attempt to devise a territorial boundary that may be expanded if a certain level of competitive saturation occurs within the originally specified territory.”

Milgrim on Licensing § 4.37

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## Geographic Scope

- Geographic restriction may be accomplished in three ways:
  - (1) location clause
  - (2) designated area of primary responsibility
    - Licensor could ensure that sufficient sales efforts will be focused in target market, while not precluding Licensee from selling elsewhere
  - (3) pass-over clause

Theodore C. Max, The New Role of Intellectual Property in Commercial Transactions 53-54

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## Geographic Scope: Pass-over clauses

- A pass-over clause requires one Licensee to pay another a fee for sales made in another Licensee's territory.
- These should be carefully drafted solely to compensate the invaded Licensee for actual increased costs attributable to another Licensee's exploitation of its territory, e.g. a fee equivalent to the Licensee's advertising and promotion costs.

Theodore C. Max, The New Role of Intellectual Property in Commercial Transactions 54

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## Geographic Scope: Pass-over clauses

- Fees that appear punitive may be held anticompetitive.
  - Response of Carolina, Inc. v. Leasco Response, Inc., 537 F.2d 1307 (5th Cir. 1976) (penalties on licensees who wished to sell in a fellow licensee's area of primary responsibility held to violate antitrust law)
  - Ohio-Sealy Mattress Mfg. Co. v. SealySee Ohio-Sealy Mattress Mfg. Co. v. Sealy, Inc., 585 F.2d 821 (7th Cir. 1978) (excessive charges compensating the invaded licensee for more than its advertising and promotion held anticompetitive).

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## Geographic Scope: Gray-Market Goods

- Another issue to consider: the competition of gray-market goods with domestic goods.
  - Gray-market goods = products legitimately made by a foreign manufacturer in a foreign country under a license, which are then imported into the US and sold in competition with goods manufactured in the US under a license for the same trademark.

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## Question 10

- Suppose Licensee has the exclusive license to sell Licensed products in the U.S. In addition to his license with Licensee, Licensor also licenses Canadian manufacturer Foreignco to make Licensed products. Foreignco starts selling its products in the U.S. You represent Licensee. Can you bring an action for trademark infringement against Foreignco?

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## Answer to Question 10: Not if goods are identical

- If the goods are identical and both the foreign and domestic trademarks are owned and licensed by the same entity, the importation of competing gray-market goods is permitted because there is no consumer confusion.

*NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), cert. denied, 486 U.S. 1042.

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- If there are material differences between the U.S. and foreign gray market goods, the sale of the gray market goods in the U.S. will be enjoined.  
*Nestle v. Case Helvetia*, 982 F.2d 633 (1st Cir. 1992).
- Consider anti-diversion language and the ability to track distribution of Licensed goods to curtail diversion.
- Consider limiting the ability to sub-license and sub-distribute to avoid complications with diversion which may impact anti-counterfeiting and royalty payments.

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## Question 11

- How can Licensor make sure that Licensee, as his sole licensee, actually makes and sells Licensed products instead of giving up on the license?

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## Answer to Question 11: Include a Best Efforts Clause

- A best efforts clause could require that the Licensee use its best efforts to promote and sell Licensed products.
- “A best efforts clause should set forth, in definite and certain terms, every material element of the bargain, with a clear set of guidelines... [if] a license contains a best efforts clause but no objective criteria from which “best efforts” may be discerned, the clause may be held void for vagueness.”

Theodore C. Max, The New Role of Intellectual Property in Commercial Transactions 53

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## Best Efforts Clause

- Or, another approach that is more objective than a best efforts clause is to have a minimum sales requirement and to permit the Licensor to terminate the license if the minimums are not met.

80

## Question 12

- Licensors want to prevent Licensees from assigning the license to another party. Does it need to include a provision prohibiting assignment in the license?

81

## Answer to Question 12: No

- It is customary for trademark licenses to contain such a provision.
- However, a Licensee's right to use a licensed mark is "personal," and usually cannot be assigned or sub-licensed without the permission of the Licensor. In the absence of express authorization, courts usually will not allow a Licensee to assign the license.

McCarthy on Trademarks and Unfair Competition § 18:43

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## Restrictions on Assignment

- If you do draft an assignment restriction provision, be careful:
  - Do not condition the grant of a license upon Licensee’s agreement not to deal with Licensor’s competitors. Such a restriction may be construed as an antitrust violation.
  - If you draft a right of first refusal to take an assignment of the license, avoid drafting the clause in a way that may be deemed anticompetitive.

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## Non-Compete Clauses

- Similar care should be taken in drafting a non-compete clause.
- “Any limitations with respect to the time, geographic space, and product scope of such covenants must be reasonable.”

Theodore C. Max, [The New Role of Intellectual Property in Commercial Transactions](#) 56

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## Question 13

What happens if the license does not contain a specified duration? Can the Licensor or Licensee terminate it later?

85

## Answer to Question 13 – It depends on the jurisdiction.

The Ninth Circuit held that under California law, a license without a stated term is terminable at the will of either party.

Rano v. Sipa Press, Inc., 987 F.2d 580 (9th Cir. 1993).

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## Answer to Question 13 – It depends on the jurisdiction.

But the Seventh Circuit held under Illinois law that a license without a duration could be held perpetual with no at-will termination rights, and could only be terminated if the contractual grounds for termination applied.

See Baldwin Piano, Inc. v. Deutsche Wurlitzer, 392 F.3d 881 (7th Cir. 2004); see also McCarthy on Trademarks and Unfair Competition § 18:64

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## Term

Ideally, the term of the license should be specified. Examples:

TERM: This Agreement shall continue in force and effect for 10 years, unless sooner terminated as provided for herein.

TERM: This Agreement shall continue in force and effect for the terms of the registrations issued for said Marks listed in Schedule A and all renewals thereof, unless sooner terminated as provided for herein.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Conditions for Renewal

- Conditions for renewal of the license should be stated unambiguously.
- If renewal is conditioned on sales figures, the means for calculating those figures should be set forth.

89

## Conditions for Renewal

- The license should also state what will occur if the Licensee fails to meet the necessary conditions for renewal (e.g., sell-off period, price reduction in a close-out sale, etc.).

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## Question 14

Licensor hopes that in about a year, there will be enough demand for the Licensed products to start selling additional products with the Licensed Trademark and logo, like backpacks. He thinks Licensee would be able to handle that business as well. How should this issue be addressed in the license?

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## Answer to Question 14 – Brand Extension clause

- “Brand Extension” refers to licensing a trademark for use on a new product category.
- You can specify in advance that Licensor’s approval is required to authorize any brand extension. One of the ways this is commonly dealt with is to have a right of first negotiation or a right of first refusal for new products.

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## Brand Extension clause

- Or the license could provide that Licensee is automatically authorized to manufacture Licensed goods for any classes for which Licensor has applied to register the Licensed mark.

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## Question 15

- Why, as Licensor's counsel, might you want to suggest adding an arbitration clause to the license?

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## Answer to Question 15

An arbitration clause can provide predictability with respect to:

- Selection of forum and applicable law
- Selection of arbitrator(s)
- Confidentiality of arbitration proceeding
- The type, amount and timing of discovery.

Arbitration also usually provides a faster and cheaper resolution than litigation.

Susan Progoff, *Why Arbitrate?*, *Arbitration of Intellectual Property and Licensing Disputes: Artful Drafting and Savvy Advocacy, A Winning Combination* (2004)

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## Question 16

- What kinds of provisions can be included in an arbitration clause to keep discovery costs down?

96

## Answer to Question 16

- The arbitration clause could:
  - Limit the number of document requests
  - Prohibit interrogatories, requests for admission, etc., require that the parties stipulate to facts whenever possible
  - Limit the number and length of depositions
  - Make depositions available only in exceptional circumstances (e.g., key witness will be unavailable at the hearing)

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## Termination

- The conditions for termination of the license should be defined with great precision, because wrongful termination is one of the more common claims asserted by licensees.

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## Termination

- Termination is often expressly conditioned upon a certain event, e.g.:
  - Failure to pay royalties or a guaranteed minimum
  - Failure to meet a delivery schedule
  - Failure to meet quality standards
  - Failure to meet sales figures or quotas
  - Expiration of term of years
  - Insolvency or bankruptcy
  - Failure to obtain permission for certain sales accounts or locations

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## Termination

Archway Cookies v. Smith Cookie Co., 2004  
U.S. Dist. LEXIS 21839 (2004)

In a licensing agreement, paragraph twelve allowed either party to terminate the contract upon the other's breach upon the provision of notice and a thirty-day opportunity to cure the breaching party.

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## Termination

**TERMINATION FOR CAUSE:** Licensor shall have the right to terminate this Agreement upon thirty (30) days written notice to Licensee in the event of any affirmative act of insolvency by Licensee, or upon the appointment of any receiver or trustee to take possession of the properties of Licensee or upon the winding-up, sale, consolidation, merger or any sequestration by governmental authority of Licensee, or upon breach of any of the provisions hereof by Licensee.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Termination

**EFFECT OF TERMINATION:** Upon termination of this Agreement, Licensee agrees to immediately discontinue all use of the Marks and any term confusingly similar thereto, to destroy all printed materials bearing any of the Marks, and that all rights in the Marks and the good will connected therewith shall remain the property of Licensor.

McCarthy on Trademarks and Unfair Competition § 18:64

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## Termination

- NOTE: Even if you draft a clause providing for termination of the license upon bankruptcy, such a clause might be invalid under the Bankruptcy Code, since the trustee in bankruptcy steps into the shoes of the debtor.

McCarthy on Trademarks and Unfair Competition § 18:64


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## Summary of Drafting Issues to Consider

- Ownership of marks
- Grant clause / Exclusivity
- Control over use
- Quality control
- Royalty payments
- Audit provisions
- Geographic scope
- Restrictions on Assignment / Sublicensing
- Best Efforts Clause
- Non-Compete Clause
- Duration
- Brand extension
- Conditions for renewal
- Arbitration or mediation provisions
- Termination rights

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ATTORNEYS AT LAW

**Thank you.**

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## Theodore C. Max

Partner

New York  
30 Rockefeller Plaza  
24th Floor  
New York, NY 10112

Tel: 212.332.3602  
Fax: 212.332.1201  
[tmax@sheppardmullin.com](mailto:tmax@sheppardmullin.com)

### PRACTICE AREAS

- Entertainment, Media and Technology
- Intellectual Property
- Litigation

### INDUSTRIES

- Fashion, Apparel and Textiles

### OVERVIEW

Theodore C. Max is a member in the Entertainment, Media and Technology and Intellectual Property practice groups in the New York office, where he focuses on counseling clients on intellectual property issues and litigation. Mr. Max combines his skill and experience as a trial attorney with his knowledge of copyright, trademark and intellectual property law in servicing the firm's diverse clientele.

Mr. Max has counseled clients on and litigated numerous cases involving issues on the cutting edge of copyright and trademark law. He has assisted clients in identifying, protecting and preserving their intellectual property assets, including seeking registration of rights in the United States and internationally and taking action against infringements of copyrights, trademarks and trade dress. He also has experience developing and implementing anti-counterfeiting programs and pursuing civil and criminal enforcement remedies. Mr. Max has actively litigated intellectual property issues, as well as licensing and franchise disputes, and the rights of publicity and privacy. He successfully has represented clients in all types of civil litigation, including alternate dispute resolution proceedings and mediation, trials and appeals.

### EDUCATION

- J.D., New York University School of Law, 1983, Editor-in-Chief, *New York University Review of Law and Social Change*, Won NYU Moot Court Competition, *Mendes Herschmann Prize*
- B.A., Hobart College, 1980, *summa cum laude*, *high honors*, *Rhodes Scholar Finalist*, *Student Trustee*

### EXPERIENCE

#### Experience

He has counseled representatives of some of the world's finest designers of fashion apparel and accessories with respect to their intellectual property concerns and problems, including Louis Vuitton Malletier, Emilio Pucci, Celine, Donna Karan, Kooba, Tarina Tarantino and Daryl K. In addition, he has assisted such rising stars in the fashion world as Peter Som and Rafe. He also has extensive experience in litigating commercial disputes in New York state and federal courts.

### HONORS

- New York Super Lawyer, Intellectual Property Litigation, 2008

## MEMBERSHIPS

- Chair, Publications Committee, International Trademark Association
- Past Editor-in-Chief, The Trademark Reporter®, 1999-2001
- Previous United States Original Articles Editor,
- Previous International Original Articles Editor,
- Subcommittee Chair, "International Annual Review of Developments in Trademark Law and Practice," The Trademark Reporter®
- Member, Copyright and Trademark Committee of the Entertainment and Sports Law Committee of the New York State Bar Association and the Federal Bar Council
- Member, Copyright and Trademark Committee of the Entertainment and Sports Law Committee, New York State Bar Association and the Federal Bar Council

## ARTICLES

- House Okays Watered Down PRO IP Act, World Law Media, June 1, 2008
- Designer Hotels Are In Fashion: But Care Should Be Taken To Avoid A Major Faux Pas, Hotel Executive.Com, May 1, 2008
- When Copyright and Trademark Infringement Goes Online, New York Law Journal, October 29, 2007
- When Keywords Trigger Sponsored Links, Be Mindful of WhenU and the Split in the Circuits Before Choosing Your Forum Court, Bloomberg Law Reports, September 10, 2007

Mr. Max has lectured widely and authored numerous publications.

Authored a chapter in the book, *Intellectual Property Assets in Mergers and Acquisitions*, which is entitled "Acquisitions and Licensing of Famous Name Trademarks and Rights of Publicity in the United States."

"Total Recall: A Primer on a Drastic Form of Equitable Relief," published in *The Trademark Reporter*®, in May-June 1994

"Dilution Act May Limit Commercial Parodies," published in *The National Law Journal*

Contributed a chapter in the book, *The New Role of Intellectual Property in Commercial Transactions*, entitled "Available Remedies For Dispute Resolution in International and Domestic Trademark Licenses."