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### **GUIDE ON TRADEMARK LICENSING**

*prepared by Mr. Kenneth D. McKay, Partner, Sim Lowman Ashton & McKay LLP, Toronto, Canada<sup>1</sup>*

1. This document contains a Guide on Trademark Licensing, prepared in the context of the *Project on Innovation and Technology Transfer Support Structure for National Institutions* (CDIP/3/INF/2). The guide has been prepared by Mr. Kenneth D. McKay, Partner, Sim Lowman Ashton & McKay LLP, Toronto, Canada.

2. *The CDIP is invited to take note of the information contained in this document.*

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<sup>1</sup> The views expressed in the guide are those of the author, and not necessarily those of the WIPO Secretariat or its Member States.

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## **Executive Summary**

This publication is meant to be an easy to read information source and checklist regarding trademark licensing and associated agreements which are often experienced in the trademark and related franchising experience. It is not meant to be an authoritative reference book.

This publication commences with a brief history of how and why trademark licensing came into existence and touches upon franchising, merchandising, co-branding, quality control & standards and reasons for licensing in Chapter 1 (pp. 1-9). It then discusses pre-license due diligence by both licensors and licensees in Chapter 2 (pp. 10 -17). It emphasizes the importance of the parties to licenses having knowledge of the abilities of each other in order that the license will be the most effective for both parties.

The pre-license due diligence is followed by a more technical examination of the valuation of trademarks from both a licensor and licensee perspective in Chapter 3 (pp. 18-23). Following the three preliminary chapters, there is an examination of the main elements of a trademark license agreement in Chapter 4 (pp. 24-63) including the principle of fairness in license dealings. The following substantive provisions are dealt with relating to the importance of quality control provisions and the actual enforcement of those provisions (pp. 25-27), the definition section (pp. 28-30), the grant clauses (pp. 30-34), the termination clauses and alternative dispute resolution and continuing obligation of the parties after termination (pp. 35-38), the quality control clauses (pp. 41-42), the marking and maintenance of trademarks (p.43), the confidential information, infringement and arrangement of rights (pp. 44-45), the non-competition clauses and non-solicitation clauses (pp. 46-47), the covenantor and guarantor provisions for individuals (p.47), the insurance and indemnity clauses (pp. 47-48), the payments and royalty clauses (pp. 50-53), the general legal or boiler plate clauses (pp. 53-62).

The Handbook then deals with some general issues affecting licenses such as antitrust, internet licensing, bankruptcy and the licensing of collective and certification marks (pp.63-65).

The above are finally followed by a series of annexes on specific issues such as Annex One on intellectual property rights differentiation, namely, patents (p.65), trademarks (p. 67), industrial design (p. 67), trade secrets (p. 68) and copyright (pp. 68-69); Annex Two on the importance of plain language drafting (pp. 71-78); Annex Three on other relevant agreements relating to franchise licensing such as lease agreements, manufactures agreements and others (pp. 78-86); Annex Four on a draft-related entity trademark agreement (pp. 87-90); Annex Five on a draft unrelated entity trademark license agreement (pp. 91-116); Annex Six on a pre-trademark due diligence checklist (pp. 117-119).

## CHAPTER ONE: INTRODUCTION

### 1.1 Historical Evolution of the Trademark System

A trademark, defined as a sign capable of distinguishing the goods or services produced or provided by one enterprise from those of other enterprises, has a long and illustrious history going back perhaps thousands of years to branding of cattle and other animals. In fact, the word “brand”, which is often used interchangeably with “trademark”, is derived from a word meaning “to burn”. This evolved into the use of symbols as a means of identification by early craftsmen, such as tinsmiths, jewellers, silversmiths, pottery makers and other artisans, and to assure quality by groups of such artisans forming themselves into guilds. The indication of source and providing quality assurance, in terms of consistency in delivery of perceived or actual value to customers provide the underpinnings of the trust that cements the relationship between the producer or provider of goods or services to customers.

As the use, recognition and value of trademarks developed so did a new group of people and businesses who sought to imitate or free ride on the goodwill or reputation of such trademarks owned by others. A new legal claim developed to meet this need. This new broad legal right grew up initially in the field of unfair competition as part of the law regarding fraud and deceit. In general trademark law serves to prevent unfair competition by relying on the test of “likelihood of consumer confusion”. Thus, consumer protection was the primary focus of this legal right designed to protect the consumer from this fraud or deceit. An ancillary purpose was to prevent the unjust enrichment of the free rider by unfairly trading-off the reputation of the artisan or guild, hence unfair competition. The property right of the trademark owner was initially only incidentally protected.

### 1.2 History of Trademark Licensing

An owner of an intellectual property right, such as a trademark, trade secret, patent, copyright, industrial design, may authorize or license a third party the right to use such intellectual property right under agreed terms and conditions. Such agreements may involve multiple business and jurisdictional considerations such as taxes, currency exchange, currency restrictions, shares in companies, stock, profit sharing, competition laws, antitrust considerations, export restrictions, cross-licensing, grant backs of rights and so on. In the past, most traditional technology license agreements dealt almost exclusively with the right to use patents and trade secrets. Little attention, if any, was given to other intellectual property rights which compliment, enhance, expand and even extend the right being licensed, such as trademarks. Providing for or requiring the use of trademarks by licensees in association with other technology may and should help protect those valuable rights and benefit both the licensor and the licensee in the long run. Unlike patents and industrial designs which expire and trade secrets which may be disclosed, trademarks if used and licensed properly can last essentially forever and often with ever increasing value. Even after the patent or other rights expire, consumers continue to look for and seek out the trademark they have come to recognize as symbolic of quality and reliability. Thus, in certain circumstances, the trademark can ultimately be more valuable and more durable and enduring than the other underlying technology and for that matter, even the good or service to which it pertains.

Trademark licensing, which is when a trademark owner grants permission to another to use that trademark under mutually agreed terms and conditions, is a fairly recent business practice. The early view that a symbol or hallmark indicated a single source meant that the

use of the trademark by another was philosophically not possible. The fact that a good or service is produced or delivered by a licensee, a person authorized by the owner to use the trademark, in essence means that the good or service is emanating from a source other than the owner. As such, it would amount to a false or deceptive representation to the consumer as to the true source of the products or services involved. This view existed and continued to exist well into the nineteenth century, although some exceptions began to appear. During the 1930's, trademark licensing began to be allowed in some jurisdictions where the owner of the trademark, the licensor, remained in control of the nature and quality of the goods or services sold or provided in association with the trademark. Consumers were, by virtue of this control, assured that the goods and services delivered by the licensee in association with the trademark would not differ in any meaningful way from the goods and services of the licensor and the customer was, by virtue of this controlled use, not being deceived.

Quality control has, therefore, become the essence of trademark licensing, providing the means for ensuring that the licensee's use is consistent with the licensor's interest in the trademark and at the same time ensuring that the consumer will get essentially the same quality good or service no matter where the trademarked good is purchased or the service is experienced. Therefore, provisions relating to the control and monitoring of the character or quality of the licensed goods or services provided in association with a licensed trademark are of great importance and in most cases mandatory in order to maintain a strong and enforceable trademark.

As companies increasingly concentrate on their core strengths, this has spurred multiple relationships based on comparative advantage in producing or delivering the inputs or components that comprise a good or service. The decreasing costs of transportation and communication have made the entering into cost effective partnerships with partners located in geographically dispersed locations possible. This division of labour and, consequent, pooling of talent and resources, has necessitated the building of trustworthy partnerships and alliances. Through these relationships companies are able to re-invent themselves, focus on their innate competencies while relying on their partners to deliver on other areas of the business that they have more competence in. Hence, faster, leaner and more effective machineries are put in place to deliver a good or service that promises more value for money. Trademarks are powerful identifiers and trademark licensing an effective way of forging such relationships for doing business in a cheaper, faster and less risky manner and at the same time provide for additional revenue streams or value.

Below we look at some of the ways that businesses are licensing their marks and why they make good business sense.

## “Lending a Logo”

### *1.2.1 Franchising*

Franchising is a specialized license where a franchisee is allowed by the franchisor in return for a fee to use a particular business model and is licensed a bundle of IP rights, notably, trademarks and supported by training, technical support and mentoring. When a business model is successful and, at the same time, is replicable at other locations, permitting interested third parties to set up independent businesses based on a proven business model, along with its attendant trademarks, know-how and other intellectual property rights such as designs, patents and copyright, has proven to be an enormously successful and rapidly growing trend. The key to franchising is the licensing of intellectual property rights, particularly trademarks. Admittedly, the franchise owner is the proprietor of much more than a trademark. He owns a successful business which includes trademarks and a variety of other intellectual property rights. By permitting another to use that business model along with the attendant intellectual property rights, including the trademark the franchise owner is

able to create “clones”, as it were, of his business with a minimum of investment and effort from his side. Each new business that is created in this manner creates a new revenue stream linked to the permission granted by the franchisor to the franchisee. At the same time, it provides greater visibility and exposure to the business.

### *1.2.2 Merchandising*

The licensing of trademarks, designs, artworks as well as fictional characters (protected by these rights) and real personalities are broadly referred to as merchandising. It is a relatively low cost high margin industry that has taken the world by storm. Allowing manufacturers of ordinary consumer goods such as plates, mugs, towels, caps, clothes, to name a few, to apply on their products the trademark of another immediately adds appeal to an otherwise commonplace object and a means of distinguishing themselves in the market place. For example, trademarks of popular companies, sports teams, universities have huge consumer recognition and appeal, allowing for brisk sales at a premium price. The higher price adds to the profit margin, a percentage of which flows back to the trademark owner adding to his profit margin. This is a “win-win” formula for both.

### *1.2.3 Brand Extension (Extension Licensing)*

Another form which trademark licensing may take is what is called brand extension or extension licensing. This is the very common practice of extending a trademark beyond the product or service that it had been originally applied to and matured in. Through a trademark licensing agreement, a company may team up with another who may be provided with the right to apply the trademark on a new product or service. Monaco Coach, a manufacturer of luxury recreational vehicles entered into a licensing agreement with Dodge, a manufacturer of trucks, to use the Dodge trademark and logo on their trailers. By this agreement Dodge successfully extended their product (trucks) into (trailers). The Harley Davidson brand is (as are many famous and not so famous trademarks) licensed to a variety of manufacturers who apply the name and logo to products as diverse as clothing, toys, restaurants.

### *1.2.4 Co-branding*

Two or more reputed trademarks, not necessarily with the same level of reputation may join together in one product creating a new appeal to the same clientele or break into a new market. Lexus, the luxury motor car of Toyota and Coach reputed for its high quality leather accessories joined together to produce Lexus Coach Edition which is the luxury motor car Lexus with the interior finishing in coach leather products. Starbucks and United Airlines have joined to serve Starbucks coffee in cups bearing the logos of both United and Starbucks. Through co-branding companies may further enhance the popularity of their product, diminish a particular weakness of their product or create a new market niche altogether. This strategy is a “win-win” deal for both, further extending and exploiting the good reputation of both trademarks. Co-branding may involve the licensing of the respective trademarks for the purpose of applying them to a new co-branded product or service.

### *1.2.5 Component or Ingredient Branding*

A product manufacturer may license the right to use the trademark of an ingredient. An ingredient or component like many other consumer products is heavily protected by trademarks. Using the trademark of that ingredient on the packaging, in advertising or on the host product itself influences consumers towards that product. The reputation of the trademark of the ingredient lends value and appeal to the host product. Well-known examples include personal computers with Intel Chips Inside, diet soft drinks with

NutraSweet, stereos with Dolby noise reduction, and Teflon on cookware. This is a useful marketing strategy where the trademark of the host product is less well known. However, if the host product is also a market leader, licensing the use of the trademark of an ingredient or component may not always be successful for consumers need to have confidence in the market leader and if the market leader is perceived to be relying on the brand of an ingredient it may dilute the appeal of the trademark of the host. Another danger is that it may overshadow the trademark of the host, which is not a desirable thing. An IBM spokesman explained the company's policy decision not to place the "Intel Chip Inside logo" on some of its products as follows, "There's one brand, and that's IBM." Practically, there is also the problem of obtaining exclusive rights to a particular ingredient trademark when it is very likely that others in the industry may be using the same ingredient in competitive products.

However, this could be a very successful strategy for an ingredient brand that has no role other than as an ingredient. Without being aware of it, consumers care about a key ingredient which positively contributes to their decision to buy. In this regard, the case of Intel is a very interesting and well known success story.

### *1.2.6 Standards*

Products that comply with a certain technical or other standards which add value to its product and, therefore, customer appeal can license the right to use the trademark of the certifying entity on its product or in association with its service. There are a variety of ways in which such marks may be used. There may be government standards setting bodies, quality control institutions and testing organizations which may, when a particular product satisfies the standard, quality or other requirement, certify that that product meets that standard, quality or requirement in question. Such information is conveyed to the customer through the use of a particular logo or mark belonging to that approving institution and licensed for such use. In these cases, there is often no royalty or other payment involved in granting the right to use the certification mark. There are also many not for profit organizations that license the right to use their mark where certain prescribed conditions are met. For example, the Fairtrade mark or the mark of the Rainforest Alliance certify that the products that carry their mark adhere to certain fair-trading or environmental standards which is attractive to certain consumers sensitive to fair trade and environmental issues. These organizations charge the producers of these goods a certain fee for the right to apply their mark. Similarly, other organizations certify that the product in question comply with certain established health or safety standard, having subjected the product to transparent testing procedures which again assures consumers of the quality and safety of a product. For instance, FDA (Federal Drug Administration) approval in the United States for drugs and medical devices; UL (Underwriters Laboratories) approval for electrical and other products in the United States; CSA (Canadian Standards Association) approval in Canada for electrical and other devices. Further, an enterprise may, by applying under license the trademark of another entity, communicate to the public that its goods are interoperable with certain products or that it is compatible with those or other products. Also, when private certifying institutions have built up a certain reputation, manufacturers and providers of products are interested in applying their mark to add value to their products. For doing so, the latter are willing to pay a fee for the use of the mark. These are some of the ways in which through trademark licensing value is added to a product by communicating to the public that it meets a certain requirements, standards or other criteria.

### 1.3 Business Point of View of Licensing

The *raison d'être* of a business in a free market economy is to generate income and ultimately a profit, in return for the time and energy expended in producing goods or services. At the top of the agenda of any business is how to survive and preferably thrive in the market place. Becoming and remaining successful has never been so crucial as it is today, when the local or global business environment is nothing like what it used to be just a few decades ago. The dismantling of trade barriers and the advancing digital revolution via the Internet has substantially contributed to an increasingly borderless and truly global market place. Gone are the days when one referred to the village fair, the local market or the market of a particular country. More and more companies have begun to realise that thinking global is no longer the luxury of the mega enterprises but an attitude that any company that wants to be successful must adopt. The global market has opened up endless possibilities for those willing to take the plunge, resulting at times in the creation of companies that are “born global” as it were. There are millions of potential consumers out there if only they could be convinced to consume the product or service of your company. These consumers are equally aware of the potential of the global market place. They have much easier access to goods from the furthest corner of the world as if these were on offer in their immediate neighbourhood. These consumers are better informed, more aware and as such more demanding. The market may be global but the players are also global and they are jostling for space in a market increasingly crowded with similar goods and services offering similar benefits at equivalent prices. How then does a good or service catch the eye of a consumer, how does it communicate, how does it appeal in a way another good or service cannot? Herein lies the challenge and the difference between the winners and losers in a global, highly competitive and an aggressive business environment.

The defining characteristic of the modern business environment is the increasing knowledge component in the goods and services being produced. One hears often of the “knowledge economy” (or the “new economy” as opposed to the old economy characterized by reliance on natural resources) which essentially refers to an economy where knowledge, competencies and know-how; essentially intangibles are increasingly relied upon for adding value and for differentiating goods and services offered by one company from those of others. This economy is characterized by high-tech industries that create knowledge (for example nanotechnology and biotechnology), that manage and distribute knowledge (digital technology, the Internet, and information and communication technologies) and that regenerate “old economy” products with better technology, design and marketing. Whatever the industry the role of intangibles continues to rise in importance and understanding their role and their effective exploitation is the key to competitiveness in the new economy.

The answer, therefore, to the question posed earlier as to how does a good or service catch the eye of a consumer, how does it communicate, how does it appeal in a way another good or service cannot lies in the application and exploitation of knowledge or intangibles. The only way a good or service can be differentiated from another good or service offering a similar benefit at an equivalent price is through a range of intangible characteristics that appeal to consumers such as by the additional functions it may have, by the way it is presented or looks, by the way it is produced or where it comes from, by the name of the company that produces it. The consumer is drawn to a whole host of intangible factors that may surround the good or service which serves to differentiate it from other similar products<sup>2</sup> in the market place.

These intangibles are therefore an extremely valuable resource of any company and should be identified, nurtured, protected and exploited. The intellectual property system<sup>3</sup> provides

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<sup>2</sup> The word “products” refers to both goods and services

<sup>3</sup> For a more detailed discussion of these rights see Annex 1

the tools for doing just that. It encompasses a variety of rights that protect the knowledge and creativity invested and integrated in products and services. In this Guide, the focus is on one type of these intellectual property rights; namely trademark rights, an essential tool that helps create and nurture relationships based on trust so as to remain relevant in the market place and, more particularly, on trademark licensing which is an important business strategy for leveraging the value of a trademark to become and grow more competitive.

### *1.3.1 Business Sense*

Licensing marks in any of the ways described above is to use a mark beyond its traditional function of identifying a source of goods or services and enabling the owner of such a mark to do more with it than simply exclude others from using that mark. It is to creatively leverage that mark by licensing others the right to use that mark. This makes business sense for a variety of reasons such as the following:

#### Additional revenue stream

One of the fundamental advantages of intangible property over tangible property is the ability through licensing to permit simultaneously any number of businesses to exercise that right. Whereas the use by one of a tangible property necessarily means that it cannot be used by any other at that same time, the enjoyment of an intangible property is not restricted to only one at a given point of time. In other words, the knowledge or right embodied in an invention or the goodwill inherent in a mark can be enjoyed by as many as the owner of the idea, invention or mark wishes. This characteristic of intangible property, and thus of trademarks, paves the way for an owner of that mark to license the use of that mark to as many users or licensees as it wishes, creating by each such user an additional revenue stream. Leveraging marks through licensing is, therefore, a lucrative and low cost means of earning additional income and expanding trademark notoriety.

#### Territorial expansion

Allowing a business in a different country or region to manufacture or have manufactured goods or provide services to which the right to apply your company's trademark is granted through a trademark license agreement allows a company to expand into that territory. Expanding into another territory, for example, has many risks including no or limited, understanding of a myriad of local laws and regulations, cultural considerations as well as the additional cost involved in setting up operations in such a territory. Teaming up with a suitable local partner who is permitted to use the trademark through such a license eliminates or reduces these complexities and attendant risks, allowing for a smoother expansion into a new territory.

#### Benefit from another's manufacturing, distributing, sales or marketing capacity

Not only does a company have the possibility of expanding into another territory but even within the territory of its current operations it may team up with another partner to benefit from that others manufacturing, distributing, sales or marketing capacity, , without having to invest in developing such capacity within its own establishment. Keeping in mind the potential risks of entering into such relationships a licensor should always creatively safeguard its exclusive rights by restricting the use of the trademark by a licensee to a particular geographical area, to a certain product line and/or defined distribution channels.

### New channels of distribution or segmenting the market

Through licensing of marks a company may enter a new channel of distribution that it had not previously used or enter new markets in the same geographical area (for example, the youth market, the urban, the elderly) so that the mark could have a new or different appeal. By licensing the mark to a company that is already established in that new market could enable it to extract value from a revenue stream flowing from that new market.

### Discontinued marks

Due to mergers, acquisitions, bankruptcy, perfectly good and valuable marks may go unused by their new owners. It is still possible to leverage value from those marks particularly through licensing. An owner of such a mark could continue to retain ownership of the mark but license it to another so that while it is no longer doing business under that mark, it has not abandoned it to the public domain and could still earn revenue from it.

### Strategic partnerships

Licensing activity is now moving beyond the traditional license scenario to joint ventures and strategic partnership which may include trademark licensing but usually involve a great deal more and in many cases a far more creative approach to marketing and expansion of trademark penetration. When a charcoal manufacturer and a grill manufacturer teamed up to produce the perfect grill for charcoal grilling using the mark of the charcoal manufacturer it was not simply licensing the use of a mark but jointly developing a product which was "win win" for both of the companies. Using the experience and ability of others to meet one's own challenges is an efficient and winning way to approach business, for no company can meet all of the expectations and needs of all of its customers. Relying on the ability of partners is one way of meeting that challenge.

### Converting an infringer into an ally

Where the mark of a company is being infringed by another, running the risk of diluting the brand image and compromising the reputation of the company it may be an option to convince the infringer, or if you are the infringer to convince the owner, to consider a license for the use by the infringer as a creative resolution of a dispute. However, it is very important in such situations that the infringer is capable of maintaining the quality of the product or service that the mark is being applied to. A bad choice of a licensee could irreparably destroy the reputation of the mark. If quality is likely to suffer it would be better to litigate and prevent the infringer from continuing with the infringement than to go with the licensing option.

### Increased consumer recognition and advertising

While additional revenue to the owner of a trademark is, of course the most obvious benefit and a real advantage of licensing, it is not always about revenue. For many companies licensing of their marks is less about revenue and more about increasing customer recognition. The more the mark is used the greater the recognition of the brand. Just as much as a licensor promotes its brand, the licensee would also promote the brand and this is beneficial to both the licensor and licensee. Further, when trademark owners license the use of their mark to be applied to products other than the core product, as in when they extend their brand to be applied on new products or services this gives the trademark additional mileage. In other words, having others produce Coca-Cola under license is one thing but allowing others to use Coca-Cola trademark on fridges, coolers and other products that have a link with the product and stretching that link to products, for example, clothing, household

products such as glassware, plates and furniture strengthens the brand further and is invaluable to a trademark owner.

In addition, partnering through licensing creates efficiencies. Common costs may be shared, particularly advertising and promotion costs. Trademark licensing, therefore, not only ensures an additional revenue stream but also promotes brand recognition, ensures its longevity and deepens its acceptance in the psyche of the customer.

#### Increased share value

Non-financial factors have increasingly become important to investors in assessing the value of a company and making the investment decision. More particularly, news of licensing agreements has generally been greeted by investors with enthusiasm and is indicative that shareholders perceive an increase in company value following such agreements.<sup>4</sup>

#### Reduce tax burden

A mechanism that is often used by companies in their effort to reduce their tax burden is to create a subsidiary and to transfer its intangible assets, and in this case its trademarks to the subsidiary so that the taxable intangible asset value of the company is reduced. The subsidiary licenses the trademarks back to the holding company for which the latter will pay a certain sum in royalties.

#### Likely dangers

It is sound policy to exploit a trademark with carefully chosen partners in ventures that fit the vision and future direction a company wants to take. There are dangers, of course, in over extending oneself where a brand could cause customer confusion and dilution of the brand. When a health food aligns itself with a tasty snack, there may be customer confusion. There are also risks in associating one's product or service with another brand or a well-known athlete or actor spokesperson because if that brand or reputation fails for some reason or is brought into disrepute your business may suffer by association. There are also the risks of being drawn into product liability disputes.

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<sup>4</sup> "When Licensing Deals Create Shareholder Value" Suzanna Hawkes, [www.ipfrontline.com](http://www.ipfrontline.com)

## CHAPTER TWO: DUE DILIGENCE

A successful licensing agreement is in essence one that succeeds in creating a mutually profitable relationship that endures for the long term. To ensure such an enduring and enriching relationship it is important that before entering into such a relationship the parties know as much as possible about each other to be confident that they want to be partners and that their respective capacities, skills and intentions fit that of the other. To be as comfortable as possible in this relationship both parties would need to engage in a due diligence exercise so that when they do decide to proceed or not to proceed with that relationship that decision is an informed one.

### 2.1 Knowledge of the Licensor by the Licensee

The following is not meant to be exhaustive but rather instructive as to the kind of information that may be gathered prior to entering into a licensing agreement. In some cases, because of time constraints or situations beyond the parties' control, a pre-license investigation is not appropriate or available or is very limited in scope. However, the following areas of investigation are suggestive of the kind of basic knowledge a licensing party should or would like to have with respect to the other party in the negotiation of a trademark license agreement. If the licensee is uncertain as to what it should ask for, a good starting point is to obtain or study the disclosure requirements of a franchisor under any franchise statute in the territory or in another jurisdiction or any required government informational filings. The disclosure requirements under these statutes are not always exhaustive but are instructive as to information which a licensee should have in order to determine whether or not to enter into a license relationship. Much of this and other pertinent information is available over the internet.

#### *2.1.1 Licensors Trademark Rights*

First and foremost, the licensee needs to know whether the licensor is the owner of the mark and/or has the right to license that mark, in other words what it is receiving and what rights are owned by the licensor in terms of the trademark rights. Is the licensor the owner, co-owner, exclusive licensee with the right to sub-license, in what territory and so on. This will help in determining what representations and warranties will be necessary and from whom and basically whether the licensee is dealing with the right party.

#### *2.1.2 Other Licenses*

It would be useful for the licensee to know about other licenses in existence for the same or similar trademarks in that territory, adjacent territories or, for that matter, in any territory. Other licensee or former licensee experiences, past and present, with the licensor will be invaluable in the negotiation process. For instance, is the licensor supportive or hands off in terms of training, advertising and promotion. Does the licensor aggressively protect its trademark rights or is it fairly passive. Depending on the nature of the trademark license being negotiated there may be many other very specific questions to be asked of other licensees.

#### *2.1.3 Licensor Trademark Licensing Policy*

Does the licensor have a trademark licensing policy? Does it have a manual in this regard? Are there criteria set up for dealing with infringers of the trademark rights being granted? Are there criteria for dealing with breaches or perceived breaches of the trademark license by the licensee and are they fair? Is there a joint advertising program and how does it work? Is there any room for licensee's creativity in terms of products, suppliers, services, advertising

and promotion? If so, what is the process and who ultimately owns any intellectual property or other intangibles that may arise over the course of the license?

If the license involves services and a lease, is the licensor the landlord or sub-landlord as well as licensor? What are the basic terms of the lease and license or franchise agreement and how do they cross-over? What is the licensor's history as a landlord? Again, this information can likely be obtained from other licensees or former licensees.

#### *2.1.4 Licensor's Licensing Program*

Even if the trademark license being negotiated is the first one in the territory it is important for the licensee to know what the program or plan is for the territory or region for which it is being licensed. Is the program new or has it been tried before with success in other territories and where has it been tried? Obviously if the program for the territory has been proven effective in the past this is important to know. If it has been effective in some countries but not in others what were the problems and how were they dealt with. From a financial perspective the program or plan will usually project costs, return on investment, sales and so forth all which will be of assistance in the negotiation.

### 2.2 Knowledge of the Licensee by the Licensor

The checklist of the licensor may be longer than that of the licensee for many reasons, not the least of which is that the licensor who is usually the trademark owner, or working closely with the trademark owner, has a huge investment in the mark. While the licensee will be investing a significant sum, the licensor may have a great deal more to lose if a licensee fails. The licensor in most cases will want to know essentially everything there is to know about the proposed trademark licensee, its background, financial support, commitment and general ability to succeed. Some of the basic areas are dealt with below. A licensee as well as a licensor must be prepared to disclose a great deal of personal and financial information, particularly where the licensor is successful and has a proven and successful past record.

#### *2.2.1 Organizational Structure*

While this is a very basic starting point, it is very important to know whether the potential licensee is a corporate entity, a partnership or an individual/sole proprietorship. The legal structure of the licensee will affect the content of the licence and will determine the need for warranties or guarantors as to the performance of the individual or individuals involved. A third party guarantor provides the licensor with some assurance of at least financial return if the individual licensee fails.

#### *2.2.2 Wishes of the Licensee*

In many instances, it is important to determine what the licensee wishes to do and determine if that will work within the licensing program of the licensor. Clearly, if you are a licensor and you are dealing with a manufacturer, wholesaler or distributor who wishes to be a licensee this will affect your determination as to what kind of license one would grant to the potential licensee. If the licensee wishes to manufacture, wholesale and distribute the product you would want to know how it plans to accomplish this. What is its business plan? Is the licensee going to achieve the three point goal if it is only a manufacturer, or only a wholesaler or only a distributor? Clearly in instances where the licensee wishes to do all of the functions referred to above there would likely be a need for a right to sublicense manufacturing licenses, distributor licenses which would have to be taken into account in the creation of the license arrangement between the parties. Once a licensor acquires the background information relating to the licensee the licensor may change the offer that it is making in terms of the "breath" of the license to account for the characteristics and abilities of the

proposed licensee and its abilities to fulfill all of the obligations it wishes to take on. For example, a licensee may want a worldwide license but few can fulfill such an obligation. The parties must be creative but realistic in their requests and what is granted under the license. Failure of a licensee benefits neither party to the license. The licensor can be creative if a licensee wants a broader license grant that it appears capable of fulfilling. The license could provide for milestones that if met by the licensee allows the license rights to expand gradually during the term of the license as the licensee becomes more capable of handling the new responsibilities.

### *2.2.3 Financial Background*

In this regard, such basic information such as the name of the bank or banks through which the licensee deals could be important in determining the ability of the licensee to provide and comply with the financial terms of the agreement let alone the performance requirements. Further, the ability of the licensee to obtain future financing for expansion outside of the context of the license arrangement would be of significant interest to the licensor in order to determine if the licensee can fulfill its obligation under the agreement and continue to expand its business. If the financing for the future is non-traditional, for instance not a bank or financial institution, the nature and reliability of those sources will have to be looked into carefully to avoid the licensee becoming overextended.

### *2.2.4 Business and Licensing Information and Experience*

The licensor is, of course, eager to know what business and licensing experience the licensee has had in terms of its ability to fulfill its obligations under the proposed license. Is the existing or previous business experience relevant to the licensing opportunity? If the licensee was a former licensee, how did the relationship end and why? If the licensee is still operating under other license arrangements, is there a conflict or possible conflict or are the products or services complimentary? Can the proposed licensee manage two or more licenses and the financial and performance criteria of both? If complimentary, how is the proposed licensee performing under the license or licenses? In this regard, in terms of whether the proposed licensee has successfully operated as a licensee for products and/or services of other licensors such information would be useful to the licensor.

All in all, the key concern of the licensor is the experience level of the proposed licensee and his ability to fulfill the licensing obligations relating to the trademark in issue and the opportunity sought from or being offered by the licensor.

### *2.2.5 Products and Services of Interest to the Licensee*

The licensor would be well advised to determine what product areas and/or service areas are of interest to the proposed licensee in terms of the use of the trademark(s). If it is an expansion of a product area or service areas being proposed by a licensee, the licensor would be more concerned whether the licensee is capable of fulfilling the obligations under the agreement with regard to these new product area or service area which may be unfamiliar to the licensor. If the license involves the expansion of traditional product or service lines, it may be necessary for the licensee and licensor to bring in expertise in the product or service categories to better understand the investment of time and finances involved to pursue the proposed expansion and to set the standards for quality control and so forth. Further, based on the information obtained by the licensor concerning the proposed licensee, the licensor is better able to determine whether, in fact, the proposed licensee is capable, financially and business-wise, to bring the new products and/or services to market successfully. For example, many people believe they can successfully operate a restaurant or a pub but the failure rate is very, very high. Clearly, the time required, the financial

commitments and/or the business expertise are often under or over estimated by potential licensees. In many cases, therefore the licensor will have to make these assessments.

## 2.3 Issues of Interest to Both Parties

### 2.3.1 *Business Plan of the Licensee*

The licensee as well as the licensor must have a business plan relating to the prospective license agreement, including the timing of the different steps for bringing the goods and/or services to market in a particular region as well as, *inter alia*, the promotional methods to be used to obtain and maintain market share, financial requirements and methods of finance. If a licensor sees a six-month window of opportunity to bring the products or services to the marketplace and a proposed licensee needs one year or longer to do so, clearly the vision of both parties is different and this particular licensee arrangement may not be viable. By providing a detailed business plan, the parties can work together to come up with a viable plan for completion of the license agreement and the business plan such that the product and/or service is brought to market as soon as possible within the territory or region of interest.

As part of the business plan, it is also important for the proposed licensee to provide projected sales data so that a reasonable royalty can be set that enables the licensee to fulfill its task, while at the same time providing a reasonable return to the licensee so that the license is viable. By using projected licensee sales provided by the proposed licensee the licensor hopefully avoids the problem if actual sales do not live up to projections. In that case, the licensee cannot blame anyone but himself for the numbers. Having a licensor set unrealistic sales projections to which the licensee is not likely to live up to will only be a recipe for disaster.

### 2.3.2 *Promotional and Marketing Information*

Often the marketing plan for the licensee, the proposed manner in which a product or service is going to be marketed, advertised and/or promoted is of great importance to the licensor. Both the quality and quantity of the advertising and promotion together with trade incentives and so forth will greatly affect how the products or service is represented and perceived in the marketplace and as to the reputation that the products or service will garner.

In that regard, much can be determined by an indication as to who or what advertising agencies or other professional services the proposed licensee intends to use. In many cases, the licensor will have helpful suggestions or requirements as to how to best market the products and/or services in terms of the type of advertising or promotion which has succeeded in other territories or regions together with the appropriate target market and agency to plan and put into place the advertising and promotional campaigns.

### 2.3.3 *Sales Territories*

Ultimately, an appropriate marketing territory will be mutually agreed upon by the parties. In many cases a proposed licensee over estimate their ability to penetrate and satisfactorily supply a given territory. Clearly, if a worldwide license is sought by the proposed licensee and the licensee is presently operating in only one country, successful and effective coverage throughout the world would be unlikely except over time. This could be dealt with by first right of refusal options for expansion during the term of the License. However, if the proposed licensee is a multinational corporation with distribution channels throughout the world, as well as manufacturing sources, a worldwide license for particular products or service may not be out of the question. Again, information as to the respective licensee – licensor capabilities will be important.

To determine the appropriate size of the territory, the assets and experience of the proposed licensee must be assessed in terms of its distribution facilities, manufacturing facilities and future expansion plans as well as the proposed licensee's business acumen. If the proposed licensee is going to both manufacture and distribute, the issue of how the product and/or service will get to market, be marketed, get monitored for quality control and so forth must be dealt with at an early stage to see if the proposed licensee has the necessary present and future capability to meet its obligations including proposed launch date. If the manufacturing and distribution facilities of the proposed licensee are presently at or close to capacity in terms of production as it relates to the existing business of the proposed licensee then expansion plants must be carefully looked at. Can the proposed licensee meet demand, expand its manufacturing and distribution facilities in a timely fashion or are alternative manufacturing and distribution opportunities available in the territory of interest?

#### *2.3.4 General Information*

A great deal of this information is not always secret or hard to find. Sources such as annual reports of the respective parties, government filings, credit ratings, existing sales catalogues for product lines or services, newspapers, magazines or trade journals, commentary on the respective parties and so forth can provide a wealth of information, as can the internet. The parties to the license negotiation must determine, as much as possible, the abilities of the parties involved and the likelihood that a successful license arrangement will come to pass.

#### 2.4 Timing for Due Diligence

Due diligence is often times conducted during the actual licensing negotiation of the parties. However, as can be seen from the following and the previous pages, it is worthwhile to do as much preliminary or pre-license due diligence as possible before entering into a trademark licensing negotiation. In other words, neither party to a potential licensing agreement wants to expend large amounts of time and money on professionals to negotiate or draft a license agreement if one, or both parties, is not likely able to fulfill the obligations of the potential agreement. If the licensee does not have present or future financial ability or the necessary business acumen to complete the basic license requirements proceeding to detailed negotiation is not warranted. A simple way of disclosing relevant but confidential or sensitive information to determine if the licensing potential threshold is met by the licensee can be done under mutual non-disclosure or confidentiality agreements to be entered into by the parties to protect the respective sensitive or confidential information and materials.

Typically the negotiation of a license agreement involves at least four steps starting with the introduction and expression of interest by the parties. This is the stage where the preliminary pre-license informational threshold testing should take place. Assuming the threshold is met the traditional next step is the parties coming together and agreeing on a letter of intent or memorandum of understanding, which can be binding or non-binding. This document essentially sets out the major or principle terms of concern to the agreement of both parties in terms of an ultimate license agreement to be entered into as well as the timing for further due diligence, further inquiries and the actual drafting provision. After that understanding is reached the next step is usually a "cooling off period" where both parties conduct their more in depth due diligence investigations of each other to determine their relative abilities to fulfill the terms, again set out in the memorandum of understanding or letter of intent. At this time the parties can, again, in a confidential way, exchange more detailed information relative to their financial and business abilities with a view to finalizing the license arrangement so that when the license drafting commences the professionals who draft the license agreement will have a better or realistic understanding of the terms and conditions on the major points that would be contained within the eventual license agreements. Hopefully in this way neither

party will be surprised by the first draft agreement between the parties. Where ever possible it is always better to be the party that drafts the original agreement. In some cases this will not be possible as most licensors have their own form of agreement. If, however, you have the possibility of drafting the original draft document do not hesitate to do so. There is certainly additional cost but from that point forward the negotiation proceeds on the basis of the "original draft". This provides a great practical, as well as psychological, advantage. Once the intervening investigative period expires the parties would normally enter in to the negotiation phase where drafts of the terms and conditions of the Agreement are passed between the parties as the parties move to a final agreement. Put in simplistic terms, if the letter of intent or memorandum of understanding was agreed by the parties to be binding the license agreement should be merely a fleshing out or formalization of the major terms of the license agreement which have already been agreed to. If those preliminary documents were non-binding the license agreement itself is still a serious negotiation where the negotiating teams will continue to bargain aggressively to get the best deal possible from their respective perspectives.

Typically, a licensor is looking to have the following questions satisfactorily answered: how much? How often? And how long? This is a basic or simplistic way of looking at the licensor's approach to the viability of the trademark license agreement. Having simplified to the above three questions from the point of view of the licensor, clearly a meaningful license agreement requires skilled experts to put the words and clauses to the letter of intent which will make the trademark licence agreement viable.

From the point of a licensee the licensee's basic concerns or most simplistic view of a trademark license agreement is not too different from that of the licensor. It can usually be narrowed down to four questions: How much? How often? How long? And if things go wrong, how do I get out of it?

While the licensor tries to obtain the best return it can under the license agreement, the licensee also wants to ensure that its business opportunity will be viable and that it is not working diligently under the license agreement only or primarily for the benefit of the licensor. In a trademark license agreement where the financial numbers in the business plan were not realistic or the licensor was too aggressive in his royalty demands, the licensee will basically be working solely for the benefit of the licensor and to pay its employees. Hence, the last basic question comes to the forefront: What if things go wrong? How do I get out of it? A licensee is obviously concerned, as is a licensor to some extent, as to what the consequences are in the event of the failure of the licensee or licensor to perform under the agreement. Again, the preparatory work of accountants, lawyers and licensing professionals, which form the respective licensing teams of the licensor and licensee, must create a realistic picture so that the parties can both succeed under the license and that realistic numbers as well as terms and conditions are agreed upon.

## 2.5 International Issues

Trademark licenses involving a foreign territory or rights to foreign trademark use may introduce complex issues into the trademark licensing mix. A trademark owner who licenses domestically is usually familiar with the licensing terrain in its country. On many licensing issues, the format and content of an international or foreign trademark license agreement will correspond to the trademarks owner's home territory. However, it is likely, if not a certainty, that any foreign jurisdiction will have at least one or more special legal requirements or idiosyncrasies in respect of necessary terms and conditions or prohibited terms and conditions applicable to trademark licensing agreements, or the granting or acceptance of trademark licenses by its nationals. For this reason, it would be impossible to deal with the subject of international trademark licensing as it applies to each country of the world in any detail. There are, however, certain considerations which frequently arise in international trademark licensing arrangements in addition to the usual considerations as to the parties involved, the facts of a particular transaction, the existing relationships between the parties, and the laws of the relevant jurisdictions which are many and varied when one deals with trademarks. It is essential that appropriate and experienced legal, financial and professional counsel be sought with respect to these various issues.

### *2.5.1 Local Legal Counsel or Licensing Professional*

In countries outside the United States of America, Canada, India, the European Community, Australia, New Zealand and a few other countries where legal services are, by and large, provided in a similar manner, retaining local legal counsel or a trademark licensing professional is not necessarily a straightforward issue. It must be remembered that local legal counsel may be well versed in contract law but not necessarily licensing and particularly trademark licensing and/or franchising which requires particular skills in view of the unique nature of trademarks and trademark licensing. In many cases, the trademark licensing professional in those countries may not necessarily be a lawyer or advocate but can work in conjunction with other legal counsel to create strong and effective trademark licensing arrangements. Trademark licensing concepts that one might take for granted in North America or the European Community should not be assumed to exist in other countries. One must consider, among other things, the local counsel's language capabilities both oral and written, the language you wish to communicate in as well as the language of the other party to the license agreement and ultimately the language of the license itself. Of particular concern should be the issue of conflicts as in many jurisdictions the concept of conflicts, whether legal or business, do not exist. Local counsel may and could end up advising both licensor and licensee. This situation is not uncommon. For instance, in a franchise situation, the same firm of legal professionals may act for the trademark owner in the license and the licensee on the issue of the lease of a premises to operate the franchise. All this should be discussed before choosing and retaining local counsel or a trademark licensing professional. In some cases, a trademark owner may be well advised to consult other trademark owners or licensors of well-known brand names who have already had experience in the jurisdiction of interest to see who they have used locally and perhaps, more importantly, who they do not recommend.

## CHAPTER THREE: VALUATION OF TRADEMARKS

Trademarks in and of themselves are not things of value. They become valuable through use and only when consumers associate a trademark with certain positive connotations about the good or service that it is linked to and due to those positive connotations are loyal to that good or service and continue to consume that good or service. The positive connotation that continues to attract and retain consumers, sometimes called the goodwill of the product or service is that which is valuable. Setting a monetary value to what is essentially a good feeling about a product is no easy task. How does one put a value to something that gives confidence, pleasure and satisfaction? Yet we often hear of sums larger than the annual budget of some countries quoted as the value of certain trademarks. For example, in 2007, the most valuable trademarks in the world namely, Coca-Cola, Microsoft and IBM were valued at 65, 58 and 57 billion US\$ respectively<sup>5</sup>. Thus the feel good factor could and sometimes does have value, very significant value.

How then does one arrive at this point of establishing the monetary the value of a trademark<sup>6</sup>. Several different methods are used to value trademarks. They each have their advantages and weaknesses. Often, these are to be used to guide rather than to be taken as strict rules to be followed against all odds.

### 3.1 Methods of Trademark Valuation

#### 3.1.1 Cost Approach

The cost of conceiving, developing, protecting and maintaining a mark including the costs associated with advertising and promotion represent the base, or minimum that could be considered for valuing the mark under this method. The actual cost incurred in the process has to be converted into a present day value to have some meaning. A variant of this method is to ask how much it would cost to acquire the trademark from another source complete with customer loyalty and the feel good factor. This is referred to as the replacement cost method. The cost approach is perhaps a good starting point but its ability to provide a good working picture of the value of a trademark is limited. The value of a trademark will invariably go beyond the cost factors. It will depend on a whole host of other factors including the nature of the product, its longevity, the competition, the market etc. which will all have an impact on the earning capacity of the mark and thus its value.

#### 3.1.2 Market Approach

Most of us are familiar with this approach in our dealings with the market. What have others paid or obtained for a similar product. This is being the starting point all the individual characteristics of the item in question are factored in to obtain a working idea as to what that item may be worth in the market. Comparable market transactions are a convenient and useful way of determining the value of an asset in anticipation of negotiating a purchase or sale. For the effective application of the market approach there has to be "a market" of buyers and sellers and that market has to be public, that is it should not be something that takes place and remains behind closed doors, and the transactions in such a market should be comparable. This makes it difficult to apply the market approach in the context of trademarks for there is really no public active market where buyers and sellers are engaging in the buying and selling of trademarks. A trademark cannot easily be separated from the good or service to which it pertains and, as such, apart from the sale or licensing of the good

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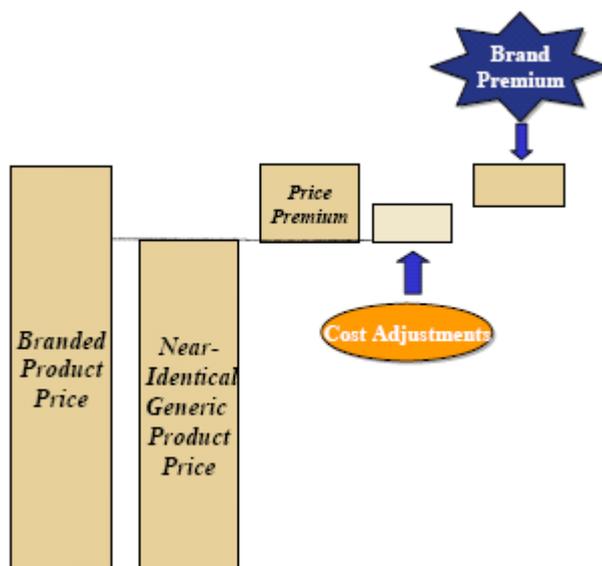
<sup>5</sup> [http://www.interbrand.com/best\\_brands\\_2007.asp](http://www.interbrand.com/best_brands_2007.asp)

<sup>6</sup> It is assumed in this discussion that the trademark in question has some intrinsic value for it is after all the subject of a licensing negotiation.

or service there will not normally be a market for trademarks on their own<sup>7</sup>. In any case, most such transactions are not in the open. They are confidential and the exact nature of the sale or license is not publicly known. It follows that there is, therefore, no basis for making a market based comparison.

### 3.1.3 Income Approach

Ultimately the worth of an asset is determined by its ability to generate income and thereby profit. Thus, the income approach looks at an asset from the point of view of what amount of income it is capable of generating, for how long and what it would cost to generate that income. There are a variety of ways that this could be applied. The most simple method would be take the market value of the business and deduct the book value of all other assets including other identified intangible assets. The difference between that and the value of the business would be the value of the mark. This would naturally need all other assets to be identified and valued. Other techniques look at the additional income generated by the so called monopoly effect of a trademark by comparing the earnings of the company with those of a competitor in the same product or service category. The difference between the two incomes is attributed to the price premium or earning capacity of the trademark. This, of course, begs the question as to whether all additional income can be attributed to the trademark and the trademark alone.



**Figure 1: Illustration of trademark valuation methods<sup>8</sup>**

Yet another technique uses the assumption that if there was no trademark the company would be obliged to license a trademark, thus requiring the payment of royalties. Therefore, having a trademark relieves the company from licensing and thus paying royalties. The cost thus saved from not paying royalties can be counted as income and thus considered as the value attributable to the trademark. Here too one is faced with the issue of not having comparable transactions to compare with.

In valuing trademarks, as with valuing anything else, one is simply not placing a value on the trademark in its actual use. The main value of a trademark lies in it being an identifier of source and as a communicator of certain values. But a trademark is capable of being used

<sup>7</sup> See however [www.markenbusiness.com](http://www.markenbusiness.com) where trademarks are available for sale or license

<sup>8</sup> Intangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective by Paul Flignor and David Orozco, IP Thought.Com June 2006

in many ways to augment its earning capacity and licensing is one such way. Therefore, in valuing a trademark it is assessed also from the point of view of its potential earning capacity, whether or not it is in fact being exploited to its fullest at the time of valuation. To this extent, the income approach is that which best fits trademark valuation.

In applying the income approach the future income stream has to be adjusted to its net present value. The technique considered most appropriate for doing this is called the discounted cash flow method. This works on the assumption that a dollar today is more valuable than a dollar tomorrow. The relevance of time to the value of money is the basis of this method. A specific income stream attributable to the trademark is identified and that income is projected over the assumed economic life of the trademark, usually not more than 10 years (although legally a trademark has life in perpetuity) and then using an appropriate "discount rate" based on the risks involved in maintaining an intangible asset, the present value of that income is arrived at. That is, identify the net cash inflows (A) of income for a stipulated period of time (n), apply the formula  $A/(1+r)^n$  and calculate the lump sum or Net Present Value (NPV). This calculation requires the selection of a discount rate, r, which is the cost of capital adjusted for risk and so effectively incorporates or reflects all the risks. The NPV establishes the present value of future income streams expected from the use of the trademark.

#### *3.1.4 Concluding Comments*

The techniques for valuing trademarks have their limitations that have to be borne in mind when applying them. However, they are useful tools, when used with proper care and caution, to provide a fairly accurate picture of the true value of a mark. In any event these are matters for the professionals and it is advisable their expertise be relied on in undertaking such an exercise. Hopefully, the bird's eye view of the subject will make the reader more sensitive to what a valuation exercise entails and equip him to ask the appropriate questions of the valuation professionals and make the right decisions based on the information provided by such professionals.

### 3.2 Accounting and Intellectual Property

The recognition of the value of intellectual property assets and its increasing share in the total market value of enterprises can be said to have contributed to the change in the way the accounting fraternity treats intellectual property in financial reporting. Historically, accounting practice did not recognize the separability of IP assets from other forms of intangible assets and hence were not included in the balance sheets of company. However, through the revisions of IAS 38<sup>9</sup>, the international accounting standards board (IASB) now recognizes, externally generated identifiable intangible assets (i.e., IP assets) and requires that intangible items acquired in a business combinations<sup>10</sup> must be recognized as assets separately from goodwill, subject to qualification<sup>11</sup>. Though there still exists differences in different jurisdictions on how to treat intangible assets in financial reporting, some national accounting authorities have also embarked on the process of making their regulations compatible with the IASB treatment of IP assets. This is an improvement in facilitating financial reporting of IP

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<http://www.iasb.org/News/Press+Releases/Archive/2004/IASB+Issues+Standards+On+Business+Combinations+Goodwill+And+Intangible+Assets.htm>

<sup>10</sup> A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses. (see [http://www.fasb.org/project/bc\\_acquisition\\_method.shtml](http://www.fasb.org/project/bc_acquisition_method.shtml))

<sup>11</sup> For intangible assets to qualify the need to meet the definition of an asset, are either separable or arise from contractual or other legal rights, and their fair value can be measure reliably. See <http://www.iasb.org/News/Press+Releases/Archive/2004/IASB+Issues+Standards+On+Business+Combinations+Goodwill+And+Intangible+Assets.htm>

assets. In some countries, intangible assets, whose useful life in business or in income generation is of a limited duration and can be accurately estimated, are amortizable<sup>12</sup>.

Unfortunately, the value of internally generated IP assets is not affected by the revised IAS 38 and, hence, continue to be left out of balance sheets of enterprises. This provides a significant challenge to enterprises whose competitiveness and wealth is built-on and depend on their intellectual creativity (i.e. internally generated IP assets). In addition, such enterprises are not able to report such IP assets to investors so as to enable them to make informed investment decisions. The main reason given for excluding internally generated IP assets from the balance sheet is that value reported in the balance sheet has to be reliable, objective and auditable; so any asset whose value has been calculated on the basis of predictions of future cash flows and on the estimation of an “appropriate” discount rate is considered to be too subjective for financial reporting purposes.

### 3.3 Tax Considerations

Depending on the national tax law of a country, the value of a company’s trademark may also have tax implications. With the recognition of intellectual property rights as business assets it follows that whenever these assets produce income they are gains that are taxable just as much as if they produce costs such costs would be tax deductible. Clearly, when a trademark is licensed it creates an income gain by virtue of the royalties that flow in and which are thus income that is taxable. Similarly, they represent a cost to the licensee and as such a deductible expense. Exceptionally the grant of an exclusive license in perpetuity may be determined to be in fact a sale and as such taxed as a sale.

### 3.4 Trademarks and Financing

The idea that banks or investors would give credit to a borrower on the basis of his intellectual property is a fairly new one and confined mostly to those countries with developed financial markets. Nonetheless, it is only logical that an asset that has undeniable value, irrespective of whether it is intangible or tangible would sooner or later be recognized by investors. The main difficulty of accepting intellectual property rights as collateral for financing has been perhaps the habit and convenience of relying on tangible assets but more so the difficulty of attributing an objective, verifiable value. Thus, while a trademark is undeniably valuable and could function well as a collateral, establishing a value of a trademark remains a condition precedent for the functioning of a mark as a collateral.

Relying on intangible assets for obtaining financing becomes even more important in the new globalized environment where companies with strong trademarks have outsourced their manufacturing overseas. In this scenario, creditors are unwilling to lend against tangible assets such as accounts receivable, inventory and fixed assets which are located abroad for the simple reason that if the debtor defaults seizing those assets would prove to be a problem. In this context, companies are looking to rely on those assets that remain within the country where credit is sought, such as their trademarks. As trademarks are not outsourced, they could be relied upon more effectively in the event of default than those tangible assets located overseas.

As with accepting any asset as collateral the lender must determine the title of the borrower to that asset and whatever other rights he may have granted on that asset such as licenses,

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<sup>12</sup> Hence the enterprise would benefit from tax deduction (i.e. depreciation allowance)

distribution agreements etc. If the law of the country so provides, it is advisable to register the interest of the creditor in the appropriate institution.<sup>13</sup>

### 3.5 Factors Impacting the Value of a Trademark Sought to be Licensed

Before engaging in an exercise of quantifying the value of a mark, a preliminary assessment has to be made as to whether the mark has any value at all. Every trademark is not inherently valuable or may be valuable within a limited context. If the trademark functions effectively in that it differentiates the goods or services to which it pertains, others are or would be interested in using that mark and would be willing to pay for it one could safely assume that the mark has some base value. In the present context of licensing one can assume that a mark which is the subject of a license, whether licensing in or licensing out, is of interest to someone, and as such it would definitely be of some value.

Also, the value of a mark will depend very much on the “why” it is being valued. Valuation is equally relevant for a variety of other business purposes where the same techniques of valuation are applied. A trademark would need to be valued in the context of financial reporting where certain financial rules requires the reporting of the value of intangibles acquired, in the context of litigation for the purpose of computing damages, during bankruptcy and for tax purposes. Valuation of trademarks is becoming increasingly important also in the context of raising finance, when intangible assets can be used as collateral for raising finance<sup>14</sup>. In all of these different situations, the value of a trademark would be affected by the situation in which it finds itself. For example, a mark being valued in the context of bankruptcy would have a very different value to one being valued in the context of licensing. However, here too we do not concern ourselves with the impact of these different situations on the value of a mark, for our direct interest here is on the valuation of a mark in licensing. As such, we have looked at the valuation of a mark solely in that context.

A trademark which is the subject matter of a license would normally be a trademark that is active in the market and has a certain recognition and appeal. As such, it would have a higher value than a mark that is being liquidated along with other assets in an enterprise that is closing its business. Therefore, the fact that the mark is an asset of a “going concern” would add value to it.

The value of a mark would also be impacted by the breadth and use of the trademark. For example, a trademark applied to a range of products or services would generate more value than one that is applied to a single good or service. Similarly, a mark that is a market leader, that does not have much competition, a mark in a growing market as opposed to a mature market, one that is protected by registration, that has wider geographical reach, one that is a veteran in the field as opposed to a new brand, one that is supported by aggressive marketing, one that has other IP rights surrounding it and one that could be effectively enforced are all factors that would have an impact on the value of a mark<sup>15</sup>.

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<sup>13</sup> Intellectual property: A new form of collateral, Puget Sound Business Journal (Seattle) - by [Claire Philpott and Susan Jahnke](http://www.bizjournals.com/seattle/stories/2005/03/07/focus9.html) <http://www.bizjournals.com/seattle/stories/2005/03/07/focus9.html>

<sup>14</sup> Intangible Asset & Intellectual Property Valuation: A Multidisciplinary Perspective by Paul Flignor and David Orozco, IP Thought.Com June 2006

<sup>15</sup> Trademark Valuation: The How, When and Why by Weston Anson Thomson and Thomson, Client Times Volume 10 No. 3 (2002)

## CHAPTER FOUR: MAIN ELEMENTS OF A TRADEMARK LICENSING AGREEMENT

### 4.1 Introduction

A trademark license will contain many provisions common to contracts in general but will also include provisions that are peculiar to trademark licensing. In essence, it will define the nature and extent of the rights that are being licensed to the prospective user, the compensation or consideration that will be required for the permitted use, and the terms and conditions that will be attached to that use, including controls by the owner of the right with respect to the use and display of the trademark. It will also contain the assurances that are to be given by the owner regarding the licensee's ability to use the trademark in the intended manner, including the degree of protection, if any, that the owner will provide against unlicensed use of the same or similar mark by others. In any event each trademark license agreement is a unique agreement crafted to meet the particular needs and aspirations of the parties to that license.

In any licensing negotiation it is essential for both parties to understand the nature of the rights that are involved, and the ownership, protection and enforcement of those rights. The would-be licensor needs to know how strong its rights are, the extent or scope of the business to which they apply, and any vulnerability that may exist, so as to have a realistic view of the negotiations. The prospective licensee, on the other hand, needs the same type of knowledge to evaluate the rights that will be licensed so as to project a realistic profit picture that will be a fundamental factor in determining what the prospective licensee should pay, and can afford to pay. In addition, the licensee needs knowledge of the protection that the licensor's rights will provide for the licensee's business under the license. All of these factors and more depend upon the intellectual property laws and procedures of the jurisdiction or jurisdictions in which the licensee and indirectly the owner will be doing business under the licensed rights. Accordingly, an understanding of applicable basic principles should be the starting point from which to approach trademark licensing.

Of course, negotiating strategies and the respective bargaining strength of the parties will certainly have a bearing on the final terms and conditions agreed upon. The licensor may be the owner of a "well known" mark and, therefore, competition between prospective licensees for the right to use the mark would be at a high level, and as such to a large extent the licensor would be able to dictate the terms and conditions under which its mark will be used in the marketplace. On the other hand, the trademark may be somewhat obscure or newly adopted, or relatively unknown in a certain territory in which case the prospective licensee may have more control of the terms and conditions of the license and, therefore, the ensuing business relationship.

#### *4.1.1 Win-win License*

The best license is a flexible and fair license which is beneficial to both parties, executed freely and not referred to again by the parties until first and subsequent renewals. It must work for both sides. Some jurisdictions particularly in the area of franchising are, in fact, legislating the fairness or fair dealing requirement. For instance in Canada one franchise statute in one Canadian provincial jurisdiction states as follows:

- Every franchise agreement imposes on each party a duty of fair dealing in its performance and enforcement.
- A party to a franchise agreement has a right of action for damages against another party to a franchise agreement who breaches the duty of fair dealing in the performance or enforcement of the franchise agreement.

- For the purpose of this section, the duty of fair dealing includes the duty to act in good faith and in accordance with reasonable commercial standards.

If a license agreement is not “fair” to both parties it will not likely be workable and will not last. The concept of WIN/WIN in licensing is a longstanding guideline of all good license drafters and negotiators. This does not mean that negotiations are not tactical, tough or hard fought, only that in the end the final terms and conditions of the license entered into by the parties should be fair by all parties. A license should be the start of a long and mutually profitable relationship. A license that is totally one sided or unfairly drafted will not nurture such a relationship and will only result in disagreement and animosity resulting in a breach or a series of breaches of the license t ending in termination, litigation and/or mediation or arbitration. In such situations, the cost of legal advice, litigation, mediation, arbitration and enforcement will in the end likely far outstrip the advantages, financial and otherwise, gained as a result of the one-sided terms and conditions of the license. In many cases, particularly where it is made to appear to the Court, the arbitration panel or the mediator that one party was at a disadvantage in the negotiations and was taken advantage of in the license drafting process, the egregious clause or clauses in issue will be struck down or declared unenforceable<sup>16</sup>.

The concept of "fairness" is creeping into all aspects of licensing and contract law in general. With the "fairness" principle now included as a statutory concept for franchising, it is likely this concept will be applied generally to licensing relationships involving any and all aspects of technology including trademark licensing.

What is also interesting about the fairness concept in franchise trademark licensing in Canada is that the statute quoted above also makes the fairness and fair dealing concept retroactive. In other words, all franchise agreements whether entered into before or after the statute was passed into law are governed by the fairness or fair dealing concept.

#### *4.1.2 Quality Control*

Apart from the provisions common to most licensing agreements, peculiar to and integral to trademark licensing are the provisions pertaining to quality control. Licensing without quality control is often called “licensing in gross” or “naked licensing.” In the absence of real and effective control by the licensor, the trademark will no longer symbolize a particular source and, as a result, the licensor may no longer have a protectable interest or exclusive rights in the licensed trademark. Simply put, trademark rights will be lost if effective quality control measures are not put in place, monitored and enforced. If a trademark licensor fails to take reasonable measures to control the activities of the licensee with respect to the nature and quality of the goods or services bearing the licensed mark this can result in the irreparable loss of trademark rights.

Trademark laws in most countries place an affirmative duty on the trademark licensor to take reasonable measures to assure that the products produced or the services offered under a license agreement meet the licensor’s standards of quality. Inadequate quality control could lead to a judicial determination of “non-distinctiveness” of the mark because poor quality control may be considered an act or omission of the trademark owner which results in the trademark losing its significance as a source of origin. Uncontrolled or “naked” licensing

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<sup>16</sup> For example, in recent decisions of some Canadian courts "Non-competition Clauses" (particularly in employment contract situations) which generally restrict an employee from competing within a specific territory for a specific period of time after the termination of an agreement have been held to be unenforceable. The court, on the other hand, has indicated that "Non-solicitation Clauses" restricting a former employee from soliciting actual customers or likely potential customers of the former employer are not similarly offensive. This principle of law will likely apply equally to all licensing and franchising situations.

could cause the trademark to lose its significance as a symbol of quality and an indication of origin. Failure to have meaningful quality control standards and to police them effectively is tantamount to an abandonment of trademark rights and may put the trademark at risk of being found non-distinctive and therefore unenforceable.

From a purely legal perspective, trademark rights can be seen, and have been determined, to be lost because of the absence of adequate quality control. It is foolish to expose valuable marks to such risk. Moreover, poor or absent quality control may result in other legal consequences such as a determination that a license or licenses are invalid or a finding that there has been a gap in the continuous use of the mark which could lead to a loss of priority rights over other third parties or the inability to maintain registration rights.

Legal considerations aside, from a practical marketing perspective, it is a fact that consumers are increasingly demanding quality. In an extremely competitive economy, allowing a licensee free reign of the commercial reputation of a trademark may prove to be disastrous. Poor quality control in one area can and usually does infect other areas of business. For example, if a licensee is producing an inferior line of goods or does not offer quality services under a particular mark, the poor reputation associated with one product or service area bearing the brand name could affect sales in another product or service area bearing the brand name even where there are no quality control issues in those other areas. Further, poor quality control can be dangerous to the public and could result in the exposure of the owner to both civil and criminal proceedings.

Detrimental use of a mark may also occur in connection with the distribution of the goods by a wholesaler, agent, importer, dealer or retailer. In these cases, poor monitoring may result in licensed goods bearing both the distributor's trademark and the owner's mark without distinction. The distributor, for example, in its distribution of goods may use the owner's trademark, and associate itself with the owner's mark particularly in the advertising and promotion of the goods. As a result, the consumer becomes confused as to the source of the trademark.

If the trademark of an importer appears on the goods and is used in the advertising and promotion of the goods in accordance with the owners' guidelines, the owner may not need to be concerned. In a proper distribution arrangement, the owners mark and its use is distinguished from the distributor's marks as to ownership and use through notification on the packaging or promotional material. This avoids the dilemma of what is called "mixing of marks", i.e., the simultaneous use of two different party's marks.

## 4.2 Preliminary Clauses

### *4.2.1 Title of Agreement*

Properly describing the content of an agreement in its title is important and helpful. In most licensing situations, there is more than one agreement involved. If all the agreements were simply titled "Agreement" it would be difficult to distinguish one from the other when referring to them. Even intellectual property license agreements should refer to a Patent License Agreement, Trademark License Agreement or a Copyright License Agreement, Head Lease Agreement, to name a few. In the case of a trademark license it would be called a Trademark License Agreement. If it included patent rights or know-how it could be called a Trademark, Patent and Know-How License Agreement, and so forth. It is useful to have a title which does describe the subject matter of the license.

#### *4.2.2 Effective Date*

After the title of the license there is, in most cases, an effective date clause which essentially states when the agreement and the terms and conditions become effective as between the parties. In many cases, this date is used internally to calculate other critical dates for the parties which are calculated from that date. The Effective Date can be a past or future date or the same date as the execution date of the license by one or both parties. However, as many licenses are not executed by all the parties on the same day but are executed in counterparts by different parties and in different parts of the world it is not always feasible to talk about an execution date as that may vary greatly depending on the proximity of the parties. The effective date clause is, therefore, very important to trigger the license and to calculate other important dates within the license.

#### *4.2.3 Description of the Parties*

The next section normally relates to a description of the parties involved in the agreement. In the case of a Trademark License Agreement there are usually two parties involved. However, there can often be multiple parties where the licensor is not the trademark owner and the owner and Master Licensee are named as licensor and/or where the licensee is an individual and Guarantor(s) are required by the licensor to ensure compliance with the license terms, particularly the financial ones.

This section will contain the exact legal name of the party or parties, the legal nature of the entity involved whether it be a partnership, sole proprietorship, corporation, and so forth, as well as an indication of where the parties involved have been incorporated or created together with their location and address.

All parties which are affected by the license and its terms and conditions or any other party which is bound by the license should, in fact, be listed in the party description portion of the license and should, of course, sign the license so that they will be bound by its terms and conditions. For ease of reference, each party may be given a shortened version of their name or simply be referred to as Licensor and Licensee. For instance, ABC Limited as a party could be referred to as "ABC". In some cases, guarantors are included within the trademark license where the parties wish to have it clearly stated and acknowledged that the third party is guaranteeing the performance of the licensee.

#### *4.2.3 Headings and Preamble*

Following the title of the license, the effective date and the description of the parties is the Preamble where the recitals or the "whereas" clauses reside. This portion of the license normally sets the stage or describes the history between the parties which leads up to the actual execution of the license. Recitals can be one or two clauses or can extend to many pages depending on how detailed the parties wish it to be. Often, the recitals contain the license of the parties that there are basic understandings or acknowledgments as to the property rights of the respective parties. In addition, there may be references to the purpose of the license as well as to other related agreements that may affect the trademark license or a history of the previous or existing contractual relationships between the parties together or any litigation history that may have resulted in the trademark license being entered into.

The final portion of the recitals is normally a reference to the consideration paid by the licensee to the licensor for the grant of the license. This can sometimes be a token amount or it could refer to a substantial lump sum together with the mutual covenants which are contained within the rest of the license as consideration.

#### *4.2.4 Definition Section*

Surprisingly, in most trademark licenses the first clause is not the license grant clause, but rather the definition clause which will serve to define and set the guidelines which will govern the interpretation of the license. The definition section is probably the most important part of the license in that the definitions contained in this section will affect the interpretation of the trademark license during the course of the license and after it terminates if there is a disagreement among the parties. The definitions will set out what the parties intend certain words or phrases within the license to mean as at the date of the creation of the license which is the relevant time for interpreting the true meaning or intent of the parties in entering into the license. While some of the specific definitions within the definition section may be what are called “boiler plate” such that they are the same in any license, it is always important to note that the definition section should be tailored to meet the needs of the particular license being negotiated. Although “boiler plate” provisions are certainly important and necessary to the interpretation and effect of the license, the inclusion of words and phrases which are not tailored to the specific needs of the trademark licensing situation in question can cause great difficulty later in interpreting the true intent and meaning of the parties at the time they entered into the license.

Therefore, the definition section of the license is a very important section and the drafter must ensure that the definitions meet the needs of the parties and fit the particular circumstances of the license situation. Licenses can be greatly simplified and shortened by creating definitions for certain words and phrases such as the definition of the intellectual property being licensed, the nature of the goods and/or services that are being licensed, the basis upon which royalties are calculated and the conditions which govern the payments of those royalties to mention a few. Great care should be taken to understand what each defined term means as definitions can expand or limit the normal meaning of certain words in everyday language.

In view of the fact that the license drafter creates or crafts certain definition to mean certain things for the specific purpose of the license at hand, great care should be exercised when reading a license not to assume that the words and phrases contained in the license will have their ordinary meaning. Definition sections can, in fact, expand greatly on the meaning of for instance “products”, “services”, “know-how”. It is, therefore, important when reading or reviewing a license to understand clearly what each of the special terms contained within the license mean. Typically, defined terms are highlighted by having the first letter of a defined word or the first letter of each word in a defined phrase in upper case lettering. Terms that may have a very narrow definition in everyday life may have a very broad application in a license by virtue of the definition section. As indicated above, license drafters will often try to narrow or expand the ordinary meaning of words, and the unwary signatory to a license must be careful to make sure that the definitions suit their purposes and not just the drafter who may be acting for the opposite party. Definitional sections also become extremely important when dealing with multiple jurisdictional agreements where some words and phrases which are clearly understood in one jurisdiction may have a different and expanded or narrower interpretation in the other.

In the case of simple or short licenses, the definitions of a certain words or phrase used throughout the license may not be defined in a definition section but may be provided when the term is first used in the license. Even in more complicated licenses not all definitions are necessarily found in the definition section. There may be a mixture of both depending on the style of the license drafter or the needs of the license situation.

While there are no hard and fast rules for the form or content of the definition section or as to whether all defined terms will be found there, it is usual that the definitions that appear within the definition section are arranged in alphabetical order so that they can be easily located

and reviewed for the purposes of the interpretation and understanding of the license as a whole. As indicated above, the definition section, by its nature, tends to result in a shortening of the license in terms of its length as one word or an expression takes the place of numerous words that would have had to be repeated over and over again throughout the license.

**Typically, in a trademark license, some of the basic definitions required are as follows:**

- a) "Trademark(s)" the trademark(s) being licensed; "Goods and Services" the goods and services to which the trademark(s) can be affixed or used in association with services;
- b) "Gross Sales", "Gross Profit" or "Net Profit" for calculating royalty;
- c) "Territory" the geographical, market sector or other criteria which define the licensee's marketplace;
- d) "Manufacturer" the rights of the Manufacturer
- e) "Manufacturing Agreement" an agreement requiring prior approval of the licensor
- f) "Improvements" improvements by the licensor or by the licensee and as to how and in what circumstances the licensor can use the licensee improvements or have ownership of them or both, or whether and when a licensee is entitled to use the improvements made by the licensor from time to time and on what basis. There could, of course, also be improvements created by the parties jointly or to be owned by the parties jointly.

#### 4.3 Extent of Rights

The grant clause does not always necessarily follow the definition clause but in most licenses it does. Clarifying what is being granted under the license by the licensor to the licensee in terms of the trademarks and the use of those marks is important in understanding the license arrangement as a whole. The grant clause portion of the license normally includes clauses which deal with whether the license is to be a sole license, exclusive license or non-exclusive license, as well as the right of the licensee to sub-license some or all of the rights granted under the license. It also can deal with renewal provisions, the original term or duration of the license, the goods and services which will be sold or promoted in association with the trademarks, the scope of use of trademarks and trade-names and/or other intellectual property, such as domain names. Therefore, the grant clause describes the scope or parameters of the rights granted or in other words, the permission that is being granted to use the trademark or trademarks by the licensor to the licensee, together with the acceptance of that by the licensee. The grant clause often includes several of the defined terms from the definition section. Again, please be sure you understand what the defined term includes or excludes.

Depending on how the license arose, the grant clause may also include a mutual release by the parties for past claims for infringement or otherwise, or cross-licenses where the parties have come to an agreement whereby each of them have intellectual property rights which the other wishes to use now and in the future. A subset of cross-licensing is also the grant back license provision which requires the licensee, or for that matter the licensor, to automatically grant a license under future intellectual property rights which may arise during the term of the license. In many jurisdictions, grant back clauses are seen as anticompetitive and may invite severe penalties from government and regulatory agencies so great care should be taken

when including grant back clauses within a trademark license. Competition law and what is considered anticompetitive in many countries of the world varies dramatically and, therefore, it is important to verify the local conditions. Be sure to understand the extent of territory in which the license is effective and restrictions on sales of product or provision of services outside the territory prescribed by the license and determine how close an adjacent Territory of another licensee can be as this may greatly affect your customer base.

In most jurisdictions, implied grants of license and license rights will not arise if they are not specifically set out in the license in view of the fact that a license, at its very essence, is a contract and, therefore, a negotiation process. If the terms and conditions of the grant are not clearly stated in the license then they do not exist. In many cases, licensors will include, within the grant clause, a reservation of all rights to the licensor to the extent that those rights are not expressly licensed under the grant clause.

#### *4.3.1 Exclusive and Non-Exclusive and Sole Licenses*

Essentially, a license could be an exclusive, non-exclusive or a sole license. The differences between these arrangements are significant. By entering into a trademark license the licensor and the licensee create mutual rights and obligations which are in addition to the rights granted by the intellectual property which are the subject matter of the license. In other words, in addition to intellectual property rights being granted, there are also other rights and obligations granted by the different clauses of the license. These rights and obligations normally go far beyond the scope of the intellectual property right itself such as know-how and trade-secrets, technical support, ongoing training and so forth.

An exclusive trademark license provides the licensee with the right to use trademark to the exclusion of all, including the licensor in the defined territory. Thus, the trademark owner cannot use the trademark itself nor can it license those same trademark rights to others in the territory. The licensee remains the only user of that mark in the relevant market. Usually such licenses are granted in a context where the licensee is required to develop and build up a brand and as such needs to invest considerably for doing so. The exclusivity can be in a certain geographic area, a certain product line or service area or even in a certain market sectors such as wholesale, industrial, commercial or domestic market sector or a combination of one or all of the above.

An exclusive license may, in some jurisdictions, be seen as or deemed to be an assignment particularly where this is no termination date.

A sole license grants to the licensee the exclusive right vis-à-vis other licensees. In other words, the licensor may not grant any other licenses in the relevant area or field of use in the territory but he is not precluded from using the intellectual property which is the subject of the sole license in the territory itself.

While a non-exclusive license grants to the licensee the right to use a trademark according to the grant, the licensor may continue to use the trademark himself as well as grant other licenses. As these non-exclusive licensees are in a very competitive situation, i.e., multiple software manufacturers being entitled to use certain software in competitive products, it is important that the non-exclusive licenses are financially competitive. In other words, most non-exclusive licensees in the above scenario will wish to have a most favoured licensee provision which allows for an adjustment of royalties and/or payments in the event that another non-exclusive license is subsequently granted on better terms and conditions. Obviously, if one of the licensees in the non-exclusive license group has a better financial deal than the others, this situation can make that particular entity more competitive in a market in which all of the licensees are competing.

Any of the above licenses can also include other limitations or limited rights provisions. The most common of those limited license provisions is that the territory of the licensee is limited either as to the products or services that can be provided in association with the trademark, the geographical territory within which the licensee can sell, the location or site from which the licensee can sell (site location) or the market sector to which they can sell and promote the licensed product or service. There are obviously an unlimited number of restrictions that can be included within the licenses so that a licence can be tailored to the needs of the licensor. While placing restrictions on licensees, local statutory and legal restrictions as to competition law should be taken into account. Many of the licenses may provide for the transition of a licensee from an exclusive licensee to a non-exclusive licensee if certain criteria such as minimum sales are not reached during various periods stipulated in the license.

#### *4.3.2 Sub-License*

The licensee may be granted the right to sub-license some or all of the rights included within the license. In the case, for instance, of a manufacturing license that is permitted by a license the licensee would be entitled to both manufacture the product itself and/or have a third party manufacture the product and affix the mark on behalf of the licensee. The licensee may then either receive all of the trademarked products created by the manufacturer for resale or direct the manufacturer where to ship the trademarked product. Another sub-licensing situation which is more extensive is where the licensee has the right to sub-license some or all of the trademark rights granted by the license agreement to other parties and, in a sense, set up its own licensing program in a certain region or territory.

In either of these situations, the licensor may wish to be a party to any sub-license that the licensee enters into and/or provide a form of sub-license acceptable to it for execution by the sub-licensee. This provides the licensor with significant control, enabling the licensor to enforce terms and conditions of the sub-license should the licensee fail to do so. This also allows the licensor to be aware of the terms and conditions of any sub-license that is being granted by the licensee to ensure that the sub-license does not go beyond the rights granted under the main license.

In many cases the main license will, where extensive sub-license rights are given to the licensee, provide for a third party monitoring agreement as to the maintenance of quality control of the products or services being provided by the licensee or its sub-licensees.

The issue of sub-licenses may also vary from jurisdiction to jurisdiction. In some countries, an exclusive license automatically gives the right to sub-license, whereas in other jurisdictions sub-licensing does not automatically follow either an exclusive, sole license or non-exclusive license. Moreover, as licensor, it is important that the main license and any sub-license are coterminous so that if a license is terminated, revoked or expired, all sub-licenses end with the main license; otherwise, control of trademark rights becomes too unwieldy.

#### *4.3.3 Territory*

While intellectual property rights are usually national in nature, in other words, one applies for and obtains trademark rights that are available for use in a particular country. However, in the context of doing business in a global economy, trademark owners are well advised to own trademark rights in all of the markets they have an interest in. Holding rights in other countries enables the trademark owner to license the use of the mark in those countries.

A trademark could, therefore, be licensed for use by a licensee in the whole world, in certain specified countries, groups of countries or territories within countries. Licenses could also be

granted for use in specific industries or for specific market sectors, i.e., wholesale as opposed to retail, commercial as opposed to residential, or any combination thereof. In some cases, a license may be limited to a site license, or specific factory location, so that the mark can only be affixed at that one location or several specific locations or sold to certain end users.

While a licensor would most probably wish to control its licensee in terms of territory in a very defined way, it is very difficult to control where a product goes once it is sold from the licensee into the market place. Product once sold to a wholesaler or retailer by a licensee could, in fact, be shipped to any country in the world and, thereby, enter another licensee's marketplace. Many licenses do restrict the knowing sale of trademarked product into another licensee's territory but since one cannot always control a wholesaler or retailer, or those who would purchase from them, enforcement of such clauses is often difficult. In these situations issues of parallel imports, grey marketing, exhaustion of rights and so forth often arise. Licensors sometimes counter with license provisions which require a licensee to cease selling to certain customers who purchase trademarked product and, in turn, sell it into another licensee's territory.

Care should be taken not to grant too broad a territorial license for many reasons, some of which have been previously set out. For instance, territorial demographics may change and a reasonable territory in terms of population size and so forth which existed at the time the license was entered into could, if certain political or other events occur, become a much larger market for the licensee than was ever imagined by the parties. Many licenses now provide for renegotiation of territorial size in the event that certain population or other demographic criteria occur. This avoids a licensee controlling a territory that is far more lucrative than it was ever intended to be. It also avoids situations where a licensee cannot properly service a territory with trademarked product or service because of dramatic changes in the demographics.

#### *4.3.4 Term or Duration*

A license without a definite term or duration is not only poor business management, it may in some jurisdictions result in the license being unenforceable or be determined to be an assignment of trademarks involved to the license. The license drafter should ensure that provisions governing the duration of the license as well as any renewal period and the basis for the renewal of a license are carefully drafted. In many licenses, the term of the license is stated in terms of three, five or ten year increments. However, even if terminated many licenses carry on after termination to allow for sell off of product, product phase out and so forth. License rights, at least to some extent, may extend beyond the term of the license. The term of the license is normally defined as a period of time normally being calculated from the effective date of the license.

Since a license which comes to the end of its term or renewal period may include a phase out period by the licensee, the rights of a licensee in this circumstance are often defined by clauses which deal with "Rights Upon Termination". Further, the license may include renewal rights which can be exercised by the licensee only if it has met certain criteria during the original term of the license or upon the end of a renewal term. In some circumstances, renewal requires the consent of the owner of the trademark, or licensor or notice of intention to renew given by the licensee to the licensor by a certain date.

As well, in a grant clause there is, in certain circumstances, not only an effective date but also a condition precedent date. In other words, the time period for the calculation of the term of the license may not start running until a condition precedent such as a government approval, actual product launch or some other criteria is met.

As to the original term, renewals or extensions on the original term, there is no fixed time period or number that is usual. In some cases, licenses provide for a very lengthy original term, together with one or a series of shorter renewal periods and, in other cases, licenses have short initial terms, with one or a series of unlimited renewals upon certain requirements and conditions being met. In many cases, the conditions include certain minimum sales requirements, timely payment of royalties or other payments required under the agreement, and/or proper notice to the licensor of the intention to renew. In other cases, the renewal may be automatic, assuming that notice of termination is not given by one party to the other in accordance with the license. In addition, it is not unusual for the licensor to charge an administrative fee upon renewal or to require the licensee to agree or renewal to current terms and conditions of the licensor's current form of license that is then being signed by new licensees. This is particularly the case where the original term or any renewal period is lengthy.

#### *4.3.5 Reservation of Rights*

Care must be taken so as not to draft a license in a manner that is too broad or general in terms of the grant clause so as to avoid granting to a licensee more than that licensee can handle. The last thing a licensor would want to do in a license, particularly in an exclusive license, would be to grant a term that is too long, particularly if the licensee does to perform. It must be remembered that an exclusive license excludes not only other licensees but also the owner from servicing the territory granted in an exclusive license. It would be less than satisfactory to have to approach a non-performing exclusive licensee to buy back or renegotiate the license grant. The grant clause, therefore, often includes not only the grant of the rights to the licensee but also an indication of reservation of rights to the licensor for future licensing opportunities or for the entry of the licensor itself into the marketplace. In addition, most sole, exclusive and even non-exclusive license set minimum sales objectives on a periodic basis. If the licensee fails to attain those sales the licensor has the unilateral right to convert a sole or exclusive licensee to non-exclusive or even to terminate the license right or grant. As well, this conversion right or termination right is not dependant on whether the licensee is prepared to pay royalties on a deemed minimum sales amount.

#### *4.3.6 Termination Issues*

##### i) Termination by Licensor

Included within or closely following the grant clause is usually the termination clause, which deals with the termination of the license either on the basis of the expiry of the original term, exhaustion of all renewal periods or, in some cases, where the licensor terminates the license either with or without cause. Typically, termination clauses include a list of events called breaches or defaults, which may trigger termination by the licensee or the licensor. Normally, the list of the breaches or defaults that entitle the licensor to terminate are much longer than the list which allows the licensee to terminate. These may include, on the part of the licensee, failure to pay royalties, failure to pay royalties on time, quality control problems, bankruptcy, or, on behalf of the licensor, failure to provide training support or adequate advertising support and so forth. Normally the license allows a time period for the licensee or licensor to remedy any breach listed in the termination clause. The provisions usually provides for written notice from the licensor, describing the breach or default that has occurred, and the time period to remedy the breach or default is calculated from the date the notice is received from the licensor or licensee, as the case may be. In other words, if the licensee, or for that matter the licensor, does in fact breach one of the provisions of the termination clause, it is normally given a period of time to remedy the breach usually between thirty and forty days. As it is nearly always impossible to totally remedy a breach or default, most licenses provide that the party in breach "remedy or substantially remedy" the breach. This allows the licensee or the licensor to cure the termination breach if it so

chooses. Although, it is somewhat rare some licenses may include the right to terminate without cause by the licensor and without right of remedy by the licensee. Such a provision is very dangerous in that a licensee could be performing quite successfully under the license and yet the licensor, for reasons of its own unrelated to the licensee's performance, could terminate the license without cause. While it is rare that a licensor would have an absolute right of termination without cause, it is even more rare for a licensee to have that right as against the licensor.

Termination for cause, which is described above, may result from one breach or an accumulation of a number of different breaches by the licensee or licensor within a certain period of time. In most cases, as indicated above, the licensee is given the opportunity to cure that breach and thus remedy the termination event. In the event that the licensee does not cure the breach, is not prepared to cure the breach, or an event occurs that cannot be cured under the terms of the license, the license would normally provide for an orderly termination of the licensee's rights under the license so that the licensee can phase out the use of the licensed trademark. This clause will detail the orderly phase out of the rights granted to the licensee under the license. It will normally deal with the sale of existing inventory, manufacture of any new product bearing the mark, payments and the like in association with goods. With regard to services, it will also provide for transition of the premises to a new licensee or back to licensor, payments of outstanding amounts, and the like. In almost all situations, the licensor is entitled to waive compliance or cure of the breach if it so chooses, thus keeping the license in operation. This normally is allowed without prejudice to the licensor to later terminate for breach if the same or similar breach or noncompliance occurs again.

#### ii) Termination by Licensee

In certain circumstances, particularly in franchise situations, the licensor might have an obligation to advertise the product, conduct promotions, provide training. The licensor may be in breach if it does not perform these obligations in an appropriate or timely manner. In these situations, the licensee would normally have the right to terminate. Again the licensor would, in most cases, have the right to remedy or substantially remedy the breaches on its part, provided its failure or failures to comply do not totally frustrate the license. Again, the licensee, like the licensor above, would normally be entitled to waive any such breach of the licensor.

When setting the length of a term of a license agreement, careful attention should be given to the realities of the business involved that is the subject of the license. The parties are in the best position to determine what is a fair initial period and what would be fair renewal periods and what criteria would be applied for exercising that renewal right. The parties will also know best the appropriate minimum sales quotas and other minimum performance standards. Further events which are beyond the control of the parties and which frustrate the license or prevent its continued operation would result in automatic termination. For example, a finding by a court or a quasi-judicial body that the trademark or trademarks which are the subject of the license are invalid and unenforceable would automatically terminate the license.

#### iii) Governing Law and Jurisdiction

In most cases, the parties to a license are entitled to determine which law should govern the interpretation and enforcement of the terms and conditions of the license. In most cases, the licensor will want its chosen jurisdiction to govern the interpretation and enforcement of the license and, of course, the licensee will wish its chosen jurisdiction to govern. In certain situations, where the parties cannot agree on the governing law a neutral or middle ground

jurisdiction is chosen by the parties. For instance, if the licensor was from France and the licensee was from the United States of America and the parties could not come to a license as to jurisdiction, the laws of England might be chosen by the parties. It is important to note that the choice of governing law does not necessarily indicate the jurisdiction in which any legal action regarding any interpretation and enforcement of the license will be brought. In other words, the fact that the law of the licensor's jurisdiction is the governing law of the license does not necessarily mean that all lawsuits relating to the agreement have to be brought in that jurisdiction. While legal actions can usually be brought in any jurisdiction by either party, the law to be applied by the courts to interpret and enforce the license will be of the jurisdiction chosen by the parties. In the event that there is no jurisdiction chosen by the parties, then it will be left to the courts to determine the appropriate law to govern the license in the event of a breach, or for an interpretation or enforcement action.

#### iv) Attornment

Attornment means that the parties agree within the context of the license not only that they will not object to the governing law or jurisdictions provisions within the license. The attornment section not only goes hand in hand with the jurisdiction section, it confirms the parties intentions that certain territorial laws govern the license and that any legal action, arbitration or mediation relating to the license will take place in a certain jurisdiction. While the above historically would have dealt with of the where and under what law the license will be interpreted, there is some law in some jurisdictions that indicates adopting the laws of a certain jurisdiction for interpretation and enforcement does not necessarily define the court procedures or rules that will govern. It is important, therefore, to select the procedural rules that will govern the proceedings as well as the law of the jurisdiction that will govern and where the legal action or alternative dispute resolution will take place.

#### v) Alternative Dispute Resolution

Although the parties enter into a license with goodwill and expect that goodwill to endure, it is unfortunately not often the case. Conflicts do arise and there are a variety of ways they could be resolved. While resorting to the formal judicial system is definitely an option, given the cost, the time involved, and the formality of such proceedings, parties to these kinds of licenses are increasingly opting for alternative dispute settlement mechanisms<sup>17</sup>. Such mechanisms are fairly well known. They are binding and non-binding arbitration and mediation as well as a form of quasi-judicial dispute resolution, whereby retired judges or professionals will conduct mini trials relating to issues which arise under license. In all of these cases, the results of the alternative dispute resolution mechanism may be either binding or non-binding, as the parties may agree. Many countries have statutes and organizations which facilitate access to these various kinds of alternate dispute resolution processes. Most of these organizations have their own rules and regulations governing how their non-traditional or quasi- judicial processes will play out.

In some licenses, prior to turning to the judicial or alternative dispute resolution processes, the parties do provide for a resolution process of their own. Typically, if an issue arises under a trademark license and a quick resolution is desired, the license provides for a process whereby the issue between the parties is defined and the party complaining of the breach puts the other party on notice. In these situations, for example, the process could proceed as follows:

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<sup>17</sup> The formal judicial systems and alternative dispute settlement mechanisms are not mutually exclusive and parties to these agreements often call upon both systems to resolve or attempt to resolve conflicts.

- a) The party raising the issue will provide a clear and concise statement as to the breach of the license by the other party. The other party will respond in a concise and detailed fashion to the issue raised by the aggrieved party.
- b) Representatives of the parties to the agreement will meet either by teleconference or face-to-face in order to see whether or not the issue or issues raised can be resolved without the need to resort to more formal procedures.
- c) If the informal proceeding does not resolve the issue, the dispute resolution provision often provides that a senior executive, or executives, of each of the parties will then be selected from each party and will meet to see if they can resolve the issue in a satisfactory manner between the parties.
- d) If all of the above fail, the matter will then proceed onto to alternative dispute resolution as provided in the agreement or to the traditional judicial system for determination or a combination of both.

Alternative dispute resolution proceedings, depending on which method of dispute resolution is chosen, may result in the resolution of the dispute in an inexpensive fashion, but usually only when both parties are willing participants and wish to come to a quick and efficient resolution of the dispute. This same inexpensive result may also be reached in a traditional judicial proceeding if both parties, wish to have the matter resolved in a quick and efficient fashion. However, where one or both parties are not cooperative and for whatever reason to not wish to have the matter resolved in such a manner, both traditional and non-traditional approaches may be very expensive and time consuming.

Therefore, while drafting provisions relating to dispute resolutions, a detailed and definitive course of action should be set out. It is not sufficient to merely say that the matter will be sent to arbitration or mediation or that some other form of alternative dispute resolution will be used. Detailed provisions similar to rules of practice in judicial systems must be set out in order to facilitate the smooth running of the alternate dispute resolution process. In some cases, the provisions may be shortened in length by making reference to the rules and regulations of a professional dispute resolution organizations or rules of the local legal system. However, while considering the inclusion provisions concerning alternative dispute resolution in the license, it is important to consider the ramifications in terms of costs, availability and location for such alternate dispute resolution process, as well as the remedies and enforcement rights that the alternate dispute resolution professionals, can exercise and how the final decision will be enforced or whether it is appealable and if so to whom.

#### vi) Continuing Obligations of the Licensee After Termination

In most licenses, the licensee is required to agree to certain obligations that will continue after the license is, for whatever reason, terminated. In this regard the obligations may simply be stated by a clause, which indicates the specified clauses of the existing license that will survive termination. This is done by simply listing a series of paragraph numbers from the license which the parties agree will survive termination and be enforceable by the licensor and licensee against one another. These usually relate to the maintenance of confidential information, which might have been disclosed during the life of the license. They may also include the obligation to continue to pay royalties that were due and payable before the termination of the license, which have not been paid, or for the continued use of the mark in the phase out period after termination. The licensor may continue to have the ability to audit the records of the licensee to determine whether the appropriate royalties were indeed paid. In addition, indemnities relating to the performance of the licensee would continue, that is the licensor could sue on that indemnity if there was a breach resulting in termination or if

a breach was discovered after the license expired. Continuing obligations often also deal with the phase out of the licensed business or the liquidation of the business and its assets.

#### 4.4 Responsibilities of the Parties

##### *4.4.1 Representations and Warranties*

By the licensor

The licensee will normally want the licensor to warrant and represent that it is in a position to enter into the license and is not aware of any license which would prevent the valid execution of the license between the parties. In addition, and more particularly, the licensee would be looking for warranties by the licensor as to ownership of the trademarks and other intellectual property which are the subject matter of the license. The extent and nature of the warranties required of the licensor will depend a great deal on the due diligence and pre-license investigation by the licensee or its representatives. Representations that the licensor has the right to grant the license rights given under the license and that the intellectual property which it is licensing are valid and enforceable are typical. Despite these warranties and representations, the licensee should do its own due diligence to confirm the rights of the licensor in the territory of interest.

The representation and warranty provisions often deal with the issue as to which party will have the responsibility to maintain the intellectual property rights during the term of the license in terms of renewal and maintenance. In many countries, there are provisions within trademark laws that allow for cancellation or summary cancellation of trademark rights with regard to non-use or improper use. Normally, it is the licensor which takes care of these issues and is designated to do so under the license. However, when licensing in foreign jurisdictions it may be more convenient for the licensee, who is local, to perform these duties. It may, for example, be in a better position to deal with local government issues and may get a better result at less cost because of its knowledge of the local environment.

Representations and warranties by the licensor that its trademark(s) do not infringe other third party marks within the licensed territory are typical as well. This gives the licensee the confidence to commence its activities in the territory without the interference of third party users. As the licensee would know its territory well, its prior due diligence in this regard will, again, confirm the veracity of such statements.

By the Licensee

From the point of view of the licensee, the representations and warranties relate mostly to its ability to enter into the license and the corporate status of the licensee. There are also usually representations as to the fact that there are no existing licenses, agreements or other impediments to executing and performing under the license. Licensees may in certain circumstances be individuals whereby they may be required to provide guarantees by third parties as to their performance of the license obligations, financial and otherwise. This is particularly so when the license provides for a corporation to be incorporated during the term of the license to carry out the obligations agreed to and to carry out the actual licensed obligations. Guarantees of performance, particularly financial guarantees, are not uncommon in trademark licensing, especially where the licensee does not have a past history as a successful licensee or does not appear to have substantial financial resources.

## Improvements

The grant, warranties and representation clauses deal with what exists at the day the license is entered into or on the effective date. The improvement clause normally deals with what occurs thereafter, in terms of creation of new intellectual property. The improvement clause normally deals with new ideas arising from both the licensor and the licensee during the term of the license. In some cases, the licensor may be permitted to claim ownership of all intellectual property and other creative concepts developed during the term of the license, no matter which party creates it. Typically, however, there is a sharing of the improvements between the parties at least during the term of license. In many cases, the licensee is entitled to access and use the improvements made by the licensor, as from the licensor's point of view there is an advantage to having each and every one of its licensees benefiting from the licensor's ingenuity and creativity for enabling all the licensees to perform at the same level. The last thing a licensor would want, particularly in a franchise situation, is one franchise location performing at a quite different quality level or providing services in a substantially different way to other franchisees because of its lack of use of new and/or improved techniques and business methods. In fact, many licenses require the licensee to adopt new practices provided by the licensor in a timely fashion and usually at the expense the licensee.

In some cases, a licensee may be quite creative and novel in terms of product, services and promotion as the licensee is the one who is performing or providing the goods and services at the local consumer level and is, therefore, acutely aware of the needs of the consumer. While in some countries onerous provisions in favour of licensors are allowed, this is not the case in many countries where such clauses in favour of the licensor are illegal, being *per se deemed* to be anticompetitive, in restraint of trade or not just and fair.

### 4.4.2 Quality Control

i) As was mentioned earlier, quality control is a crucial element in trademark licensing. Therefore, it is absolutely necessary that quality control standards and specifications be set in order to maintain the viability of the trademarks being licensed. It is not enough to simply specify quality standards in the license or in a manual; they have also to be policed and monitored. This is called "quality control". Quality control requires both a setting of standards of quality and the policing of those standards by the owner of the trademark or its representatives to ensure that standards are being complied with. In a sense, this concept reflects the historical "reason for being" of trademarks, namely, that the consumer must be protected. The consumer should be confident that the service or product bearing the identical trademark will be of the same quality no matter where it is purchased or from which licensee.

ii) In some cases, the owner of the trademark will set the specifications and standards in consultation with the licensee, but in most cases the trademark owner or licensor unilaterally sets the standards of the product or service so that there is a standardized level of quality throughout the license system. This is particularly significant in franchise operations where the customer is expecting to find at least the same level of quality or higher no matter where the consumer travels or experiences the product or service. While, in some cases the licensor might delegate the quality control, maintenance or monitoring to a third party monitoring agency, there still remains the fact that quality control standards must be set, maintained and policed.

iii) In terms of the trademark license itself, normally the standards are set out in either the body of the license or a schedule to the license or a quality control manual to be provided to the licensee upon execution of the license. Further, the license normally provides for the amendment or the modification of the standards and specifications, from time to time, by the

licensor, as it sees fit. In some situations, the license will provide for a mutual agreement on standards, which may or may not be the subject of negotiation in the future.

iv) Once the standards have been determined, either mutually or unilaterally, the manner in which they will be monitored is also, at least initially, detailed in the license. For example, in terms of services, the licensor will be entitled to visit the premises where the services are being provided in order to observe whether the services and signage bearing the trademark meet the standards and criteria set by the licensor. In the case of product, the licensor may simply request that sample products, labels, marketing and promotional material be provided to them for pre-approval prior to sale or use in the marketplace. Further, the licensor will normally require that the product and promotional material be provided from time to time, or when any changes are made, to determine whether the quality control criteria are being adhered to. In some instances, the licensor will also be entitled to access manufacturing facilities to determine how the product is being made and to ensure, again, that the product is meeting the quality control standards and specifications.

v) The quality control standards may not only deal with the product itself or the services provided in association with the trademarks but also the storage and related distribution of the product as well. For example a license might provide that where a defect is found in a licensed product, that it will be immediately removed from the marketplace or some other specified regime be followed. The quality control requirements may deal with both the repair and replacement of parts and product in the event of a warranty claim or otherwise.

vi) In addition to licensed products and services and the use of the licensed trademark, on or in association therewith, quality control criteria may also extend to the manner in which advertising or promotion is done by the licensee as well as how distribution of the product is done, in terms of whether the product is only to be distributed through a certain retail sector, whether product can be sold through discount stores, and so forth. The way in which a product or service is marketed is also a reflection on the goodwill of the trademark and its owner. Therefore, the manner in which a service or product is marketed, whether it be through the usual sales channels and/or promotions, giveaways or contest promotions may be controlled, and usually is controlled, by the licensor. To ensure standardization of products and services throughout the license system, the licensor usually requires that every licensee and its staff be trained initially as well as on an annual or other periodic basis.

vii) In many cases, particularly in the food and beverage service industry, in order to maintain standards and consistency, the licensor will require the licensees to purchase their supplies from a list of authorized suppliers. In this way, customers have consistency of product taste and quality and can expect to find the same product and quality at all licensed locations. From a licensor's point of view, this is an easier quality control method and, as well, often a source of income as the supplier may be obliged to pay for the privilege of coming an authorized supplier.

viii) The licensor must be concerned that it is not seen to be anticompetitive in some way by its marketing control of the licensee as to its sale, distribution and marketing of products and services in association with the licensed trademark. Certainly, requirements that the product be sold at a certain price and only in certain retail outlets might be seen as anti-competitive and, therefore, contrary to the law. Relying on local counsel to deal with local regulatory issues and anti-competition law issues is critical.

ix) As indicated above, not only must criteria be set concerning quality control and quality standards, they must be enforced. In terms of proving the fact that quality control provisions are being enforced, the licensor should maintain a written record, in electronic form or otherwise, of the effort of the licensor or the licensor's delegated quality control monitoring

agency so that, if necessary, the licensor is able to establish that the quality control standards are not only set but are being maintained and periodically policed.

x) In order to enforce the quality control provisions of the license, the license must provide for penalties or consequences in the event that quality control standards and specification are not being met or being breached. Some licensees allow for a set number of quality control breaches within a certain period of time after which the licensor is entitled to terminate the license, even though each of the quality control breaches have been remedied by the licensee. Trademark owners must set up a regular, recorded and provable quality control program which, if required, is produced to establish that there are standards, they are meaningful standards, and that they are being maintained and monitored by the trademark owner. There is no set criteria for how much quality control is necessary, but it must be remembered that quality control standards are not only required by trademark law to maintain valid and enforceable trademarks but also to maintain a client and consumer base and confidence. Quality is as important to marketing and maintaining a successful relationship of trust as it is to maintaining an enforceable trademark.

#### *4.4.3 Trademark Marking*

i) In most countries, trademark marking is not mandatory. In other words, it is not necessary for the owner of a trademark to indicate that words, designs or phrases are trademarks or that a trademark is registered or not, nor is it mandatory to indicate whether a mark is used under license or who the owner is. However, in certain jurisdictions, marking, or at least an indication that the mark is registered, is mandatory in order to maintain the viability of the trademark.

ii) Nevertheless, trademark marking is always strongly recommended whether it be by the owner or its licensee. An indication to the public that the word, phrase or design is being used as a trademark or that a trademark is registered is of benefit to the owner and the licensee. In fact, in some jurisdictions indicating who the owner of the mark is and the fact that the mark is being used under license leads to certain presumptions as to proper licensing in favour of the owner of the trademark when enforcing its trademark rights.

ii) Most trademark licenses require, or at least at the option of the licensor it may require, the licensee to place an indication or notice on the product, and/or in advertising and promotion, indicating a trademark has been used by either “®” or “™”, as applicable. In addition, most licenses require that the trademark licensee indicate that the mark is being used under license and as to who owns the trademark so that the licensee’s use attributes to the owner. To ensure that the licensee is performing the marking task appropriately, the licensor normally controls the form of the marking to be used and provides an example of the appropriate notice of ownership of the trademark to be used by the licensee when the mark is in use for wares or services.

#### *4.4.4 Maintenance of Trademark Rights*

i) Although, typically in trademark licenses the renewal and maintenance of trademarks is dealt with by the licensor, and it is the responsibility of the licensor to renew and maintain trademarks, there are occasions where the licensee is required or obligated to maintain trademark rights in certain territories. In many cases, this arises where there is an advantage in a country, territory or region to having a local business entity for renewing or dealing with trademark rights.

ii) In addition, the clause dealing with this issue normally deals with challenges to the trademark rights, either by way of third party cancellation proceedings or otherwise where the licensee is obligated to cooperate with the licensor in order to provide evidence of use and

other such evidence to defend against a challenge related to the validity of the trademark licensed under the license.

iii) Further, the licensee is usually required to acknowledge either by virtue of clauses in the preamble or otherwise that the trademarks licensed under the license are valid and enforceable and that the licensee agrees not to challenge the validity of any of the trademarks either directly or indirectly during the course of the license and thereafter. As mentioned with other provisions in the license, these kinds of provisions are sometimes seen as anticompetitive or in restraint of trade and, therefore, it is advisable to get the advice of local counsel as to whether such provisions are appropriate in the territory.

#### *4.4.5 Confidential Information*

i) Most licenses include confidential information clauses, particularly in the case of franchise agreements where the licensor is not only authorizing the licensee to use a trademark but is also disclosing business methods and operational secrets and know-how which have not been disclosed to the public and are not readily apparent to the public in the provision of the services at the franchise location. During the course of the license, the licensee is entitled to use that confidential information but is not entitled to disclose it to any third parties and, in some cases, even to employees that do not need to know. In fact, the licensor may require certain employees to whom the confidential information is disclosed, or may be disclosed, to sign confidentiality agreements directly with the licensor so that the licensor may enforce the terms of the confidentiality agreement directly against the employee if it chooses to do so. After the termination of the license the protection of confidential information becomes all the more important. The confidential information clause normally deals with the use of that information both during and after the termination of the license. In that regard, things such as operations manuals and other information and training materials provided to the licensee during the course of the license are required to be returned and any copies in any form have to be either returned or destroyed as well.

ii) The confidentiality clause will often also require that the licensee obtain confidentiality agreements from agents or contract workers that are employed or retained by the licensee and have access to the confidential information of the licensor as mentioned above. In many cases the licensor will wish the confidential agreement to be with it or at least to be a party to such an agreement so that it can enforce the terms in the event the licensee fails to do so.

iii) As is almost always the case, the determination of what is confidential information and what is not confidential information is a difficult task. Normally, the license provides for rules governing what information will be considered or deemed confidential and what will not. It also deals with exclusions or exceptions to confidential information, restrictions and/or situations where confidential information makes its way into the public domain other than through the licensee, its employees or contract workers.

### 4.5 Termination Issues

#### *4.5.1 Infringement*

There are two situations in which infringement can occur. The first is where the licensee and/or the licensor are sued by a third party who asserts that the trademark they are using in a particular territory is an infringement of its trademark. The second is where a third party is infringing the licensor's trademark and, therefore, infringing upon the rights of the licensee and the owner.

i) Infringing a Third Party Trademark

This situation arises where a licensor enters into a trademark license with a licensee, and the licensee commences use of the mark in its territory only to be threatened with a lawsuit by a third party. In this situation, the third party alleges that the trademark being used by the licensee pursuant to the grant of the licensor is an infringement of its trademark, which it has either registered or has been using prior to any use by the licensor or licensee of the licensed trademark in the territory. Most licenses provide for this event by indicating that the owner or licensor of the trademark will, in these situations, defend against and/or settle any third party claims relating to the licensed trademark. This provision may provide for some abatement of royalties or other amendments to the relationship if any settlement or other resolution results in a restriction of the rights granted to the licensee, or, in some cases, a change of the trademark or trademarks that are in fact licensed. In this regard, many licenses provide that the trademarks which are licensed may be amended from time to time even to the extent of changing all the trademarks originally licensed to new trademarks with no recompense or abatement to the licensee. The licensee should be wary of such clauses and make sure its rights and concerns are reflected in the license. In almost all of these cases, the defence and/or the settlement of the third party claim is the responsibility of the owner/licensor and in some cases both the licensor and the licensee jointly.

ii) Infringement by a Third Party

The license would provide for the procedure to be followed when the licensor or licensee becomes aware of a third party infringing the registered or unregistered trademark rights granted under the license. In some cases, the license is so restrictive that while the licensee is obligated to advise of such infringement if it comes to its attention, the licensor alone is entitled to take legal action or not to enforce the trademark rights. In these situations, the license usually provides that even if the licensor does not take legal action to enforce its trademark rights, there is no recourse for the licensee as against the licensor.

In the more usual situation, the license provides that the licensor is entitled to bring legal action against the infringer should it so choose. If the licensor does not take legal action or chooses not to take legal action, the licensee after a certain period of time, may take legal action against the infringer in its own right usually joining the licensor as a co-plaintiff. In these situations there is a reservation of right by the licensor enabling it to participate in the action and to control any settlement or other form of resolution.

Finally, in some instances, where the licensor is not willing to pursue legal action at all the issue of enforcement of the trademark rights is left solely to the licensee in the absence of an agreement to the contrary. These situations are unusual. Many trademark statutes throughout the world provide for the right of the licensee to sue for infringement in the absence of a license term to the contrary. Canada, for instance, is one of those countries. These provisions almost always deal with who pays legal costs, how costs are reimbursed or how any damage awards or profit awards are to be shared among the licensor and licensee. Also, provisions are often included to deal with royalty payments or reductions of royalty during the term of infringement litigation and thereafter.

#### *4.5.2 Assignment of Rights By Licensor or Licensee*

In most trademark licenses, the licensor is free to assign the rights and obligations under the license to any third party or affiliated or related companies that it wishes. There is normally no restriction in that regard placed on the licensor. It is, however, possible in certain situations, where the licensee has a very strong bargaining position, that assignment or transfer of the rights and obligations under the license will not be permitted without the prior

written consent of the licensee. However, most commonly, particularly in franchise situations, it is the licensee that is not permitted to assign its rights or obligations under the license, in whole or in part, without the prior written consent of the licensor. Certain exceptions are allowed where it was intended by the parties that the initial individual licensee will assign the license, such as franchise situations where an individual signs the original license with the expectation of incorporating a company and assigning the right and obligations under the license to that company. However, because of the very personal nature of licenses, the licensor is usually very concerned that the licensee it has selected, on the basis of the individual personality or the makeup of the principals of the company involved, remains obligated.

#### *4.5.3 Illness or Improper Management by the Licensee*

Since the selection of the appropriate licensee by a licensor in relation to the use of its trademark is a very personal endeavour, many licensors do not wish to allow a licensee the right to assign its rights and obligations under the license even in the case of illness, improper management or death of the licensee or principal of the licensee. In this regard, the license may contain very detailed provisions as to what will happen in the event that there is illness, improper management or death of a licensee or an important principal within the licensee company. These provisions usually allow for the licensor to set up a management team into the licensee's operation so as to allow the licensee to recover from illness or to improve or instruct the remaining management in the proper operation of the licensed operation. In the event of death, the license will sometimes provide for either a family member to take over the operation in certain circumstances or allow the licensor to seek out or approve, in advance, an appropriate new licensee to take over the license.

#### *4.5.4 Non-competition Clauses*

Non-competition clauses usually deal with two major issues, namely, the operation of a competitive business during the term of the license and the operation of a competitive business after the termination of the license.

During the term of the license, operating any business that may compete with the licensed business, either in terms of product or service or in terms of competing for the time of the principals of the licensed entity may be prohibited. Many licenses provide that the licensee if it is an individual or in the case of a corporate entity that certain individuals will devote a substantial amount of their time to the licensed business to the exclusion of all other business operations.

A non-compete clause may also restrict the licensee from operating a competitive business to that of the licensor or its licensees after the termination of the license. The restriction on the operation of a competitive business, or business which distributes competitive products, usually has a temporal and geographical restriction. In other words, the licensee is restricted in terms of where it can operate the competitive business and for what period of time it is restricted in this manner. In many jurisdictions, this kind of post-termination restriction on a former licensee is viewed as non-competitive and in restraint of trade and will not be enforced and may result in the imposition of severe penalties on the licensor. In other jurisdictions the reasonableness of the restrictions is the deciding factor as to their enforceability. It is a fine balance, protecting the rights of the licensor versus the right of the licensee or its individual principals to make a living after termination or expiration of the license.

#### *4.5.5 Non-Solicitation Clause*

During the course of the license, the non-solicitation clause is usually concerned with licensees trying to lure employees from either the licensor or other licensees. In other words, they are seeking to obtain business expertise from the licensor or another licensee by offering them a position with their business operation. The clause normally restricts that kind of employee poaching but, in many cases, the restriction is expanded to include a restriction on the employment of contract employees of licensees or licensors as well. After termination of the license, the non-solicitation clause usually continues the restriction on the poaching of employees or contract employees from the licensor or other licensees and also places restrictions on the former licensee in terms of customer lists and approaching former customers of the licensee or the licensor which existed during the term of the license. This clause is particularly important where non-competition clauses are unenforceable or unavailable, as the former licensee may immediately set-up a competitive business to that of the licensor or its licensees by poaching skilled employees or contract workers from the licensor or other former licensees.

#### *4.5.6 Covenantor and Guarantor Provisions*

These provisions are normally needed in licenses where the licensee is essentially an individual or where the corporate entity has virtually no assets. This most often occurs in franchise situations but may also occur in normal trademark license situations. In situations where the licensor is concerned about the financial ability of the licensee, it will ask for a guarantor or covenantor who will agree to be bound by the terms and conditions of the license and be individually responsible for the financial and the operational requirements of the license. In most cases, in the event of any breach by the licensee of the provisions and obligations under the license the licensor is free to take legal action for enforcement either against the licensee or the covenantor or guarantor, or both as the licensor sees fit. In a sense, this is a safety net for the licensor to make sure that it recoups its investment in the licensee and is assured, at least to some extent, that it will at least recoup its financial entitlement under the license.

#### *4.5.7 Insurance Clauses*

Insurance clauses are included in trademark licenses to protect the licensor in the event that the goods and/or services provided by the licensee are defective or that the licensee will incur some kind of liability for which the licensor may be found to be wholly or partially responsible. The insurance provisions of the license provide that the licensee will obtain insurance of certain kinds to protect both the licensee and the licensor against third party claims under product liability, business interruption or other insurance situations. In addition, in some cases, the licensor requires the licensee to obtain business interruption insurance so that in the event that the licensee's business is interrupted, for whatever reason, the licensor will still be entitled to a steady stream of income during the interrupted period. The liability insurance is normally obtained on a per occurrence basis with a total aggregate monetary amount which reflects the possible or expected claims under the license in issue. The total insured amount may be substantial depending on the risk involved in the provision of the products or services.

The clause normally provides that the licensee will obtain the insurance from an entity which is approved by the licensor, will maintain the insurance and that the licensor will be provided with a copy of the policy or proof of insurance to ensure that the licensor is properly covered under the policy. The licensor will also usually require that the licensee and the insurer provide notice to it in the event that the insurance is cancelled, coverage is reduced, or the premium is not paid. Insurance protection is normally required in addition to indemnification clauses. The reason for this is that although most indemnity clauses provide for total

indemnity of the licensor, it must be remembered that an indemnity is only as good as the person or entity standing behind it. If the person or entity has no assets, it is worthless. An insurance clause backing up an indemnity clause is just good business practice. Insurance clauses guard against the possibility that the licensee will not be able to make good on any indemnity it may have given the licensor in the context of the license.

#### *4.5.8 Indemnity Clauses*

Indemnity clauses are designed to provide an indemnification from the licensee or its guarantor(s) in the event that the licensor is somehow held liable for product liability claims, or some other insurance claim brought against both the licensee and the licensor or just the licensor, which results from the license.

As the obligation in an indemnity clause can be both corporate and personal in regards to principal members of the legal entity which is the licensee, the drafting of the clause should be reviewed to insure that the licensee is not exposing himself to obligations which are not warranted under the license. Essentially, an indemnification is an obligation on the licensee or the principals of the licensee to reimburse the licensor for any damages or other payments which may result from the actions or other activities of the licensee in the performance or failure to perform under the license or as a result of some liability incurred by the licensee for which the licensor becomes wholly or partially responsible.

#### *4.5.9 Licensee Manufacturer Agreement*

In most licenses, there are provisions made for the control by the licensor, either directly or indirectly, of manufacturing arrangements made by the licensee. In many cases, the licensee is not in a position to manufacture some, or all, of the products which are licensed to it under the trademark license. In those situations, the licensee seeks out manufacturing facilities of third parties to manufacture and produce the licensed product in accordance with the quality control standards of the licensor or third party service providers to provide some of the services licensed. If the licensee intends to proceed in this fashion, a clause allowing him to sublicense out the manufacturing of some or all of the licensed product, or for that matter licensed services, is normally set out in the license. Care should be taken to include such a clause, as the right to sublicense to the manufacturer the whole or part of a product or the provision of services in association with the trademark is usually not inferred but must be specifically given. In many cases, the licensor will wish to be a party to the sublicensing agreement to the manufacture, or at least have a right to step into the position of the licensee should the licensee be terminated. At the very least, the licensor normally wishes to review and approve any sublicense or service agreement and have some right to control the sublicensed manufacturer's activities with regard to the trademarks during the term of the license and thereafter.

#### *4.5.10 Best Efforts Clause*

Licensors are best served by licensees who will work diligently to produce and maximize the sale of the product bearing the trademark or to provide services in association with trademarks so that they will maximize royalties paid. This often requires a best efforts clause. This kind of clause is included within the license to impose an obligation of diligence on the licensee so that the licensor can maximize the return on the license. In many countries, the best efforts clause included within a license is very onerous on a licensee, in that such an obligation imposes on a licensee the obligation to do everything within its power to maximize its performance under the license. This type of clause, because of its possibly onerous nature in terms of time expected to be spent in the operation of the business on a daily basis, restrictions on other business activities, should be of concern to a licensee. The

licensee should be sure to have its legal counsel evaluate and provide the licensee with the necessary fine tuning of its obligations under such a clause.

## 4.6 Commercial and Financial Considerations

### *4.6.1 Payments and Royalties*

The licensee is under an obligation to provide a valid consideration in return for the right to use a trademark. The nature and amount of that consideration varies greatly from license to license. In some cases, where the trademark license results from litigation between the parties, or otherwise, the consideration for the license may not take the form of money *per se*, but rather cross-licensing or access to certain markets and outlets or simply the resolution of the litigation and sell off of offending inventory. However, typically a trademark license provides for royalties, lump sum payments, upfront fees or one or more of the above. Therefore, the payment and royalty provision of the license deals with the nature of the payment to be made by the licensee to the licensor, together with the criteria for its calculation, timing, keeping of accounts and records, reporting and so forth.

### *4.6.2 Lump Sum Payments*

These can take the form of fully paid up license, where a lump sum is agreed to and paid at the time the license right is being granted. Lump sum payment may also be spread, periodically, over the term of the license. In these cases, usually the volume of sales or profit of the licensee is not relevant to the lump sum price paid; rather the parties come to an agreement as to a fair rate for the license right and the manner or timing for the payment of that agreed upon sum.

### *4.6.3 Royalties*

The most usual type of consideration is to provide for some sort of upfront fee as well as an ongoing royalty payment based on sales. In some cases an upfront fee is paid but is credited against royalties. In other words, the licensee may pay a predetermined amount to the licensor at the commencement of the license or on anniversary dates of the license against which royalties are credited until that prepaid sum is used up. Once royalties to be paid exceed the upfront fee, then the royalty payments are paid on a monthly, quarterly or some other periodic payment basis to the licensor. The amount of the royalty, in terms of percentage, may vary from product to product, service to service and industry to industry. The royalty is usually calculated on a defined "base" rate. In some cases, this might be net profit, net sales, gross profit or gross sales. What the base amount is called is not really all that important; however, how that base amount is defined is of great importance to the licensor and the licensee because the royalty percentage is then applied to that base amount. Therefore, great care should be taken to make sure that the definition of the base amount is acceptable to both parties.

There are certainly other ways of determining royalty rates. In some cases, there is a per unit royalty charge no matter what the cost, sale price or profit of each product unit sold. In other words, a fixed sum is charged for each unit sold bearing the trademark. In many cases, however, this is unsatisfactory because if the price of the product goes down the licensee is not happy, because it is still paying the same royalty rate despite lower profits. On the other hand, if the price of the product bearing the trademark goes up then the licensor feels that the licensee is making an unfair profit on the licensed trademark in which it is not sharing.

Therefore, the determination of how much, how often and how the royalty is calculated is usually the subject of intense negotiation. Clearly, if the trademark in issue is a famous or well-known mark, negotiations in any real sense would be fairly limited as the licensor can and usually does dictate its lump sum upfront fee and royalty rate. However, if a trademark is relatively unknown, either because of the territory it is to be marketed in or because it is a new trademark, the negotiation between the licensor and licensee may be more intense. In that regard, royalties can be very flexible such that the royalty percentage rate can fluctuate with the quantity of sales. Where a licensee sells a limited number of products at a high price, the royalty rate percentage may be quite high. However, as the licensee reaches certain thresholds of sales, the royalty rate percentage may drop, thus encouraging the licensee to market and sell more and more products to take advantage of this lower royalty rate incentive. On occasion, where the license involves a new product that has just entered the market, the licensor, realizing that the licensee has had to expend considerable sums in the initial start-up of its business and promotion of the licensed product, may allow a lower royalty rate early on in the license, which then increases as the success of the licensee's marketing and advertising efforts are realized. Royalty rates starting at a low percentage to a certain threshold and then rising as more and more sales are made allows the licensor to benefit from the success of the licensee, while the licensee also profits, at the same time assisting the licensee at its early start-up phase.

The flexibility of the financial provisions of a trademark license is virtually limitless. With the computer age, they can be flexed to deal with demographic changes, market fluctuations, start-up costs, cost of raw materials, taxes and a whole multitude of other factors so that both the licensor and the licensee benefit fairly from the use of the trademark and their respective efforts.

#### *4.6.4 The Rate of Royalties*

Although there are many studies and other informational materials available as to the appropriate royalty rates in certain industries and for certain products and services, there is and can be no one size fits all kind of formula for calculation of royalty rates payable. As with the negotiation of the license the negotiation that surrounds the appropriate royalty rate depends on numerous factors including the relative bargaining strength of the licensor and the licensee, profit potential, the size of the territory, how well the trademark is known, the competitive situation in the marketplace relating to the products or services involved. There is, in reality, a never ending list of factors that would or could be taken into account to determine the proper royalty rate for a trademark in a given situation.

#### *4.6.5 The Royalty Base*

The base amount upon which the royalty rate is calculated is, as indicated earlier, is another area of intense negotiation. Whether it be called gross sales, gross profits, net sales or net profits or some other expression, the base amount is calculated in accordance with the definition included in the definition section or in the royalty section itself. The base amount can be as simple as being equal to the total sales of product or services in any given period or complicated to the point where what is excluded from the calculation of the base royalty amount is quite lengthy.

#### *4.6.6 Minimum and Maximum Royalties*

Although minimum and maximum royalties are most often found in exclusive licenses, they may also be included within sole license or even non-exclusive licenses. While it is hoped that the licensee will always make its "best efforts" to maximize sales of the licensed product or service, this is not always the case. Even by setting a minimum sales amount in license, the result might be that the licensee merely pays the minimum amount and maintains the

license arrangement on that basis, and, thereby excludes others. Normally, when one has a minimum royalty amount there is a penalty in terms of the possible loss of exclusivity or territorial size or termination and so forth, where actual sales are not increasing or only the minimum royalty amounts are being paid. Also, in many licenses, where the licensor wants to encourage the licensee to sell more products or provide more services, a maximum royalty provision is provided so that once the licensee reaches that sales level there are no further royalties payable for that year. This is obviously an excellent incentive but should be combined with minimum royalty provisions and penalties so that the licensee does not simply maintain its licensed position without necessity of performance. Why would a licensee not perform to its maximum? Again, there are many different reasons. A licensee may not have the time or financial ability to deal with its license rights at a certain point in time but by paying the minimum royalty can maintain its rights for the future. A licensee may acquire the rights to sell a competitive product with a better return on investment. The licensee therefore sells that competitive product while at the same time controlling its competition by not working the original license which is not as profitable. The licensee, therefore, pays the minimum and keeps the licensors product or service out of its territory while maximizing its profits under the other license(s).

The provisions of the royalty section would also deal with when royalties are to be paid, the penalty for not paying royalties on time, the issue of withholding taxes in foreign jurisdiction where there are restrictions on the payment out of monies from the country, interest on outstanding payments as well as the method of payment. In many licenses, the royalties are paid into a trust account at a financial institution which is only accessible to the licensor or it could be as simple as a monthly cheque or bank wire transfer to the licensor.

#### *4.6.7 Reporting and Auditing*

This section will usually deal with the keeping of records and accounts by the licensee so that the licensor can audit or check on the accuracy of the calculations, which form the basis of the royalty payment. Almost all royalty provisions provide for some sort of audit provision for that purpose. It is usual to have a requirement that the licensee maintain accurate records in accordance with normal accounting procedures as well as where those records should be kept for easy access by the licensor both before and after the expiry of the license. The licensor normally also provides for the form and content of the reporting document as to royalties so that they can make a calculation and determine for themselves the accuracy and the performance of the licensee, on a month to month basis or a quarterly basis or some other period of time, as agreed to by the parties to the license.

As may be seen from the above, the calculation and creation of the royalty provision is often a complicated process. Royalties or payment for the use of the trademark is a very important element of a trademark license. Having said that, there are no definitive rules as to how or on what basis the royalty provisions should be drafted. In other words, the parties are left to their own devices as to how creative they wish to be with the royalty provision in terms of calculation, rate, payment schedule, auditing, reporting, record keeping, penalties, interest, and so forth.

#### *4.6.8 Most Favored Licensee*

These clauses are usually found in the royalty section of non-exclusive licenses. It is the method by which the licensee guards against the granting of more favorable conditions by a licensor to another licensee. There is no requirement on a licensor to grant the identical

terms and conditions to each licensee with which it deals.<sup>18</sup> The terms and conditions of non-exclusive licenses may be very greatly from one license to another. Therefore, it is not unusual for the licensee to request that a provision be included restricting the licensor from granting a more favourable license to another licensee that is not also offered to the licensee in issue. The provision often includes a requirement that the licensee is automatically entitled to the better terms and conditions offered to the other licensee from the time the better terms and conditions are granted by the licensor. In many cases, the provision also provides for a retroactive effect of the more beneficial provisions to existing licensees.

#### 4.7 General Issues

Clauses of this nature are often criticized or belittled as being unimportant. They are, in fact, very necessary to the proper interpretation and enforcement of the license. Without properly worded general or boiler plate clauses, it would very difficult, if not impossible, to properly interpret a trademark license.

##### *4.7.1 No Joint Venture*

This clause normally states quite simply that the parties are contracting parties to a license and that the license is not to be interpreted as a joint venture agreement, agency or any other kind of special relationship other than a contractual relationship. Obviously, when joint ventures, partnerships or other relationships are brought into the picture a determination by the court may be effected as there are certain implied or other terms which would affect interpretation if the parties were seen to be joint venture partners, part of a partnership or other corporate strategy. This provision normally also provides very clearly that neither the licensor or nor the licensee have the authority or ability to bind one another in terms of contractual obligations to third parties. Further, it provides that the licensee is, but for the terms of the license, an independent contractor or independent of the licensor but for the license terms.

##### *4.7.2 Service of Legal or Alternative Dispute Resolution Proceedings*

This clause relates to situations where the parties wish to initiate legal or other action within the context of the agreement, or as a result of any termination or alleged termination of the license. Essentially, the clause provides for a more streamlined service of documents in a formal or alternative dispute resolution process. This clause allows the parties to act outside of the rules of any given court or alternative dispute resolution rules to allow for simplified service of documentation, in accordance with the notice provision of the license, which would be less expensive and more expeditious.

##### *4.7.3 Notice Provisions*

This provision provides for the service of notices or documents as provided within the license. In that regard, this clause governs notices concerning breaches of the license as between the parties, delivery of samples or specimens for quality control purposes, audits of royalties, accounting records, and so forth, which require notices to be sent by one party or the other or both. The notice provision indicates how those notices are to be sent in order to effect proper notice, as required under the license. Usually, the notice provision provides for service of documents either by registered mail, e-mail and/or fax, together with an indication of when that service will be deemed effective, so that a calculation of the relevant notice period contained in any of the provisions of the license can be made. Failure to comply with

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<sup>18</sup> The only exception to this rule might be in franchise situations where disclosure requirements and so forth required by statute make it almost impossible for a franchisor not to charge the same or very similar rate or have all franchisees subject to the same terms and conditions throughout the system.

notice provision may result in the notice either being out of time or unenforceable, in view of the fact that the service was not affected in accordance with the notice provision. In particular situations, it could result in a license not being terminated when one expected it to be terminated and, thereby, resulting in further payments being required or other costly obligations incurred.

#### *4.7.4 Variation, Alternation and Amendment*

This provision with respect to variation or alteration relates to the ability to unilaterally amend the license after it is executed. In many cases, trademark licenses allow, from time to time, for the unilateral amendment or changes of different aspects of the license such as schedules, instructional manuals as well as quality control specifications from time to time. In some cases, it even allows for the licensor to change the trademark licensed under the license. This unilateral right to amend is usually within the control of the licensor only. That being said, there is also usually a standard or general clause in the license which prohibits the amendment, variation or alteration of the license after execution without the mutual agreement of the parties to the license. In other words, the reference to the unilateral right of the licensor to amend is usually embedded in the license and is, therefore, not affected by the clause which deals with subsequent variation and alteration. Usually, however, subsequent to the execution of the license any variation, amendment or alteration of the license must be agreed to by the parties in writing so that there is a memorialization of the change to the license.

#### *4.7.5 Waiver*

Where either party fails to comply with a certain provision or obligation under the license or is in breach of some kind, the failure of the other party to object to it is therefore a waiver of that breach or failure. However, this does not prejudice that party's right to object to the same breach or failure to comply at a later date. That is, it does not mean that once a licensor or licensee agrees to let a breach or failure to comply go without objection that they are later prevented from objecting to the same or similar breach or default. In other words, each breach or default is treated separately and can be waived by the party not in breach without concern that it will be seen as a binding precedent.

#### *4.7.6 Severance*

This provision is included within trademark licenses, as well as in other general agreements, in order to provide for the deletion from the license of clauses or subsections or even certain wording within the license that may subsequently, by virtue of statutory change, regulatory change or judge made law, be seen as offensive to the law or unenforceable. The provision allows the parties to sever the objectionable portion from the license, while saving the rest of the license, or even the section or provision in which the objectionable material appears. In some licenses, the parties in fact agree that the provision, if it cannot be saved as written, can be rewritten to comply with the new law or regulation that has come into effect. An example would be licenses which would include non-competition clauses, which in some countries are viable and enforceable while in others are not. In many cases, licensors will use the same license in different territories oblivious to the fact that there are legal differences in terms of anticompetitive acts between the different territories. This provision would allow for the severance, deletion or ignoring of the objectionable clause or wording, while still allowing the remainder of the license to be enforceable and effective.

#### *4.7.7 Inurement Clause*

i) This clause usually allows for the successor(s) of the respective parties to the license to take over the original contract and enjoy the rights and be bound by the obligations set out

in that contract. The doctrine of privacy of contract would normally preclude such an occurrence; however, by including an inurement clause, the parties agree in the license itself that the heirs, executors, administrators, successors, assigns of the respective parties will be entitled to carry on under the license on behalf of the predecessor, which was a party to the license.

ii) When drafting this clause, the issues that one might consider are whether all or which portions of the license shall carry on with the successors and the assigns and which portions should not. In some cases, there are personal obligations within the license that cannot obviously be carried forward as the original party ceases to be. The parties may also want to consider which classifications of people should be able to benefit from the Inurement Clause and which ones should be excluded and what, if any, further conditions should be requested of the successor or assignee in order to take over the rights and obligations under the license.

#### *4.7.8 Entire Agreement Clause*

This clause provides that only those terms and conditions specifically stated in the license are binding on the parties. The parties could, of course, provide for exceptions whereby certain prior agreements or obligations, which the parties have entered into, can be agreed to be binding and affect the new license and its interpretation and effect. In addition, in some cases, the Entire Agreement Clause will negate any implied warranties or other warranties other than the statutory ones that cannot be excluded by agreement.

#### *4.7.9 Language*

Although, in most licenses, the issue of what language is used is not a problem for the parties, that is not true of all licenses or agreements. In fact, in some countries, or regions of countries, license or agreement may not be enforceable unless there is version of it in the local language of that country or region. For example, in Canada in the province of Quebec an agreement or license may be unenforceable at the discretion of Quebec resident unless it is drafted in the French language, or there is an express statement in both English and French that the parties wish the license or agreement to be drafted in another language. Moreover, some jurisdictions will require that only the version of the license or agreement in a certain langue is the official version.

#### *4.7.10 Attached Schedules*

This clause normally provides that the schedules referred to in the license, and attached to it, form part of the license as a whole. The importance of this is that the parties should be conscious of the fact that terms and conditions that bind them may appear in both the license itself and in the schedules to it. In addition, where the license provides, as indicated earlier, that one party may unilaterally change the form and content of the schedules from time to time, the importance of this clause cannot be underestimated.

#### *4.7.11 Time of the Essence*

In some jurisdictions, statutory law and/or case law have created an implied term that all agreements are subject to time being of the essence. In other words, the performance of the license by the parties shall be done in a timely fashion. It is always good drafting practice to stipulate that "time shall be of the essence" in performing the obligations set out in the agreement to avoid the possibility that such an obligation is not implied. This performance incentive will also insure timely payment of monies owed under the license.

#### 4.7.12 *Headings and Preamble*

As with the prior provision relating to schedules and attachments, this provision normally recites the fact that the Preamble, Headings and/or the Recitals will or will not form part of the license for the purposes of interpretation and effect. Therefore, the Preamble should not be viewed as only a story as to how the parties came to make the agreement but, in fact, may be enforceable as admissions as between the parties. In addition, Headings which separate the different provisions within the license may also be important in not only distinguishing one section from the other but also in the interpretation of the meaning of the paragraphs, which follow them.

#### 4.7.13 *Trade-name*

The parties to a license often permit the licensee and/or sub-licensee to use one or more of the trademarks which are licensed under the trademark license in their trade-name or corporate name. Unfortunately, in order to change those trade or corporate names, subsequent to termination of the licensee usually requires some positive act, either by way of resolution of the company or the signing of documentation to be filed with a government agency requesting that a change or cancellation of the trade or corporate name be made. Often, when a licensee is terminated, or not renewed, the licensee is not willing to cooperate by executing such documents or passing such resolutions. To deal with these types of situations, it is normally prudent to include a clause whereby an officer or named individual within the licensor is entitled to act as a power of attorney on behalf of the licensee to execute or effect the creation of such documentation, as are necessary, to change the name of the licensee or to delete the relevant trademarks.

Even when the licensee is cooperative in this regard, the license should include a clause that both survives the termination of the license and requires the licensee to make the name change within a specific period of time, such that the trade or corporate name does not include any of the trademarks licensed or any similar trademark or name.

#### 4.7.14 *Return of Materials*

Not surprisingly, trademark licenses often provide for the immediate return, upon termination, of manuals or other confidential or sensitive information provided by the licensor. The licensor would have provided this kind of information so that all licensees have the same basic understanding of the rights and obligations under the license and/or how to provide the highest quality services and product. These documents may deal with quality control or other aspects of the business operation. Upon termination, the licensor requests the return of original documentation as well as any copies, notes or electronic versions of the materials provided by it at any time. The use of this material, even if not returned, would be governed by the confidentiality provision of the license as well.

#### 4.7.15 *Enforcement of Termination*

Most licenses provide that in the event that the licensee continues to sell the product or provide services in association with the trademarks after termination, the licensor shall be entitled to immediate legal relief. Normally, the provision provides that the licensor is entitled to an immediate injunction against the former licensee without the need to prove irreparable harm or any other prerequisite to an injunction. Further, the wording of this provision will provide that the exercise of the right of injunctive relief under this provision does not prevent the licensor from taking further and other legal and equitable action against the licensee for its unauthorized use, breach of the license and so forth. As well, this provision may also provide that during the termination process the licensor is entitled to seek out a new licensee

without concern as to legal action by the existing licensee that is being terminated or whose license rights are expiring.

#### *4.7.16 Change of Control*

While the financial and business ability of the licensee is important to the licensor, there are other more subjective reasons which normally determine whether an entity which is interested in licensing actually obtains a license. The last thing that a licensor would wish is to have its confidential business practices and know how fall into the hands of a competitor or someone beyond the control of the licensor, merely by a change of control or ownership of the company. Therefore, licensors normally include a provision within the license, which allows for the termination of the license in the event of any change of control or other change of ownership of the licensee. In other words, the licensor is able to dictate to the licensee who will own and control the licensee during the life of the license.

#### *4.7.17 Additional Documents*

Although, the license will have attached to it as schedules the form of documents that will be necessary to be executed at the time of the execution of the trademark license, or other necessary documents will be provided at the closing of the deal, this is not always the case. Therefore, there is usually a clause within the license that requires the parties to the license to execute any additional documents, or for that matter, perform any additional acts, which are contemplated or required in order to effect the terms and conditions of the license. In many trademark licenses, these acts or clauses are called the Further Assurances or Further Assurance Clauses, which obligates the parties to do those further acts and effect those additional documents as may be needed from time to time during the term of the license.

#### *4.7.18 Force Majeure Clause*

This clause, which is sometimes called the Impossibility of Performance or Uncontrollable Circumstance Clause, usually provides that the parties will be relieved of their obligations to perform under the license if it is impossible to do so because of unforeseen and uncontrollable circumstances, such as fires, wars, floods, labour disruption, government intervention, terrorist acts, and so forth. It is important when drafting this clause to indicate time limits and so forth for suspension and what the effects of that suspension are. Clearly, labour disruptions do resolve themselves, fires are put out, and buildings are rebuilt. Therefore, there may be provisions which allow for a brief cessation of the license but not for the termination of the obligations under the license. Insurance provisions within the agreement may also provide for business interruption insurance from which the licensor may be paid in such circumstances. This clause may also provide that if the disruption carries on for a certain period of time, either one or both parties may have the right to terminate the obligations under the license.

#### *4.7.19 Disclosure of a License*

In most cases, neither party wishes the terms and conditions of the license to become public information. In this regard, the licensor and/or the licensee may require that press releases or any other public information relating to the license or the relationship between the licensor and the licensee be approved by both parties prior to their release. In addition, the licensee, or the licensor, if it is a public company, may be subject to certain governmental restrictions in terms of securities requirements, and, therefore, the license should provide that all announcements that may affect stocks and share value must be approved by the other party.

#### 4.7.20 *Recordal and Government Approval*

Many countries require a license to be submitted to a public authority for approval or simply for recordal in order to validly or properly use a trademark within a territory. Failure to comply with recordal requirements may result in the trademark or trademarks becoming invalid or unenforceable as well as provide for penalties for the licensor and the licensee. There may also be obligations to apply for and register the licensed marks in the territory before the license rights can be put into effect or even before the license can be formally executed. All of this should be checked out by the licensing professional or local counsel who has been retained in the territory of interest.

#### 4.7.21 *Restrictions as to Import and Export of Certain Goods*

Depending on the subject matter of materials licensed, and even where services are involved, there may be restrictions in terms of the transfer of information, technology, materials, products and so forth as between certain countries or territories of the world. In this regard, some of the more prevalent restrictions are in terms of technology, data, weapons, computers and so forth. However, as between some countries, there are restrictions which go far beyond technology, data, weapons and computer products. When expanding licensing operations, no matter what the product, care should be taken to check with local counsel in the licensor's and licensee's jurisdiction to ensure that both the products and services that are being licensed as well as the information and data that is being exchanged between the licensor and licensee does not run afoul of local legislation or regulation in either country. In certain circumstances, where there are restrictions on goods or services it may be as simple as obtaining a licence or permit in order to allow for the free flow of materials and information. Again, local counsel or your local licensing expert should be well aware of those requirements.

#### 4.7.22 *Compliance with Laws and Regulations*

Normally, all licenses provide that there is an obligation on, at least, the licensee to comply with all local, national and municipal laws and regulations when carrying out its obligations under the license. Although, this would seem to be an implicit term of every license, including this provision will ensure that the licensee will by contract be required to obtain all the necessary government permits, licences and approvals necessary to operate the business and fulfill the license obligations under the license. Although this seems a simple clause it is certainly an important one to ensure that the licensor will not ultimately be held responsible for the licensee's ignorance or failure to comply with these requirements.

#### 4.7.23 *Shareholder Liability*

Although, not a usual clause in a license there are situations where a sole shareholder or major shareholders of a corporation wish to avoid liability should a license fail. In many cases, the shareholders are well advised to include a paragraph within the license, indicating that in the event that the license is terminated, for cause or otherwise, that there is no personal liability on behalf of the shareholders and that the parties to the license will not seek any redress from them. Absent this clause, there is a possibility that one of the parties to a frustrated or terminated license may wish to pierce the corporate veil and try to get at the finances or assets of a shareholder(s) of a corporation, which is a party to the trademark license.

#### 4.7.24 *Legal Rights of Redress are Cumulative*

By this provision, it is provided that in the event that either party to an agreement takes advantage of certain procedural rights in order to enforce any particular provisions of the

agreement, or compliance with provisions of the license, that that does not preclude them from seeking further legal, equitable or any other relief that may be available to them subsequently. This situation usually arises where immediate injunctive relief is sought and obtained against a terminated licensee who sells or continues to sell an unauthorized product or provide an unauthorized service in association with the same or similar trademarks. Once the licensor has obtained that injunction, it may then decide to take further legal action for infringement, passing off, damages, profits and otherwise. In this situation, this clause precludes the licensee from raising a defence that the original injunction was exhaustive of the rights that the licensor could assert under or as a result of the breach of the license.

#### 4.7.25 *Telephone, Fax Number, Domain Name and Signage*

Trademark licenses, and particularly franchise agreements relating to services, usually provide for the acquisition by the licensor of any telephone numbers, fax numbers, domain names, signage, e-mail addresses and so forth that have been used by the licensee or franchisee particularly, where they include any of the licensed trademarks within them. In Canada, for instance, the Courts have found that telephone numbers are capable of being registered as trademarks. Each of these items have goodwill which is usually important to the licensor. In many cases, the licensor is appointed in the context of the license as the power of attorney to ensure the transferring of those rights and the execution of the necessary documents for transferring those rights to the licensor.

#### 4.7.26 *Licenses May be Executed in Counter-parts*

It is often the case that licenses are executed in counter-parts. Modern business situations do not always allow that the parties executing the license will sit across the table or sign the license in the same room. Therefore, most licenses provide that each party to the license may sign separate copies of the license and, provided all parties have signed a copy of the license, the license is binding on the parties. Normally, at some stage at least one copy of the license is circulated to all parties for their original execution. However, this may not take place at the time of either the original execution of the licenses or the licensee putting into effect the rights that it has acquired.

#### 4.7.27 *Execution Section*

Although in many countries the execution of a license is a fairly simple procedure, which only requires the parties to sign and date the license, in some jurisdictions a more formal procedure must be followed including notarization, legalization and other formalities. Failure to comply with those requirements may result in an invalid or unenforceable license. Further, in terms of the companies executing the license there may be requirements under a particular company's specific bylaws as to how many persons must sign the license on behalf of the company or for a special resolution of the Board of Directors in order to make it binding.

#### 4.7.28 *Licensing of the Trademark as a Corporate or Trade Name*

As dealt with briefly above, a licensee, in addition to trademark use, may wish to use the licensed trademark as part of its corporate, partnership or business name. In some countries, such as Canada at one time, even such licensed use could lead to the invalidity of the trademark at issue. In addition, on termination of the license, it can often be difficult for the trademark owner to force the licensee to change its corporate, partnership or business name to delete the trademark. Therefore, licenses often provide that the licensee was not permitted to use the licensed trademark as part its corporate, partnership or business name. In Canada a statutory amendment to the *Trade-marks Act* was needed to deal with this situation and avoid the negative consequences of use of a trademark by a licensee in their

trade or business name. Now licensed, use, advertisement or display of the trademark by a licensee, as or in a *trademark, trade name or otherwise* is deemed always to have had, the same effect as use, advertisement or display of the trademark by the owner. Thus, the use of a trademark by a licensee as part of its corporate, partnership or business name will not invalidate the trademark. However, the problems associated with forcing a terminated licensee to change its corporate, partnership or trade-name remains and should be specifically dealt with in any license. For instances, in most countries changing the corporate, partnership or business name requires a positive act by a representative of the licensee. If the licensee is uncooperative or bankrupt it is not likely they will make the request to change the name to delete the trademark in issue. In some licenses the trademark owner provides that the licensee appoints an officer of the licensee as its power of attorney for the specific purpose of changing the business name. Added problems arise in the internet area as licensees incorporate trademarks in domain names and e-mail addresses owned by them. Again, care should be taken to deal with such use and the cessation of such use upon the termination or expiration of the license. The power of attorney procedure referred to above may be a useful method of dealing with those issues as well.

#### 4.7.28 *Conclusion*

Improper drafting may result not only in the owner losing control of its trademark with regard to its licensee but, in a trademark becoming “non-distinctive” and its registration becoming invalid and, therefore, unenforceable. Therefore it is important that such licenses are drafted and entered into with care and with proper professional advice.

## CHAPTER FIVE: SOME SPECIFIC ISSUES

### 5.1 Antitrust Compliance

The issue arises when within a licensing relationship the licensor obliges the licensee to purchase certain goods and/or services from the licensor as a condition precedent for having the right to use the trademark. As the goods are not part of the license as such the obligation to purchase them could run afoul of antitrust laws. However, in most instances, the licensor is able to justify this requirement on the basis that it is responsible for maintaining the quality of the goods being made available for sale under its trademark and must, therefore, have a control on the ingredients or other components that go into that product or service process.

### 5.2 Internet Licensing

From a trade-mark point of view, the licensing of a trademark for use in a domain name is not too different from trademark licensing generally. While third parties can and do register domain names including other parties' trademarks, there are several procedures for stopping that activity, some controlled by the domain name registrars throughout the world and some by use of the courts through infringement and passing off actions if the illegal domain name including the trademark is put into active use.

### 5.3 Bankruptcy Issues

Each country, and individual territories, provinces and states within each country may have differing bankruptcy laws and regulations as to how trademark or franchise agreements and licenses will be treated. In some jurisdictions a bankruptcy may result in the automatic termination of any license or agreement. In other countries, there are stages of bankruptcy such as a bankruptcy protection stage where a company could attempt to reorganize in order to avoid bankruptcy per se by selling off unprofitable divisions, firing employees, renegotiation agreements or licenses etc. Under some systems, the trustee in bankruptcy is entitled to pick and choose as between the licenses or agreements it wishes to maintain or terminate. Both the licensor and licensee should understand the local bankruptcy laws and regulations of the countries provinces, territories or states in which they license to see what benefits, options or downsides one might experience if bankruptcy of one of the parties occurs during the term of the license or agreement.

### 5.4 Licensing of Collective/Certification Marks

With regard to these less well-known trademark rights, the particular characteristics' methods and rules for the licensing of collective and certification trademarks will vary from country to country. In some countries, certification and collective marks can be licensed by the overseeing organizations to individuals or companies who comply with certain quality standards, manufacturing techniques, product content and so forth as set by the particular collective or certifying agency.

In many cases, the collective or certifying agency cannot use the mark itself for the products or services that are certified but can only license other entities who apply and meet the standards set by the collective or certifying agency. Local legal advice is also a must in these specialty areas.

## ANNEX ONE: GLOSSARY

### Intellectual Property Rights

- a) Intellectual property refers to creations of the mind: inventions, literary and artistic works, and symbols, names, and images used in commerce. It is divided into two categories: industrial property which includes patents for inventions, trademarks, industrial designs and geographical indications and copyright which includes literary works such as novels, poems and plays, films, musical works, artistic works such as drawings, paintings, photographs and sculptures, and architectural designs. Rights related to copyright include those of performing artists in their performances, producers of phonograms, and those of broadcasters in their radio and television programs.
- b) While the intellectual property laws of most countries are moving towards greater harmonization, they remain national (or regional depending on whether a group of countries have agreed to such a regional intellectual property law) laws having effect only within the territorial boundaries of the country or the region, as the case may be. Therefore, an intellectual property right obtained within a jurisdiction is usually only valid and enforceable in that jurisdiction.

### Patents

- a) A patent is an exclusive right granted for an invention, whether a product or a process, which must be industrially applicable (useful), be new (novel) and exhibit a sufficient “inventive step” (be non-obvious). A patent provides protection for the invention to the owner of the patent. The protection is granted for a limited period, generally 20 years from the filing date.
- b) Patent protection means that the owner of a patent has the exclusive right to prevent others from making, using, offering for sale, selling or importing the invention. These patent rights are usually enforced in a court, which, in most systems, holds the authority to stop patent infringement. Conversely, a court can also declare a patent valid or invalid upon a successful challenge by a third party.
- c) A patent owner has the right to decide who may – or may not –use the patented invention for the period in which the invention is protected. The patent owner may give permission to, or license, other parties to use the invention on mutually agreed terms. The owner may also sell the right to the invention to someone else, who will then become the new owner of the patent. Once a patent expires, the protection ends, and an invention enters the public domain, that is, the owner no longer holds exclusive rights to the invention, which becomes available for commercial exploitation by others.
- d) All patent owners are obliged, in return for patent protection, to publicly disclose information on their invention in order to enrich the total body of technical knowledge in the world. Such an ever-increasing body of public knowledge promotes further creativity and innovation in others. In this way, patents provide not only protection for the owner but valuable information and inspiration for future generations of researchers and inventors.
- e) The first step in securing a patent is the filing of a patent application. The patent application generally contains the title of the invention, as well as an indication of its technical field; it must include the background and a description of the invention, in clear language and enough detail that an individual with an average understanding of

the field could use or reproduce the invention. Such descriptions are usually accompanied by visual materials such as drawings, plans, or diagrams to better describe the invention. The application also contains various “claims”, that is, information which determines the extent of protection granted by the patent.

## Trademarks

- a) A trademark is a distinctive sign, which identifies certain goods or services as those produced or provided by a specific person or enterprise. The system helps consumers identify and purchase a product or service because its nature and quality, indicated by its unique trademark, meets their needs.
- b) A trademark provides protection to the owner of the mark by ensuring the exclusive right to use it to identify goods or services, or to authorize another to use it in return for payment. The period of protection varies, but a trademark can be renewed indefinitely on payment of corresponding fees and in some cases proof of ongoing use. Trademark protection is enforced by the courts, which in most systems have the authority to block trademark infringement and declare trademarks valid or invalid.
- c) Trademarks may be one or a combination of words, letters, and numerals. They may consist of drawings, symbols, three-dimensional signs such as the shape and packaging of goods, audible signs such as music or vocal sounds, fragrances, or colors used as distinguishing features. In addition to trademarks identifying the commercial source of goods or services, several other categories of marks exist. Collective marks are owned by an association whose members use them to identify themselves with a level of quality and other requirements set by the association. Examples of such associations would be those representing accountants, engineers, or architects. Certification marks are given for compliance with defined standards, but are not confined to any membership. They may be granted to anyone who can certify that the products involved meet certain established standards. The internationally accepted “ISO 9000” quality standards are an example of such widely recognized certifications.

## Industrial Designs

- a) An industrial design is the ornamental or aesthetic aspect of an article. The design may consist of three-dimensional features, such as the shape or surface of an article, or of two-dimensional features, such as patterns, lines or color. Industrial designs are applied to a wide variety of products of industry and handicraft: from technical and medical instruments to watches, jewelry, and other luxury items; from household items and electrical appliances to vehicles and architectural structures; from textile designs to leisure goods. To be protected under most national laws, an industrial design must be new or original and non-functional. This means that an industrial design is primarily of an aesthetic nature and any technical features of the article to which it is applied are not protected.
- b) When an industrial design is protected, the owner – the person or entity that has registered the design – is assured an exclusive right against unauthorized copying or imitation of the design by third parties.

## Trade Secrets

- a) Broadly speaking, any confidential business information which provides an enterprise a competitive edge can qualify as a trade secret. A trade secret may relate to technical matters, such as the composition or design of a product, a method of

manufacture or the know-how<sup>19</sup> necessary to perform a particular operation. Common items that are protected as trade secrets include manufacturing processes, market research results, consumer profiles, lists of suppliers and clients, price lists, financial information, business plans, business strategies, advertising strategies, marketing plans, sales plans and methods, distribution methods, designs, drawings, architectural plans, blueprints and maps.

- b) While conditions vary from country to country, in order to qualify as a trade secret some general standards exist. They are that the information must be confidential or secret. Information which is generally known or readily ascertainable is not protectable as a trade secret. Even hard-to-learn information can lose its protected status if the owner does not take proper precautions to maintain its confidentiality or secrecy. The information must have commercial value because it is a secret and the holder of the information must have taken reasonable steps to keep it confidential or secret (e.g. through confidentiality or non-disclosure agreements with all those who have access to the secret information. Simply calling information a trade secret will not make it so.).
- c) The owner of a trade secret can prevent others from improperly acquiring, disclosing or using them. However, trade secret law does not give the right to stop people who acquire or use information in a legitimate way, that is, without using illegal means or violating agreements or state laws.
- d) Unlike other forms of intellectual property such as patents, trademarks, and designs, maintaining trade secrecy is basically a do-it-yourself form of protection. Trade secret protection lasts for as long as the information is kept confidential. Once the relevant information is made public, trade secret protection ends.

### Copyright and Related Rights

- a) Copyright is the body of laws which grants authors, artists and other creators protection for their literary and artistic creations, which are generally referred to as “works”. A closely associated field of rights related to copyright is “related rights”, which provides rights similar or identical to those of copyright, although sometimes more limited and of shorter duration. The beneficiaries of related rights are performers (such as actors and musicians) in their performances; producers of sound recordings (for example, cassette recordings and compact discs) in their recordings; and broadcasting organizations in their radio and television programs. Works covered by copyright include, but are not limited to: novels, poems, plays, reference works, newspapers, computer programs, databases, films, musical compositions, choreography, paintings, drawings, photographs, sculpture, architecture, advertisements, maps, and technical drawings.
- b) The creators of works protected by copyright, and their heirs and successors (generally referred to as “rights holders”), have certain basic rights under copyright law. They hold the exclusive right to use or authorize others to use the work on agreed terms. The rights holder(s) of a work can prohibit or authorize: its reproduction in all forms, including printing and sound recording; its public performance and communication to the public; its broadcasting; its translation into other languages; and its adaptation, such as a novel into a screenplay for a film. Similar rights of, among others, fixation (recording) and reproduction are granted

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<sup>19</sup> Know-how may or may not be a trade secret. Know-how generally refers to a broader group of internal business knowledge and skills which would amount to a trade secret if the conditions for qualifying as a trade secret have been met.

under related rights. Many types of works., protected under the laws of copyright and related rights require mass distribution, communication, and financial investment for their successful dissemination (for example, publications, sound recordings, and films); hence, creators often transfer the rights to their works to companies best able to develop and market the works, in return for compensation, in the form of payments and/or royalties (compensation based on a percentage of revenues generated by the work).

- c) The economic rights of copyright have a duration, as provided for in the relevant WIPO treaties, commencing upon the creation and fixation of the work, and lasting for not less than 50 years after the creator's death. National laws may establish longer terms of protection. This term of protection enables both creators and their heirs and successors to benefit financially for a reasonable period of time. Related rights enjoy shorter terms, normally 50 years after the performance, recording or broadcast took place.
- d) Copyright and the protection of performers also include moral rights, which are the right to claim authorship of a work, and the right to oppose changes to the work which could harm the creator's reputation.
- e) Copyright and related rights protection is obtained automatically without any need for registration or other formalities. However, many countries provide for a national system of optional registration and deposit of works; these systems facilitate, for example, questions involving disputes over ownership or creation, financing transactions, sales, assignments and transfers of rights. Many authors and performers do not have the ability or the means to pursue the legal and administrative enforcement of copyright and related rights, especially given the increasingly worldwide use of literary, musical and performance rights. As a result, the establishment and enhancement of collective management organizations, or "societies", is a growing and necessary trend in many countries. These societies can provide for their members the benefits of the organization's administrative and legal expertise and efficiency in, for example, collecting, managing, and disbursing royalties gained from the national and international use of a member's work or performance. Certain rights of producers of sound recordings and broadcasting organizations are sometimes managed collectively as well.

## **ANNEX TWO: GUIDELINES FOR LICENSE DRAFTING – THE PLAIN ENGLISH APPROACH**

*“The difficult task, after one learns how to think like a lawyer, is re-learning how to write like a human being.” Floyd Abrams*

Licensing is at its best when the language used is plain and not made unnecessarily complex by needless verbiage, redundant and needlessly complicated paragraphs.

### **What Plain Language Drafting is Not**

If we are to engage in plain language drafting, we must first establish what plain language is not. Plain language drafting is not the replacing of legal terms of art with explanations of the law for the uninformed. Plain language is not simplistic. Plain language is not stylistic cleanup, even though that is useful in all drafting. Plain language is not the imposition of whimsical formal drafting rules.

### **What Plain Language Drafting is**

Plain language is simply language that communicates effectively to the intended audience.

### **Who is the Audience?**

License agreements are written for four different readers in two major groups — the initiators and the implementers. The initiators are the business negotiators. The implementers include the day-to-day administrators of the license, the advocates, the arbitrators, mediators and the adjudicators.

### **The Real Agreement**

- a) The license document, it should always be remembered, is not the real agreement between the parties. At common law, the document is merely a memorandum of the agreement, which is why lawyers describe the agreement as being “reduced to writing” and that a document “witnesses” the agreement.
- b) The real agreement lies in the relationship of the parties, which has a life apart from the written agreement. A good written agreement tells the parties how to co-ordinate their respective and joint activities to manage a successful relationship. It covers change, helping the parties by showing how to handle uncertainty, lack of understanding and unexpected circumstances. It limits the parties in areas of potential misunderstanding so that their basic understandings and the trust, which has hopefully developed in their relationship is preserved.
- c) There are, however, understandings that remain tacit, even to the initiators. These understandings underlie the written agreement and are not always expressed in the same way even though a trademark license agreement is simply an agreement by the owner not to sue for infringement. This is not stated in a license. It is a tacit understanding of the parties. Variation in interpretation of agreement terms, for example, are often not important at the time the deal is made, but later become critical as circumstances reveal variations in interpretation.

## THE PRINCIPLES OF LICENSE CONTENT

- 1) Drafting is Part of the License Negotiation. Its dual purpose is to record the historical consensus of the initiators and to maximize and memorialize the likelihood of future certainty for the implementers.
- 2) The Most Essential Part of the License is the Definitions section. The goal of drafting definitions is to achieve clarity, precision and consistency without repetition. Absent proper definitions, the interpreters (advocates and arbitrators) are required to interpret the agreements from:
  - 3) The intent of the parties deduced from a reading of the license as a whole;
  - 4) Industry practice;
  - 5) The parties prior course of dealings;
  - 6) Or other unpredictable factors. Proper definitions also shorten the license, which has significant cosmetic and business appeal.
- 7) Use Plain Language. Plain language does not mean simplistic language. It means language which will allow the implementers, who are primarily technical or business people, to use the agreement without the constant need to consult a legal counsel to understand the meaning of certain terms and their effect.
- 8) Write Simply. Most business people would prefer licenses with all the legal language and all references to legal principles removed. Full compliance with this preference would be impossible, but the law applicable to a license should always be set out in brief and straightforward terms. What is important is to get the right law to govern the agreement as to breach and interpretation and the right jurisdiction for the law to be applied whether it be through the courts, mediation, arbitration or some combination of these options, and then include what it requires and avoid what it forbids. Avoid legal and pseudo-legal jargon. It goes without saying that “herein”, “herewith” “hereinafter,” “the said” and other similarly arcane language should have no place in an agreement. Avoid the dreaded couplets - “force and effect”, “cease and desist”, “free and clear”, “null and void”. Use “end” not “terminate,” “before” and “after” instead of “prior to” and “subsequent to”, “use” instead of “utilize” and “if” instead of “provided that”.
- 9) Use Precedents. The development of computers and, therefore, word processing has provided an invaluable, flexible framework for agreement drafting. Everyone uses precedents. Simply ensure that you periodically read and update them and avoid the “word processor trap” of thoughtlessly transferring large tracts of inappropriate language from one agreement to another.
- 10) Break down the Subject Matter. Every license provision is susceptible to breakdown into components for drafting purposes. For example, in drafting a warranty of non-infringement the drafter must consider subject, territory, timing, scope, exceptions and remedies.
- 11) Enhance Readability. Headings, tabulated structure (or paragraph sculpting), bolding, section numbers and even white space not only make the agreement more visually attractive, they enhance readability. These devices organize the agreement and facilitate the critical division, classification and sequencing aspects of the drafting process.

- 12) Divide, Classify, Sequence. Drafting literature sets out this three step process for the organization of large scale documents such as trademark license agreements although in many cases involving complex technology licenses, custom dictates the overall document organization and structure.
- 13) Division is the process of gathering material into appropriate groupings for sections or articles. Any scheme of division should ensure:
  - 14) The sections and their headings are mutually exclusive;
  - 15) The sections, added together, equals the whole; and
  - 16) One consistently applied principle governs the division.
- 17) Classification is the process of determining the material to be placed in each section or article, the governing principle being that closely related provisions are grouped together in the license.
- 18) Sequencing is the process of ordering the agreement text and commonly used sequencing patterns include:
  - 19) Events in chronological order - that is, the order in which they are expected to occur;
  - 20) More important before less important;
  - 21) Ordinary, expected events before extraordinary events;
  - 22) General before exceptions; and
  - 23) Substantive before procedural.
- 24) Be Gender Neutral without Being Painful About It. After all, women do not complain about the ongoing use of "manhole" cover, although their lack of concern may have something to do with where manhole covers lead.
- 25) Read and Reread. There is always room for more precision. Reading and rereading a draft agreement with a pencil to tighten up the document and make it more readable is a good thing.

## THE GUIDELINES OF LICENSE STRUCTURE

- 1) Use Tabulated Structure. Tabulated structure is a method of presenting complex ideas in a list-type format. It is an essential device to manage modifiers and thereby enhance readability. It is used to divide a sentence into its parts to show the relationship among these.
- 2) Draft in the Active Voice. Use the active voice to clearly identify who in the license is obligated to do something. Example: "All of the Licensee's rights in and to any Improvements to Products shall be assigned by the Licensee to the Licensor" becomes "The Licensee shall assign all his rights in Improvements to Products to the Licensor."

- 3) Use the passive voice when making statements of policy - a statement about how the agreement operates. Example: “If a court of competent jurisdiction determines that any provision of this Agreement is invalid or void, the remaining provisions remain in full force.”
- 4) Draft in the Present Tense. Licenses, like other legal documents, are considered to be “always speaking.” Where drafters use language like “shall,” it is often unclear if they intend a future event or a present legal obligation. Further, the use of “shall” instead of the present tense frequently leads to the false imperative - the declaration of a legal result. Example: “In the event any provision of this Agreement is finally determined to be invalid or void by any court of competent jurisdiction, the remaining provisions thereof shall be and remain in full force and effect” becomes “If a court of competent jurisdiction determines that any provision of this Agreement is invalid or void, the remaining provisions remain in full force.”
- 5) Use “Shall” only for Legal Entities. Do not use “shall” to command inanimate objects or indicate the object has a legal obligation. Example: This Agreement shall be for a term of five (5) years” becomes “This Agreement is for a term of five (5) years.” Consider the well-known formula from Dickerson, *The Fundamentals of Legal Drafting* (2nd ed.) p. 214:

To create a right, say “is entitled to...”

To create a discretionary authority, say “may...”

To create a duty, say “shall...”

To create a condition precedent, say “must...”

To negate a right, say “is not entitled to...”

To negate a discretionary authority, say “may not...”

To negate a duty or condition precedent, say “is not required to...”

To create a prohibition, say “shall not...”

- 6) Place Modifiers Carefully. The improper placement of modifiers will result in an ambiguous license provision. Example: with modifiers in a sequence, “The Licensor’s technical personnel are entitled to be reimbursed for travel expenses, accommodation expenses and meals expenses that have been approved” becomes, with appropriate paragraph sculpting:
  - 7) “The Licensor’s technical personnel to be reimbursed for the costs of travel, accommodation and meals that have been approved.”
  - 8) Draft Conditions Carefully. A condition is an event which either triggers or extinguishes a legal consequence (conditions precedent or conditions subsequent) It is signalled by the use of “if,” “when” or “after”. Four helpful rules of general application for the drafting of conditions are:
    - i. When there is only one “if” and one “then,” start with the “if, as it defines who or what the “then” clause applies to.

- ii. Where there is one “if” and multiple “then,” start with the “if” clause for the same reason and tabulate the “then.”
- iii. Where there are multiple “ifs” and only one “then,” start with the “then” and tabulate the “ifs.”
- iv. Where there are multiple “ifs” and “then” more than one sentence is required and, if the result is unclear, a chart or table should be considered.

### **SOME FURTHER DRAFTING GUIDELINES**

There are no hard and fast rules for drafting a license. There are, however, some basic guidelines that will help achieve the best result. That result is essentially a document that can be read and easily understood in a single reading by the person to whom the document is addressed. An ambitious target perhaps, but nonetheless one certainly worth aiming for the most fundamental approach is a three step process:

- Think about what it is you want to say;
- Write it down in a clear and unpretentious way; and Stop there.

#### **Some helpful rules for good drafting are as follows:**

- a) Short sentences are better than long sentences
- b) Select words that are suitable for the intended reader and avoid jargon
- c) Active verbs are generally stronger than passive verbs
- d) Verbs that have been changed into nouns, also known as “nominalisations” are usually best avoided
- e) Avoid double (and treble) negatives
- f) Avoid excessive use of definitions, definitions are good and useful but even too much of a good thing can be bad
- g) Consider document design

### **Short Sentences**

In general, an average sentence length of around 20 words is recommended. Sentences that are long and convoluted and in which words are separated by extensive qualifying phrases from other words to which they are intended to be directly related frequently conceal the message the writer is trying to convey to the reader with the inevitable consequence that the reader will become lost or confused before reaching the sentence end making it necessary to find and go back to the beginning of the sentence to start again. Seventy words (75), and as you can see, it is somewhat hard to follow. Three short sentences would be better.

### **Word Choice**

It is best to use the simplest words available that say exactly what you mean. This will help achieve a straightforward style. Try to minimise jargon and unnecessary legalisms, that is, terms often found in legal documents but rarely seen elsewhere. A few examples of legalisms are as follows:

<u>Legalism</u>	<u>Ordinary Alternative</u>
pursuant to	under, in accordance with
subsequent to	after
under the provisions of	under
in the event that	if
anterior	before
antecedent	previous

### **Active Verb v. Passive Verbs**

An active verb is more direct and conveys a stronger message.

#### **In a license, for example, it might be said:**

Notice is given to the Licensor if the Licensee becomes aware of any infringement of the trademark that Licensor is entitled to be made aware of.

#### **A more direct statement is:**

Notice is given by the Licensee to the Licensor if the Licensee becomes aware of any infringement of the trademark.

Readers take in the meaning of a sentence more readily if it is structured with the subject verb-object format.

### **Nominalisations/Buried Verbs**

Nominalisations are abstract nouns developed from verbs. Some examples are as follows:

<u>Verb</u>	<u>Nominalisations</u>
oblige	obligation
fail	failure
indemnify	indemnification
oppose	opposition
complete	completion
provide	provision
arbitrate	arbitration
litigate	litigation

Use of nominalisations frequently result in the elimination of active verbs and as a consequence the writing tends to become dull and more difficult to read. There will, of course, often be a need to use nominalisations in license agreements simply because of the nature of these documents. Try to keep these to a minimum. Thus:

- The Licensee shall have permission to grant sub-licenses.

Can be instead written as:

- The Licensee is permitted to grant sub-licenses.

### **Double (and treble) Negatives**

Sentences including double or treble negatives are very difficult to understand from a single reading. It becomes a task to find the correct meaning of a sentence. For example: Not only will the Licensee not apply the Trademark to any goods that have not been manufactured by the Licensee but the Licensee will not apply the trademark to goods not produced by the use of the Process.

#### **An alternative is:**

The Licensee must only apply the Trademark to goods manufactured by the Licensee using the Process.

## **Definitions**

Definitions are a very useful tool in license drafting and they are vital to a well written license document. They will serve to add precision and clarity to the terms of the agreement. But the definitions themselves have to be unambiguous, otherwise, there is a danger that they will cause more problems than they solve.

Definitions sometimes become difficult to read solely as a result of the need for the reader to refer repeatedly to the definitions or other section to understand the meaning of the agreement. Beware of defining terms that do not appear again in the document or are used only once or twice.

It is helpful to signify terms that are defined such as by use of an initial capital letter. From a presentation point of view, it is better not to use full capitalisation or italics for defined terms.

## **Document Design**

Document design means the presentation of the text on the page. A good design is pleasing to the eye and, therefore, makes it easier to read and understand the document.

Some points to keep in mind are as follows:

- a) Typeface
- b) Use a type face that is easy on the eyes. You will be off to a bad start if a reader is going to have difficulty to just read the words.
- c) White Space
- d) Spread the text out so that there is plenty of white space on the page. Wide margins, and dividing the contents into distinct sections dealing with different topics is always helpful.
- e) Headings and Subheadings
- f) Well employed headings and subheadings serve to guide a reader through a document and also assist in organising separate and distinct sections.
- g) Lists

When several items are included in a list, it helps to separate these into a vertical format, following one after the other down the page, i.e., like a shopping list. Bullets “•” at the start of each item may be helpful, but not if there is any rank to the importance of the items. If there is a rank of importance numbering the items may be more appropriate.

While the drafting of a trademark license agreement is not “rocket science”, it is not an easy task. It takes time and experience and the above guidelines will assist the license drafter to get the respective party’s message across to the other side in a clear and concise manner.

## **ANNEX THREE: OTHER RELEVANT AGREEMENTS**

The following is a brief review of the other sundry agreements which deal with trademarks in different ways. In all these cases, trademark rights are affected and contractual license arrangements affecting trademark rights are involved.

### **Assignment Agreements**

Assignment Agreements are fairly self-explanatory as they arise when one party assigns its rights, title and interest in a trademark or trademarks to another. This sometimes arises as a result of litigation but may arise by virtue of an outright purchase of trademark rights from another. The rights involved may arise from registered trademarks or they may be common law or use rights arising from unregistered trademarks.

### **Non-Disclosure Agreements or Confidentiality Agreements**

These agreements usually arise where the parties involved in a negotiation wish to disclose information in confidence to allow each other to better assess the rights they might receive under an eventual license agreement. These documents are contracts which allow for confidential disclosure between the parties. A breach of contract by either party usually has serious financial and injunction consequences for the party in breach.

### **Guarantees**

They are sometimes included within license agreements, or may be separate, but involve a party other than the licensee who agrees to guarantee the performance of the licensee either financially or otherwise. If the licensee fails to perform, the licensor can take legal action against the licensee, guarantor or both for recompense and/or performance.

### **Manufacturing Agreements**

Manufacturing agreements often arise in the context of trademark licensing. Usually such an agreement grants only the right to manufacture a particular product or products for a particular trademark owner or trademark licensee affixing a particular mark to a product or products. In most cases, the manufacturer sells all of its production to the owner or licensee or sells product to third parties, as directed by the owner or licensee. The right to sell or distribute the products is thereby restricted by the owner, or its licensee, who controls the trademark rights. The manufacturer affixes the trademark but does not have the right to sell the product or distribute it as it chooses.

### **Franchise Agreements**

Franchise agreements are a sub-category of trademark licenses. Franchise agreements include not only a license to use the trademark but also the rights and the requirement to use a particular business system which has been created by the licensor, usually called the franchisor. In reality, the franchisor is simply another name for a licensor and the franchisee for licensee. Business format franchise systems are built on a consistent and controlled look of the business premises of the franchisees and the entire manner in which the franchisee conducts its business. McDonalds' or a Pizza Hut whose respective premises look essentially the same no matter where in the world you find them are good examples. Corporate run and franchised operations look and are operated in the same fashion, and have product and service consistency. It is the consistency of the business operation, look or appearance of the premises of the franchisee, together with familiar signage and colours, which gives brand identity and comfort to the consumer, both domestically and abroad. It is

hoped there will be no surprises and that product and service quality will be the same, no matter where in the world or what location it is experienced. In many countries where franchise systems are permitted there are very specific statutory and regulatory requirements of the government which regulate franchise operation. Therefore, great care should be exercised when entering into new country.

## **FRANCHISING AND TRADEMARK LICENSING**

Another major development in licensing has been the almost exponential growth of the franchising industry within trademark licensing, where typically intellectual property rights, primarily trademarks, trade-names and a particular get-up or look are closely tied to the provision of services to the public in a very specifically defined delivery system. It is not uncommon, especially in the service industry, for the majority of a trademark owner's revenue to be derived from licensing/franchising, as opposed to earning revenue by itself providing the service directly to the public. The impact of franchising on licensing and the case law affecting the interpretation of licensing provisions in various international jurisdictions should not be overlooked; franchising is one of the fastest growing business systems in North America, if not the world. Because of the financial commitment involved in franchising and, in particular, the possibility of abuse by unscrupulous franchisors, the governments in many countries have determined that certain rules and regulations must be put in place to insure a fair playing field for both the franchisee and the franchisor. A franchise agreement is much like a trademark license; however, it deals fundamentally with a business method format or standardized delivery system in addition to the use of trademarks. However, other intellectual properties may also be involved or critical to the success of the franchised system, especially trade secrets. Another interesting commercial result of franchising is that many franchisors make more profit from their real estate holding (the premises they lease to the franchisee coincidental with the franchise agreement) than they do from the licensing of the trademarks themselves.

This commercial lease franchise cross-over in itself raises many contractual issues. When leases become coterminous with franchise agreements, intellectual property or trademark licensing professionals need to have at least a working knowledge of commercial leasing in order to create a franchise agreement. The location, lease and franchise agreement go hand-in-hand. It is usually not possible to have one without the other. A trademark owner becomes a licensor and usually a landlord at the same time.

In the cases of franchise agreements, care must be taken to comply with various statutory disclosure requirements, as well as filing and approval processes in countries where such laws exist. In some countries, the franchise laws are governed by statutory or judge made law or a combination of both. Because of the normally significant investment by franchisees in such business opportunities, the statutory or common law requirements are designed to protect franchisee's rights and investment against unscrupulous franchisors. While there are often similarities in the statutory or regulatory requirements from country to country, there may be critical differences, all of which must be complied with. Some have called laws relating to franchising "a trap for the unwary". An attempt at a simple trademark license for a business concept may still be captured by broad franchise definitions in statutes and court made definitions. Ignorance of local franchise requirements can have significant negative consequences both from a business and trademark point of view.

### **Sub-license Agreements**

These are agreements essentially similar in nature to trademark license agreements whereby the licensee licenses (sub-licenses) some or all of its rights under a trademark license to one or more sub-licensees who carry out some or all of the licensee's obligations

under the original trademark license. Not all trademark licenses carry with them the right which allows the licensee to sub-license.

### **Quality Control, Monitoring, Delegation Agreements**

Licensors, particularly where their licensing programme is extensive, will often delegate their trademark quality control monitoring obligations to third parties. The third parties job is to monitor the standards and specifications set by the licensor to ensure that the licensees are complying with those standards and specifications. Typically the quality control monitoring entity simply reports on compliance to the licensor who takes enforcement action against licensees who do not comply with the standards and specifications.

### **Distribution Licenses**

Distribution licenses, like manufacturing agreements, permit the licensed distributor to perform a specific service to the trademark owner or its licensee. Such licenses can be exclusive or non-exclusive in a particular geographic area but do not usually allow the licensed distributor to affix the mark to a product or to manufacture, but only to sell or distribute already trademarked product in the form it is received from the trademark owner or its licensee in the particular market. Any use of a trademark by the licensed distributor is usually restricted to advertising and promotion of the product or product line by the distributor to enhance and increase sales. Care should be taken to specify in the license exactly what use can be made of the trademark by the licensed distributor in the promotion of the trademarked product to avoid any negative impact on the trademark in issue.

### **Private Label License**

This form of a license is also similar to manufacturing agreements, in that a trademark owner or its licensee authorizes a manufacturer to create a product, affix the trademark owners mark and provide the manufactured product exclusively to the owner or as the owner may direct. Usually the manufacturer, who is licensed, manufactures his own line of the same or similar product which is of a quality acceptable to the trademark owner. The manufacturer then manufactures that same product and affixes the private trademark label of the licensor.

### **Joint Venture Agreements**

Joint venture agreements are a form of license where two or more parties share intellectual property, financial assets, premises and so forth for a common goal or purpose. A joint venture is not usually a corporation, legal partnership or trust although one or more corporations, partnership or trusts could be parties to the joint venture. The joint venture partners by contract share in the profits and expenses of the joint venture business, in accordance with the terms of the joint venture agreement. Usually each party to a joint venture agreement brings a different kind of asset or assets to the partnership. For instance, one party may have the intellectual property rights such as the trademarks, another may have the financial capability and another business skills to market the product or services in a territory or particular market.

### **Strategic Alliances**

A further alternative to owner financed expansion of trademarks rights is the strategic alliance. In the case of a strategic alliance, the parties do not usually enter into a traditional trademark licensor/licensee relationship. Rather, they enter into a contract which set out the terms and conditions of a business relationship or a loose alliance which has a common goal, usually the exploitation of particular marks or a region. Strategic alliances are similar to joint ventures.

In some cases, one of the strategic alliance partners may be a local investor interested in assisting the trademark owner to expand its brand or franchise in a specific territory in return for a performance driven return on investment or shares in the local corporate vehicle used to license the product or business. In other words, the rights in the trademarks are made available through a license to a local strategic partner for the purposes of developing the brand or franchise in a particular country or region.

### **Related Party Agreement**

These license agreements involve licensing of a trademark between related or affiliated companies and usually involve other technology. The purpose of the license from a trademark point of view is to allow for controlled use by a group of companies that are mutually controlled. See article “control of trademarks by the IP holding company”

### **Publishing Agreements**

Authors of books, music and other copyrighted works license others to publish, promote and distribute their property to their mutual benefit. In many cases, these arrangements involve trademarks such as character names or titles which have become popular and are used on various products to promote the publication or capitalize on the publications notoriety.

### **Licenses Relating to Authorized Merchandise**

Sports leagues, universities, personalities, and other specialty groups such as the Olympic movement license their trademarks or other intellectual property to manufacturers of products or service providers to promote their identities. Diverse businesses such as clothing manufacturers, banks, credit card companies, airlines and so forth negotiate licenses to use the trademark of specialty groups on products or in association with their service to the respective parties mutual benefit.

### **Character Licensing**

This trademark licensing scenario often involves famous personalities and usually takes one of two forms, either the personality or the image of the personality is used in association with a specific product or services to promote it or, alternatively, the personality enters into a license to personally and actively promote a product or service brand.

### **Industry Licenses**

These relate to industries such as food, pharmaceutical, plant breeders, biotechnology, computer, music, broadcasting, entertainment, publishing, database, multimedia, internet, advertising, and so forth. Each of the above listed business sectors, as well as many others, have unique terms and terminology within their licenses which is peculiar to that industry. The licenses of these industries are particularly focused on intellectual property rights other than trademarks although trademark licensing does play an important role. Each industry or sector may be the subject of particular statutory or governmental regulations as to licensing, disclosure of know-how, technology, and so forth. For instance, export regulations, packaging and labelling requirements, government testing and approval, recordal, taxes, content restrictions and the like. As such, the license agreements are very particular to the respective industries.

### **License as Distinguished from Consent**

A consent as between two trademark owners to use a trademark is quite common practice in many countries. A consent agreement, delimitation agreement or coexistence agreement, or

whatever other name it may go by in different regions of the world, is not a trademark license. For simplicity, I will refer to all such agreements as consent agreements. In a sense, however, consent agreements may be considered to be an assignment or transfer of trademark rights or future trademark rights from one entity to another. There are often good business reasons for entering into a consent agreement. They usually arise where a trademark application is filed in a trademark office and a prior existing trademark application or registration of another entity is raised by a local trademark office as a bar to registration of the latter's mark because of similarity of marks and their associated goods and services. Entering into a consent agreement may be an option to consider where one entity opposes or objects to another's trademark application in the Trademark Office. The later applicant usually approaches the earlier applicant or registrant for consent to coexist on the trademark register and in the marketplace. Sometimes, the request and the resulting agreement takes the form of a worldwide coexistence agreement between the parties so that the parties to the consent agreement do not have to deal with the same issue on a country by country basis in the future.

No matter how the consent agreement arises, the first rights holder is, in effect, transferring rights or its potential claim to rights for its trademark in a certain category of goods or services to the entity requesting the consent. As the first rights holder has no control over quality or the nature of the use by the party requesting the consent, the party granting the consent is in effect transferring those rights in its trademark or the confusingly similar trademark to the requesting party. When considering the option of entering into a consent agreement, care should be taken to determine whether a trademark assignment with license back to the party requesting the right to use may be more appropriate to protect the existing and future trademarks rights of the first user or earlier registered trademark owner or applicant.

### **Consent and Delimitation Agreements**

Consent agreements typically arise in several distinct situations: Consents are granted by co-pending applicants in connection with two or more pending applications for the same or similar trademarks. The owner of a registered trademark or trademarks consents to the registration of a pending application of another. An agreement is reached by parties prior to the filing by either party of an application for registration of its particular trade mark. A consent agreement is entered into to bring closure to an opposition or cancellation proceedings, an infringement action, or other adversarial dispute. These situations are not mutually exclusive. This is particularly so when registrations and applications in more than one country are involved, so that the status or rights of the respective trademarks may differ as between the parties, depending upon the country. For instance, in one country a party may be first to use or register and in another the second user or applicant. In such circumstances, the consent agreement could well contain a combination of provisions which involve both the mutual recognition of trade mark rights in some countries and the recognition of superior rights of registration in others. Thus, consent agreements can be complex in content. Having said that, all these situations where co-existence, consent or delimitation agreements may arise, the issue could also be dealt with by assignment and trademark licensing arrangements. These arrangements may be more appropriate to protect and strengthen the marks in issue as well as to expand their brand strength and reputation throughout the different regions of the world and for different products and services. A Consent agreement is often confused with an assignment or a license. In truth, it is neither, but a separate and distinct contract or arrangement by which the parties to the Consent agreement agree to co-exist in connection with their respective trademarks and their respective products and services. A consent agreement is not an assignment because

neither party to the agreement is transferring the proprietorship of its trademark to the other. The purpose of a Consent agreement is to define the terms and conditions by which each party may use and assert rights in its respective trademark in the territory or territories for the particular products and services governed by the terms of the consent agreement. The respective trademarks themselves, however, remain the exclusive property of their different owners. A consent agreement is not a license because neither party is granting permission to the other to use its trade mark nor does it control the quality of the products or service associated with the other parties trademark. Rather, the basis of a consent agreement is that the parties seek to distinguish the use of their *respective* marks. The distinction may be on the basis of the marks themselves, the respective products or services, the territories at issue, or some combination of all of those factors. A trademark license, on the other hand, is based on the licensee's rights being governed or controlled by the licensor or owner of the trademark. The licensor, usually the owner of the trademark, must ensure quality control in the use of the trademark on the products and services licensed to the licensee. The consent agreement, by contrast, defines and highlights the separate and distinct identities of the two parties, their trademarks and their products and services. Thus, quality control standards, specifications and the monitoring of quality control, in the sense required by a trademark license and trademark law, is not directly relevant or dealt with in a consent agreement. In effect, a trademark license brings in or integrates the licensee into a family of users, while a consent agreement distinguishes between the parties and separates their business identities and trademark rights. The party receiving the consent usually obtains a registration for its trademark and/or the right to use that trademark on the goods or services and/or in the territory or product or service area agreed to. The first right holder has, therefore, no claim to the trademark of the party to whom it gave consent or the existing or future goodwill associated therewith. The first rights holder has essentially assigned its rights or future claim to the use of its trademark or a confusingly similar trademark to a third party for the goods and services as well as the territory which has been allotted to the second rights holder by way of the consent agreement.

## **ANNEX FOUR: SAMPLE LICENSES**

### **RELATED ENTITIES TRADEMARK LICENSE**

This License is effective this     day of             , 2     . ("Effective Date")

BETWEEN

(Insert full legal name and details of LICENSOR)

( "LICENSOR")

-and-

(Insert full legal name and details of LICENSEE)

(hereinafter referred to as the "LICENSEE")

### **PREAMBLE**

LICENSOR is the owner of the trademarks set out in Schedule "A" attached ("the Marks");

LICENSOR wishes to license to LICENSEE and LICENSEE wishes to acquire a license to use the Marks on the conditions and restrictions contained in this License.

In return for good and valuable consideration and the mutual covenants below, the receipt and sufficiency of which is acknowledged by each of the parties, the parties agree as follows:

1. LICENSOR hereby grants to LICENSEE the right to use the Marks set out in Schedule "A" which may be amended from time to time to add or delete trademarks in association with [the Goods and/or Services] set out in Schedule "B", subject to the conditions and restrictions set out below or in any other agreement between the parties.
2. This Agreement shall be effective from the date referred to above and may be terminated as follows:
  - (a) at any time by agreement of the parties;
  - (b) at any time by LICENSOR in the event that the conditions and relationship in paragraph 3 below and in any other agreements between the parties are not satisfied;
  - (c) at any time by LICENSOR, without cause on six months written notice in writing to LICENSEE.

3. The relationship between LICENSOR and LICENSEE is as follows:
- (a) The LICENSEE is a subsidiary of the LICENSOR and the rights granted to LICENSEE by LICENSOR herein are exclusive.
  - (b) The rights granted herein are for territory ("the Territory") as described below:  
(insert description of territory)
  - (c) The right of LICENSEE to use the Marks in respect of [the Goods and/or Services] specified in Schedule "B" is non-transferable.
  - (d) LICENSEE shall use the Marks only in association with [the Goods and/or Services] which comply with the laws of the Territory.
  - (e) LICENSOR authorizes LICENSEE to use the Marks in association with [the Goods and/or Services] so long as the use by LICENSEE is in accordance with the instructions, standards of quality and trademark specifications set by and approved by LICENSOR from time to time ("the Standards") which may take the form of a manual or may be amended from time to time by the LICENSOR in its sole discretion.
  - (f) LICENSEE undertakes to use the Marks in strict accordance with the Standards supplied by LICENSOR from time to time, and to use each of the Marks only in association with [the Goods and/or the Services] now set out in Schedule "B".
  - (g) For as long as LICENSEE uses the Marks, LICENSOR shall have the right to inspect the premises of LICENSEE from time to time during normal business hours, upon reasonable notice and [to take samples, at LICENSEE'S expense, of any Goods sold or to be sold (if for Goods only)] and/or [to review and observe the provision of Services provided (if for Services only)] in association with the Marks by LICENSEE.
  - (h) LICENSEE shall cause to appear on all labels and advertising materials a notice indicating the name of the owner of the Marks and that the use of the Marks by LICENSEE is a licensed use. Any notice must first be approved by LICENSOR in writing.
  - (i) LICENSEE cannot use the Marks in advertising without the prior consent of LICENSOR. LICENSEE undertakes not to use the Marks in any way that is likely to prejudice LICENSOR's rights in the Marks or otherwise.
  - (j) LICENSEE undertakes not to authorize a third party to use the Marks.
  - (k) LICENSEE acknowledges and agrees that it has no right, title or interest in or to the Marks, nor any part thereof, except the use as set out herein and that nothing in this License shall be construed as an assignment to LICENSEE of any right, title or interest in or to the Marks.
  - (l) LICENSEE agrees that should any right, title or interest in or to the Marks or any one or more of the Marks become vested in LICENSEE by operation of law or otherwise, it shall hold the same in trust for LICENSOR and shall, at the request of LICENSOR, forfeit or assign unconditionally any such right, title or interest in favour of the LICENSOR.

- (m) LICENSEE further agrees to co-operate fully and in good faith with LICENSOR for the purpose of securing or protecting LICENSOR's rights in the Marks, including, without limiting the generality of the foregoing, the execution of documents or the provision of labels, advertising or other materials to LICENSOR at LICENSOR's request.
- (n) LICENSEE further agrees not to challenge directly or indirectly LICENSOR's right, title or interest in the Marks or any one or more of them.
- (o) LICENSEE agrees to obtain, on request of LICENSOR, product liability insurance or any other insurance coverage which LICENSOR may request. LICENSOR shall be named as co-insured in any such policies.
- (p) Time shall be of the essence.
- (q) This License shall be binding on the parties hereto and their successors, heirs and permitted assigns.
- (r) This License is governed by the laws of **(insert jurisdiction)**.

4. The parties hereto confirm that it is their wish that this License, as well as other related documents, including Notices, have been and shall be drawn up in the English language only.

Les parties aux presentes confirment leur volonte que cette convention de meme que tous les documents, y compris tout avis qui s'y rattache, soient rediges en langue Anglaise.

5. All Notices and Communication under the License shall be addressed as follows:

(a) For \_\_\_\_\_ LICENSOR, \_\_\_\_\_ to:  
**[insert Person, position, company name and address, e-mail, fax number]**  
Attention:

(b) For \_\_\_\_\_ LICENSEE, \_\_\_\_\_ to:  
**[Person, position, company name and address, e-mail, fax number]**  
Attention:

or to any other address or person as the parties may specify in writing from time to time.

The parties have executed this Related Entities Trademark License Agreement and affixed their seals by their officers duly authorized in this regard, all as of the date first above written.

LICENSOR (Name of Company)

Per: \_\_\_\_\_

Name:  
Position:

Per: \_\_\_\_\_

Name:  
Position:

LICENSEE (Name of Company)

Per: \_\_\_\_\_  
Name:  
Position:

Per: \_\_\_\_\_  
Name:  
Position:

## **UNRELATED ENTITY TRADE MARK LICENSE**

### **TRADEMARK LICENSE**

This Agreement is effective this    day of                    , 2                    . ("Effective Date")

BETWEEN

(Insert full legal name and details of LICENSOR)

( "LICENSOR" )

-and-

(Insert full legal name and details of LICENSEE)

("LICENSEE")

### **PREAMBLE**

LICENSOR intends to license to the LICENSEE the Trademarks set out in Schedule "A" hereto on various conditions and restrictions contained in this Agreement

LICENSEE wishes to be granted a license to use the Trademarks of Schedule "A" on an exclusive basis.

LICENSEE acknowledges that the Trademarks are distinctive of LICENSOR and that the business techniques, know-how and trade secrets of the LICENSOR in the manufacture, marketing and sale of the Products are unique to the LICENSOR.

IN CONSIDERATION of the payment of **(insert amount in words)** dollars (**\$insert amount in numerical form**) payable as of the Effective Date and the mutual covenants contained in this Agreement, the receipt and adequacy of which is acknowledged by the parties, the parties agree as follows:

#### **1.0 DEFINITIONS, INTERPRETATION**

- a) In this Agreement, unless the context otherwise requires, the following expressions shall have the meanings as ascribed to them as follows:
- i) "Agreement" means this Trademark License, its Schedules and any documents or Manuals referred to in the Agreement;
  - ii) "LICENSEE" means **(insert name)**;

- iii) "Insurance" has the meaning set out to it in clause 12;
  - iv) "Manufacturer" means that person described in clause 8.0;
  - v) "Products" means those products as described in clause 2.2;
  - vi) "Services" means those services as described in clause 2.2;
  - vii) "Territory" means that geographic territory as described in clause 9.0;
  - viii) "Trademarks" means those Trademarks as depicted and listed in Schedule "A" which may be amended to add or delete trademarks as the LICENSOR in its sole discretion shall decide;
- b) Words importing the singular number only shall include the plural and vice versa, and words importing the masculine gender shall include the feminine gender and vice versa.
  - c) All references to currency are to [indicate country] currency, unless otherwise provided for in this Agreement or the Schedules hereto, and all payments shall be made in [indicate country] currency.
  - d) Each of the Schedules attached to this Agreement and the headings for each clause form an integral part of this Agreement.
  - e) "Termination of the rights granted hereunder", or similar words to that effect as used in this Agreement, shall not be construed as meaning that this Agreement has terminated with respect to the obligations and liabilities of the LICENSEE and such obligations and liabilities shall continue to accrue and continue in full force and effect notwithstanding such termination of rights.
  - f) The word "person" includes any individual, firm, licensee, corporation, government, governmental body or agency, instrumentality, unincorporated body of persons or associations.
  - g) The words "in writing" or "written" includes printing, typewriting, or any electronic means of communication by which words are capable of being visibly reproduced at a distant point of reception, including but not limited to telecopier and e-mail.

## **2.0 GRANT**

### **2.1 GRANT AND CONSENT**

LICENSOR, effective as of the Effective Date, upon the terms, conditions and other provision set forth in this Agreement hereby grants a license to the LICENSEE to use the Trademarks solely upon or in connection with the Products and Services as more specifically described in clause 2.2..

### **2.2 Specific Description of the Product(s) and Service(s)**

[describe Products]

[describe Services]

The LICENSEE is hereby authorized to manufacture, distribute and/or sell at retail subject to the terms of this Agreement the Products and to describe the Services as described both in association with the Trademarks. The Products are to be wholly manufactured by and the Services are to be solely provided by the LICENSEE or any other person approved by LICENSOR pursuant to the provisions of clause 8.0 hereof. Each and every individual Product and/or Service must be approved, in accordance with the provisions of this Agreement, as to its quality, style and graphic integrity, prior to its distribution, sale or release for any purpose whatsoever. The Products and Services approved herein are intended for retail sale and distribution to the general market place and any promotional sales opportunity or other use of the Trademarks not contemplated and set forth in this Agreement requires the prior written approval of LICENSOR which approval may be arbitrarily withheld.

### **2.3 EXCLUSIVITY, TERM AND RENEWALS**

The rights herein granted to the LICENSEE with respect to the Products shall be exclusive, within the Territory, and subject to the terms, conditions and other provisions of this Agreement. The initial term of this Agreement ("the Term") shall be three (3) years with unlimited renewal terms of three (3) years each provided the LICENSEE:

1. gives ninety (90) days Notice of its intention to renew prior to the end of the Term or any renewal terms;
2. is not in breach of this Agreement; and
3. is prepared to execute and abide by the then current form of exclusive Trademark License of the LICENSOR.

### **3.0 QUALITY CONTROL AND INTEGRITY**

#### **3.1 QUALITY**

The LICENSEE acknowledges that it is of fundamental importance to LICENSOR that the integrity of the Trademarks be maintained to the level deemed appropriate by LICENSOR and in this regard the LICENSEE, in addition to the other terms, requirements and obligations contained in this Agreement, agrees to be bound by and to scrupulously follow the standards, specifications and policies as set out in Schedule "B" hereto, (the Standards) as may be amended from time to time by LICENSOR in its sole discretion.

#### **3.2 PACKAGING, ADVERTISING AND PROMOTION**

The Products and each and every tag, label, imprint or other device, carton, container, packing or wrapping material or other accessory to the Products which incorporates the Trademarks and any art work, advertising, advertising copy, publicity, publication or display or promotion material relating to the Products and Services (collectively "the Items") which incorporate the Trademarks shall comply with the Standards in relation to design, manufacture and materials used all as shall from time to time be acceptable to LICENSOR or its designated representative (herein collectively referred to as the LICENSOR).

### **3.3 SUBMISSION OF PRODUCTS AND ITEMS**

For this purpose, before the LICENSEE uses, distributes and/or sells Products in association with or bearing the Items the LICENSEE shall submit to LICENSOR a reasonable number of such Products and Items free of cost in order that LICENSOR may determine compliance with the Standards. LICENSOR may attend the premises from which the Services are to be provided to observe during normal hours to approve quality of those services to be provided in association with the Trademarks or point out defiances. The LICENSOR shall be entitled to enter upon any premises where the Services are being provided from time to time during normal business hours to observe the Services during the Term of the Agreement. The LICENSEE shall submit samples of the Products and the Items for use in association with the Products and Services to LICENSOR at the address and in accordance with the provisions of clause 19.3 of this Agreement, from time to time and forthwith upon the request of LICENSOR and if the Standards are not met LICENSOR shall allow LICENSEE ten (10) days to rectify the deficiency and submit further samples or remove the Products or Items from the marketplace. If LICENSEE fails to comply with the above, the LICENSOR may give a further ten (10) days notice to terminate the rights granted hereunder. The LICENSEE shall ensure that all Products and Items not in compliance with the Standards are withdrawn from the marketplace or inventory and destroyed. After approval of Products, Services and Items has been obtained from LICENSOR pursuant to this clause, the LICENSEE shall not depart from the form of Products, Services or Items as approved in any respect without LICENSOR'S written consent or direction.

### **3.4 INSPECTION**

The LICENSEE further agrees that LICENSOR shall have the right at any time during normal business hours, to attend at the premises of the LICENSEE and/or the Manufacturer to check the method of manufacture of the Products and Items and quality of the Products and Items to ensure the Standards are being maintained.

## **4.0 MARKINGS**

### **4.1 TRADEMARK NOTICE AND OWNERSHIP**

The LICENSEE shall mark in the appropriate place on or within each of the Products or Items which bear the Trademarks or at any premises where the Services are provided, an appropriate notice of copyright, trademark or otherwise, as stipulated by LICENSOR from time to time, and shall indicate ownership and, in addition, notice that the LICENSEE is using the same as an "Official Licensee", Registered User or other such designation, as required from time to time by LICENSOR.

### **4.2 THREE DIMENSIONAL ITEMS**

If and to the extent that the LICENSEE is, by this Agreement, authorized to reproduce in a three dimensional model form of any one or more of the Trademarks, the models and Items used in connection therewith shall carry such notice of industrial design or other protection as may from time to time be required by LICENSOR.

### 4.3 LICENSEE COOPERATION

The LICENSEE further agrees to cooperate fully and in good faith with LICENSOR for the purpose of securing or protecting LICENSOR'S legal rights in any of the Trademarks, and/or any other intellectual property, and, in the event that there has been no previous registration of any of the Trademarks or other intellectual property rights, or any part thereof or any of the Products, Services and/or Items, the LICENSEE shall, if LICENSOR requests and only if LICENSOR requests, register such a copyright, trademark and/or industrial design or property right, in the appropriate governmental office, whether domestic or foreign at LICENSOR'S expense, and any and all copyright, trademarks, service marks, industrial designs or other rights in and to any of the Trademarks or other intellectual property right or any part thereof or any of the Products, Services and/or any Items associated therewith, as between the LICENSEE and LICENSOR (if it requests same), are reserved to LICENSOR and all such registration by the LICENSEE shall be in the name of LICENSOR (if it requests same). Nothing contained in this Agreement shall be construed as an assignment or grant to the LICENSEE of any right, title, or interest in or to any copyright, trademark, industrial design or other intellectual property right or to any part thereof or any of the Products, Services or Items or any right in relation thereto other than the specific grants given in this Agreement.

## 5.0 DISTRIBUTION

### 5.1 LICENSEE SHALL BE DILIGENT

The LICENSEE hereby covenants and agrees with LICENSOR that the LICENSEE shall diligently and continuously promote the Products and Services within the Territory with a view to gaining maximum volume of distribution and sales, and further covenants, to distribute and sell the Products and provide Services so as to satisfactorily meet demand.

### 5.2 CUSTOMERS OF LICENSEE

Subject to governing laws, the LICENSEE shall not sell or distribute, in any manner whatsoever, any of the Products to jobbers, wholesalers, distributors retail stores or merchants, who are not acceptable to LICENSOR;

### 5.3 COMPLIANCE WITH ALL LAWS

The Products shall be manufactured, distributed, advertised and sold in compliance with all applicable governmental rules, laws and regulations. The LICENSEE shall cause accurate labelling regarding the care, maintenance and use of the Products where applicable, to be affixed to the Products. In addition, the LICENSEE shall pre-test the Products prior to selling same and the LICENSEE hereby warrants and represents that the Products shall be, in all respects, safe, non-injurious and fit for use by the person or entity for whom the Products are intended. All labelling referred to in this clause shall be submitted to LICENSOR prior to its use for LICENSOR'S approval in writing.

### 5.4 GOODWILL

The LICENSEE and its employees, servants and agents will, in the process of effecting distribution and retail sale of Products and in the provision of the Services, maintain the highest standard of conduct and good taste so as to preserve and enhance the goodwill, good name and reputation of LICENSOR.

## 5.5 SALE TO LICENSOR

The LICENSEE agrees to sell to LICENSOR quantities of the Products at the lowest prices and on the best terms as the LICENSEE sells similar quantities in the course of its distribution. In the event that the LICENSEE is at any time unable or unwilling to produce and sell to LICENSOR Products in a form, quality, style and quantity requested by LICENSOR and at as low prices and on as good terms as the LICENSEE sells similar quantities of the Products in the course of its distribution, LICENSOR shall have the right to place orders for the supply of the Products as it requires with suppliers other than the LICENSEE, and such purchases shall not constitute a breach of this Agreement.

## 6.0 INDEMNIFICATION

### 6.1 FOR LEGAL ACTION

The LICENSEE shall indemnify and hold LICENSOR harmless of and from any claims or suits arising out of any patent, process, method or device or out of infringement of any copyright, trademark, trade-name, patent or libel or invasion of the right of privacy, publicity, or other property rights, or defects or failure to perform, alleged or otherwise, in or relating to the Products or Services, or infringement or breach of any other personal or property right of any person by the LICENSEE, its officers, employees, agents or anyone directly or indirectly acting by, through, on behalf of or pursuant to contractual or any other relationship with the LICENSEE in connection with the preparation, manufacture, distribution, retail sale, advertising and/or promotion of the Products and Services, or, in relation thereto, any material naming or referring to any performers, personnel, trademarks and/or elements. The aforesaid indemnification does not apply to any particular matter concerning whether or not the LICENSOR had the right to grant the license to use of the Trademarks by the LICENSEE pursuant to this Agreement. As concerns the foregoing indemnification, the LICENSEE shall defend and hold harmless LICENSOR at no cost and expense to LICENSOR whatsoever, against any loss, damage or expense whatsoever (including, without limitation, loss of anticipated profits, special, incidental or consequential damages, legal fees or attorney's fees and expenses of investigation with respect to any claim, action or proceeding against LICENSOR. The aforesaid indemnification applies whether or not such loss, damage or expense is reasonably contemplated by the parties, naturally arises or is unusual, exceptional, probable or remote. This indemnity is in addition to and shall not affect any other indemnity contained in this Agreement. LICENSOR shall have the right to defend any action or proceeding relating to the aforesaid with attorneys of their own selection. LICENSEE shall not settle, compromise or attempt to settle any legal action or proceeding involving the Trademarks or other intellectual property right of the LICENSOR without the LICENSOR'S prior written consent.

### 6.2 FAILURE TO PERFORM

The LICENSEE shall indemnify and hold the LICENSOR harmless against any loss, damage or expense whatsoever (including, without limitation, loss of anticipated profits, special incidental or consequential damages, legal fees on a solicitor and client basis and expenses of investigation with respect to any claim, action or proceeding against LICENSOR) arising from or incidental to any failure on the LICENSEE'S part to perform and discharge its obligations and liabilities under this Agreement or any misrepresentation of the LICENSEE under this Agreement or any act by the LICENSEE not expressly authorized by this Agreement, whether or not such loss, damage or expense is reasonably contemplated by the

parties, naturally arises from such failure or is usual, exceptional, probable or remote. This indemnity is in addition to and shall not affect any other indemnity contained in this Agreement.

## **7.0 PROTECTION OF TRADEMARKS**

### **7.1 USE OF OTHER MARKS**

Any use of words (whether in English, French or any other language), graphics or other copy or design placed upon or around or used in direct or indirect association with the Trademarks the Products or the Services shall first have the prior written approval of LICENSOR.

### **7.2 ACKNOWLEDGEMENT OF OWNERSHIP**

The LICENSEE acknowledges and agrees that it has no right, title or interest in or to the Trademarks or other intellectual property right of LICENSOR, nor any part thereof, except the use of the Trademarks as set out in the Agreement and that nothing in this Agreement shall be construed as an assignment or grant to the LICENSEE of any right, title or interest in or to the Trademarks of LICENSOR and of LICENSOR'S right, title or interest in or to any of the Trademarks, either during the currency of this Agreement or thereafter. The LICENSEE shall not, whether directly or indirectly, at any time assert the invalidity of the Trademarks or any other intellectual property right of the LICENSOR or any part thereof, contest LICENSOR' ownership of or rights in or to the Trademarks or any part thereof.

### **7.3 USE IN ACCORDANCE WITH AGREEMENT**

The LICENSEE further agrees that it shall use the Trademarks solely in accordance with the provisions of this Agreement and in such manner as to protect and preserve all LICENSOR'S rights. LICENSEE will not adopt or use in the Territory or elsewhere any trademark, symbol, name, word or other mark which includes or is confusingly similar to any of the Trademarks or any part thereof.

### **7.4 USE OF TRADEMARKS IN LICENSEE TRADE-NAME**

LICENSEE will not use any of the Trademarks or any part thereof, as part of a trade, business or corporate name or style to be used by it without the prior written permission of the LICENSOR. If the LICENSOR does grant permission in this regard, the LICENSEE agrees that in the event of expiration or termination of the Agreement, for any reason whatsoever, the LICENSOR may request LICENSEE to forthwith cancel or amend its name to delete the Trademarks. In the event that LICENSEE fails to comply with the request within seven (7) days of Notice the provisions of clause 13.3 shall apply.

### **7.5 REASSIGNMENT OF RIGHTS TO LICENSOR**

The LICENSEE agrees that, should any rights, title or interest in or to the Trademarks or any part thereof or any copyright, trademark or any other intellectual property of LICENSOR become vested in it (by operation of law or otherwise) it shall hold those rights in trust for LICENSOR and shall, at the request of LICENSOR forthwith unconditionally assign any such rights title or interest to LICENSOR without recompense. Should the LICENSEE create and

make use of any of the Trademarks or any part thereof in a configuration other than that set out in Schedule "A" hereto, as amended from time to time by LICENSOR in its sole discretion, then the LICENSEE agrees that all rights in and to any new version, translation or arrangement of the Trademarks, or other change in the Trademarks created by the LICENSEE, shall be and shall remain the exclusive property of LICENSOR, and the provisions of this Agreement shall apply, *mutatis mutandis*, as they do to the Trademarks. LICENSOR shall be the sole judge as to whether there has been any new version, translation, arrangement or a change of the Trademarks within the meaning of this clause.

## **8.0 NO ASSIGNMENT OR SUB-LICENSE**

The rights granted hereunder are personal to the LICENSEE and are not assignable by the LICENSEE and are subject to the conditions that no part of the process of manufacture of the Products shall be carried on by any person other than the LICENSEE without the prior written consent of LICENSOR. Should the Products or any part thereof not be manufactured by the LICENSEE, then the LICENSEE shall obtain the execution by the manufacturing party (hereinafter "the Manufacturer") of an exclusive manufacturing agreement in the form attached hereto as Schedule "C", the terms of which may be amended by LICENSOR from time to time in LICENSOR'S sole discretion and the LICENSEE shall provide a copy of the executed agreement to LICENSOR prior to LICENSOR'S granting consent to the Manufacturer to manufacture the Products or any part thereof. In the case of Services, if any portion of the Services are provided by a third party the Consent of the Licensor shall first be obtained in writing. The Licensee shall then obtain a signed Services Agreement in the form of Schedule "C" as amended in accordance with the instructions of the Licensor.

## **9.0 TERRITORY AND RESERVATION OF RIGHTS**

The Products may not be sold, offered for sale, advertised, or promoted nor the Services provided, advertised or promoted in other than the Territory described in Schedule "D" to this Agreement. Subject to clause 5.5 LICENSOR shall not grant to any person other than the LICENSEE, the right or consent to use the Trademarks in association with the Products and/or Services in the Territory, so long as the LICENSEE fully respects its obligations under the terms of this Agreement. LICENSOR expressly reserves the right to consent to and grant the right to use the Trademarks to other persons engaged in the manufacture, distribution and/or retail sale of merchandise or Products identical or similar to the Products in geographic areas other than the Territory and reserves any rights to itself not expressly granted in this Agreement.

## **10.0 SUPPLY OF PRODUCTS**

The LICENSEE shall commence manufacturing the Products and Services so as to have the Products and Services available in reasonable quantities for general distribution, retail sale and availability no later than **(insert date)** or if no date is inserted in this clause within 90 days following the Effective Date of this Agreement.

## **11.0 ROYALTY PAYMENTS, SALES SUMMARIES AND FINANCIAL STATEMENTS AND INTEREST**

### **11.1 PAYMENT OF ROYALTY**

As consideration for LICENSOR entering into this Agreement, the LICENSEE shall pay to LICENSOR royalties based on sales of the Products and Services (including Products subsequently modified with the prior written consent of LICENSOR) calculated in accordance with the royalty rates and provisions of Schedule "E" hereto. Immediately upon the occurrence of sales transactions in respect of which royalties are payable, an amount of the LICENSEE'S monies equivalent to the amount of royalties payable shall be deemed automatically to constitute trust funds whose beneficiary is LICENSOR. At LICENSOR'S request, the LICENSEE shall establish a separate trust account and deposit to the trust account all royalty monies to be paid to LICENSOR pursuant to this Agreement. At LICENSOR'S request, the LICENSEE shall execute all such documents to permit LICENSOR to be a sole signatory in connection with such trust account and agrees that all interest earned on monies deposited in the trust account shall be for the benefit of and credited to LICENSOR. Royalties pursuant to this clause shall not be payable until after a total of **(insert written amount equal to amount set out in the Consideration clause on page 1 which is the upfront royalty fee)** dollars (**\$ insert amount of Consideration in numerical form)** royalty has been assessed as owing to the LICENSOR under this clause. Thereafter, the payment of royalties pursuant to and in accordance with this clause shall be payable.

### **11.2 ROYALTY SUMMARY**

In addition to submitting the monthly royalty payments as specified in Schedule "E", the LICENSEE shall submit to LICENSOR promptly on the 15th day of each month commencing six (6) months from the Effective Date of this Agreement a complete and accurate summary of sales in the form set out in Schedule "F" hereto, or in such other form as may be determined from time to time by LICENSOR. The first such sales summary shall be for the period from the date of execution of this Agreement to and including the month preceeding the month that such sales summary is submitted. Such sales summaries shall be due regardless of whether or not a royalty payment is payable, or whether there are sales during the preceding month, or in the case of the first such summary, the preceding six (6) months, and in such event the sales summary shall indicate that there were no sales.

### **11.3 FAILURE TO SUBMIT SUMMARY OF SALES**

The LICENSEE hereby agrees that failure or refusal by the LICENSEE to furnish the sales summary required in clause 11.2 shall constitute a breach within the meaning of paragraph (g) of clause 15.1 of the Agreement, or alternatively, at LICENSOR'S option, shall entitle LICENSOR to collect from the LICENSEE, in addition to any royalties or interest payable, liquidated damages of **(insert amount in written form)** dollars (**\$insert amount in numerical form)** per day for each day such sales summary has not been received by LICENSOR as required by clause 11.2. The LICENSEE further agrees to pay such liquidated damages at the same time as it provides the late sales summary to LICENSOR in accordance with clause 11.1.

#### 11.4 WHERE PAYMENTS ARE MADE

All sales summaries, liquidated damages and any other monies owing to LICENSOR hereunder shall be submitted to LICENSOR at the address set out in clause 19.0 hereof or as directed in accordance with clause 11.1.

#### 11.5 ANNUAL SUMMARY

Within thirty (30) days of the end of each of the LICENSEE'S fiscal years during the Term of this Agreement, or within thirty (30) days of the termination or expiration of the rights granted hereunder and also forthwith upon the request of LICENSOR from time to time, the LICENSEE shall furnish to LICENSOR at the sole expense of the LICENSEE, an Annual Summary in the form of Schedule "G" covering such fiscal year or other period as required by LICENSOR. Such information shall be certified accurate by an independent, competent accountant acceptable to LICENSOR and shall include such other relevant information relating to the matters therein contained as may reasonably be required by LICENSOR.

#### 11.6 MINIMUM AND MAXIMUM ROYALTIES

The minimum royalties payable under this Agreement on an annual basis calculated from the Effective Date are **(insert minimum royalty figure in written and numerical form)** per year. If the LICENSEE fails to achieve sales levels which would result in the payment of royalties of at least the minimum royalties in any year of the Agreement, then the LICENSOR may, in its sole discretion, immediately terminate the Agreement or convert the Agreement to be a non-exclusive license. In the event that the LICENSEE achieves annual sales upon which royalties payable to LICENSOR exceed **(insert royalty figure)** then during that year of the Agreement no further royalties shall be payable for sales which exceed that amount.

#### 11.7 VERIFICATION OF ROYALTIES

The accountants of LICENSOR may at any time verify Schedules "E", "F" and "G" and if it is determined from such verification that royalties paid are less than what should have been paid, then the LICENSEE shall forthwith pay to LICENSOR any amount owing and, in the event such error is in excess of two (2%) percent of the correct amount, shall reimburse LICENSOR for all expenses incurred in making such verification.

#### 11.8 INTEREST

Without restricting any other rights or remedies of LICENSOR hereunder, interest shall be charged at the rate of twenty-four (24%) percent per annum, calculated and payable monthly on the last day of each calendar month, from the date payment was due, on any amounts due under this Agreement which remain unpaid. This interest amount represents further liquidated damages payable to LICENSOR and any amounts which were not paid to LICENSOR as a result of the intentional or accidental miscalculation of royalties due or failure of the LICENSEE to timely pay royalty amounts until the said payment is actually made to LICENSOR.

## 11.9 RECORDS AND VISITATION

The LICENSEE agrees to keep accurate books and records covering all matters relating to the Agreement and the Products and Services and LICENSOR shall have the right, at all reasonable hours of the day and upon giving to the LICENSEE forty-eight (48) hours prior written notice, to an examination of the books and records and of all other documents and material in the possession or under the control of the LICENSEE with respect to the matters relating to this Agreement and the Products and Services, and shall have free and full access for that purpose with the right to make extracts and take copies of those records and other documents. The records referred to above shall be kept at the address indicated in clause 19.0 for the LICENSEE.

## 12.0 INSURANCE

### 12.1 THE POLICY

The LICENSEE at its own expense shall carry and maintain in full force and effect for the full term of this Agreement and for any post termination period the Agreement remains in effect in whole or in part, product liability insurance for the Products and Services, with the LICENSEE and LICENSOR being named as co-beneficiaries or insureds, in a form and amount satisfactory to LICENSOR such amount not to be less than **(insert amount in written and numerical form)**, per incident or occurrence, unless LICENSOR otherwise specifically agrees in writing to such lesser amount referred to above. The LICENSEE shall forthwith upon the request of LICENSOR provide LICENSOR with evidence satisfactory to LICENSOR that the Insurance is then in existence. The insurance policy shall contain a provision that it shall not, without thirty (30) days prior written notice to LICENSOR, be varied or cancelled. In the event that the insurance is cancelled, suspended, terminated or expires, then the rights granted under this Agreement may be terminated in the sole discretion of the LICENSOR.

### 12.2 UNDERTAKING FROM INSURERS

Notwithstanding the LICENSEE'S obligation under this clause, the LICENSEE further agrees to obtain an undertaking from its insurers to the effect that the insurance shall not be permitted to lapse or be amended by reason of the failure to pay premiums without LICENSOR having been first given a minimum of thirty (30) days written notice of such failure to pay. LICENSOR reserves the right to pay those premiums in full and shall forthwith be reimbursed by the LICENSEE and interest shall accrue on these premium amounts in accordance with clause 11.8 hereof in the event the LICENSEE fails to reimburse LICENSOR for these amounts within forty-eight (48) hours of Notice to LICENSEE of LICENSOR'S payment under this clause.

## 13.0 GOVERNMENTAL COMPLIANCE DOCUMENTATION

### 13.1 RECORDAL OF LICENSE

At the request of LICENSOR, the LICENSEE shall file or shall join with LICENSOR in making application to the requisite government authority in the Territory in any jurisdiction with the intent that the Agreement shall be approved or the LICENSEE shall be a registered user or other appropriate designation of any/or all of the Trademarks which are capable of being

protected as registered Trademarks in the Territory as may be determined by LICENSOR from time to time.

### **13.2 CANCELLATION OF RECORDAL**

Upon the termination of rights granted hereunder, at the request of LICENSOR, the LICENSEE shall file or join with LICENSOR in any application which may be necessary to cancel the registration or status of the LICENSEE as a registered user or other appropriate designation in respect of any of the Trademarks and execute and deliver all such documents and do all such further acts and deeds as LICENSOR may require from time to time in this regard.

### **13.3 POWER OF ATTORNEY**

The LICENSEE hereby irrevocably nominates, constitutes and appoints the president of the LICENSOR as its true and lawful attorney to prepare, alter, sign, seal and deliver any and all documents of any kind in the name of the LICENSEE in order to achieve the intent of clauses 7.4, 13.1 and 13.2. The LICENSEE hereby grants full power to the president of the LICENSOR to substitute and appoint one or more attorney or attorneys with the same powers as granted to the president of the LICENSOR under this Agreement. The LICENSEE further agrees to indemnify and hold harmless LICENSOR and its attorneys against all expenses, costs, charges, damages and liabilities whatsoever, arising directly or indirectly in connection with the exercise of the powers granted under this clause. This indemnity is in addition to and shall not affect any other indemnity contained in this Agreement.

## **14.0 INFRINGEMENTS**

### **14.1 ADVISE LICENSOR OF INFRINGEMENT**

The LICENSEE agrees that if it receives knowledge of any actual or intended manufacture, advertising, distribution or retail sale or provision by anyone other than the LICENSEE of Products or Services or of such goods or products as would be confusingly similar in the minds of the public or which bear or are promoted in association with any of the Trademarks or any part thereof or any names, symbols, emblems, designs or colors which would be confusingly similar in the minds of the public to any of the Trademarks or any part thereof, or should the LICENSEE become aware of the breach of any other intellectual property right of LICENSOR the LICENSEE will immediately bring such fact to the attention of LICENSOR by written notice.

### **14.2 LEGAL ACTION FOR INFRINGEMENT**

Should an infringement of any of the Trademarks or any part thereof occur, then LICENSOR shall have the right to commence, prosecute, defend, settle or otherwise dispose of legal proceedings arising out of any such infringement, and the LICENSEE shall cooperate and assist in the commencing, prosecuting, defending, settling or other disposition of any such legal proceeding. If requested by LICENSOR the LICENSEE shall join in or cooperate in the commencing, prosecuting, defending, settling or other disposition of such legal proceeding as may be instituted by LICENSOR. All such commencement, prosecution, defence, settlement or other disposition, sole or joint, of any such action by the LICENSOR with or

without the LICENSEE as a party shall be at LICENSOR'S expense, including reasonable legal fees incurred by the LICENSEE.

#### 14.3 PROCEEDS OF LITIGATION

The proceeds, if any, of any such legal proceedings, in the form of damages, profits or other recovery, shall belong to LICENSOR.

#### 14.4 LEGAL ACTION BY LICENSEE

Unless requested by LICENSOR, the LICENSEE shall not commence, prosecute, defend, settle or dispose of any legal proceedings involving any infringement of any of the Trademarks or any part thereof or any other intellectual property right of LICENSOR.

### 15.0 TERMINATION OF RIGHTS AND EXPIRATION OF AGREEMENT

#### 15.1 EXPIRY

The rights granted hereunder shall commence on the Effective Date and, provided that LICENSOR elects not to waive compliance with a breach, which leads to termination of such rights, (which right to waive, LICENSOR shall have at all times, either before or after the occurrence of such breach), the rights granted hereunder shall terminate at the sole option of the Licensor on the earlier of:

- a) the expiry of this Agreement for failure to renew or give notice to renew; or

#### TERMINATION

At the sole option of the LICENSOR, this Agreement may terminate on:

- b) the date immediately prior to the date on which:
  - i) the bankruptcy, insolvency, receivership or winding-up of the LICENSEE occurs;
  - ii) a custodian liquidator, sequestrator, receiver and manager or any other person with similar powers is appointed for the LICENSEE or of its property or any substantial part thereof;
- c) the dissolution of the LICENSEE;
- d) the disposition, by conveyance, transfer, lease, assignment or otherwise of all, or substantially all, of the assets of the LICENSEE;
- e) a change of control in fact in any manner whatsoever of the LICENSEE, as a result of which those persons who presently control in fact the LICENSEE cease to do so, in any manner whatsoever;
- f) the day prior to the date on which the seizure or attachment of the property, assets or undertaking of the LICENSEE, as a result of any action taken against it by any other person;

- g) the breach of any condition, covenant, provision, warranty, representation or other term herein contained by the LICENSEE, including, without limitation, the timely delivery of the royalty sales summary and payment of any monies due thereunder;
- h) notice being given by LICENSOR to the LICENSEE of termination as a result of any misrepresentation or inaccuracy contained in any application made or document provided to LICENSOR in connection with LICENSOR entering into this Agreement or the performance by the LICENSEE of its obligations under this Agreement;
- i) the breach of any other provision hereof which results in the termination of the rights granted hereunder or of this Agreement.

## 15.2 IRREPARABLE HARM

The LICENSEE acknowledges that any failure by it to cease to use the Trademarks or any part thereof immediately upon the termination or expiry of the rights granted hereunder, shall result in immediate, irreparable and irremediable damage to LICENSOR. The LICENSEE agrees that in the event of such failure and in addition to any other remedies it may have under this Agreement, LICENSOR shall be entitled to relief in the way of temporary, interlocutory and permanent injunctions and such other further relief as any Court with jurisdiction may deem just and proper.

## 15.3 EFFECT OF TERMINATION

Upon the termination of the rights granted hereunder:

- a) the LICENSEE shall forthwith remove and discontinue the use of all Trademarks, Items, signs, stationery, advertising and other material that would make it appear to the public that the LICENSEE is still in any way associated with LICENSOR or has the rights granted hereunder;
- b) the LICENSEE and the Manufacturer and Service Provider shall immediately provide LICENSOR with a written account of all Products and Items bearing or associated with the Trademarks or any part thereof in the possession or control of the LICENSEE or the Manufacturer, as the case may be, at the date of termination. LICENSOR or its agent shall have the right at any time and without prior notice to the LICENSEE or the Manufacturer, to conduct a physical inventory of the LICENSEE and the Manufacturer in order to verify such account and in this regard the LICENSEE and the Manufacturer shall provide access to all places under their respective control to LICENSOR. In respect of all such Products and Items, within fourteen (14) days after the date of termination of the rights granted hereunder, or within such longer time period as LICENSOR may consent to in writing, the LICENSEE shall either:
  - i) modify such Products to remove all indication of the Trademarks or any part thereof; or
  - ii) sell such Products to LICENSOR at a price to be agreed upon by the LICENSEE and LICENSOR, it being understood that LICENSOR is in no way obliged to purchase the Products; or

- iii) deliver the Products to LICENSOR for destruction and without any compensation whatsoever to the LICENSEE.
- iv) remove all signage, promotional and advertising material related to the premises where the Services were being provided.
- c) LICENSEE shall within two (2) business days return all documentation or copies thereof, in any form whatsoever of any materials of any kind, provided to the LICENSEE by LICENSOR during the Term of the Agreement.
- d) On the day following the occurrence of any of the events referred to in clauses b) (i), (ii), (iii) and (iv), and destruction or delivery up of all Items, the LICENSEE shall furnish to LICENSOR a certificate of the LICENSEE verifying such modification, sale or delivery, as the case may be. All Items in inventory at the LICENSEE and Manufacturer shall be delivered up to the LICENSOR as it may direct at no cost to the LICENSOR.
- e) The LICENSEE, Manufacturer and Service Provider agree to permit LICENSOR and its respective auditors, accountants or agents, to inspect all of the records and books of the LICENSEE, Manufacturer and Service Provider, as the case may be, and to investigate generally all transactions of business carried on by the LICENSEE, Manufacturer and Service Provider pursuant to the rights granted hereunder or pursuant to their manufacturing or service provider agreements.
- f) All amounts representing royalties or other monies to which LICENSOR is entitled pursuant to the provisions of this Agreement and whether held in the trust account or otherwise, shall be immediately paid to LICENSOR.

#### 15.4 SALES BY RECEIVER.

In the event that the rights granted hereunder terminate due to circumstances as set forth in clause (b), (c), (d), (e), (f) or (g) of clause 15.1, the LICENSEE, its receivers, representatives, trustees, agents, administrators, successors, and/or assigns shall have no right to sell, exploit or in any way deal with any of the Products or Items or any carton, container, packing or wrapping material pertaining thereto which bears or is associated with the Trademarks or any part thereof, except with and at all times subject to such prior written consent and prior instructions of LICENSOR.

#### 15.5 PAYMENT ON TERMINATION

Upon the termination or expiration of the rights granted hereunder, the LICENSEE shall forthwith pay to LICENSOR the outstanding balance of the minimum guaranteed royalty and LICENSOR may elect to retain all monies paid by or due to be paid by the LICENSEE to LICENSOR pursuant to the terms of this Agreement as liquidated damages and/or may elect to pursue whatever other cause of action that it may have at law or equity.

#### 15.6 RIGHT TO ADVISE THIRD PARTIES

The LICENSEE further agrees that LICENSOR has the right to notify any persons it deems necessary or appropriate as to the termination or expiry of the rights granted hereunder.

## **15.7 THREAT OF LEGAL ACTION BY THIRD PARTY**

In the event of a threat by a third party of legal action relating to the use of the Trademarks by the LICENSEE, LICENSEE shall immediately notify LICENSOR of the threat whether it be in writing or oral. The LICENSEE shall not respond to the threat of legal action by a third party except as set out above or as requested by the LICENSOR in writing. LICENSOR shall have the sole right to deal with any such threat as to use of the Trademarks. LICENSOR may defend such threat or settle the threat in any way it deems, in its sole discretion, appropriate. The LICENSEE agrees to assist the LICENSOR in the settlement or defence of the third party threat.

## **15.8 CLAUSES SURVIVING UPON TERMINATION**

The following clauses shall survive termination or expiration of this Agreement, the Preamble, 1.0, 4.3, 5.3, 6.0, 7.2, 7.4, 7.5, 11.0, 11.7, 11.8, 11.9, 12.0, 13.0, 14.2, 14.3, 14.4, 15.0, 16.0, 19.0, 30.0 and 32.0.

## **16.0 REMEDIES OF LICENSOR**

- a) Without restricting any of the other rights or remedies of LICENSOR hereunder, upon termination or expiry of the rights granted hereunder and regardless of the reason, all rights whatsoever granted or accruing to the LICENSEE pursuant to this Agreement shall automatically revert to LICENSOR.
- b) In the event LICENSOR shall be required by reason of any default hereunder by the LICENSEE to resort to litigation or other action to enforce any of its rights under this Agreement, then the LICENSEE shall pay all costs and expenses, including legal fees, incurred by LICENSOR in or in connection with such litigation, or other action.
- c) In the event that the rights granted hereunder are terminated or expire by reason of default hereunder by the LICENSEE, the LICENSEE agrees that any remedial action and/or litigation to be taken by the LICENSEE against LICENSOR shall not be initiated and/or otherwise commenced on or before the expiry date of this Agreement.
- d) The LICENSEE agrees that upon the termination of the rights granted hereunder due to default by the LICENSEE, LICENSOR shall have the right to immediately and forthwith grant similar rights as hereunder granted to other persons engaged in the manufacture, distribution and/or retail sale of products identical or similar to the Products or Services, or coming within the same general descriptive category and authorizing the manufacture, distribution and/or retail sale of such products or the provision of such Services in the Territory.
- e) Any remedies of LICENSOR provided for in this Agreement shall not be exclusive of any other remedies available to LICENSOR under this Agreement or by law, but the same shall be deemed to be cumulative.

## **17.0 RESERVED RIGHTS**

Rights not herein specifically granted to the LICENSEE are reserved by LICENSOR and may be used or exercised by LICENSOR without any limitation whatsoever.

## **18.0 NO JOINT VENTURE OR AGENCY RELATIONSHIP**

### **18.1 LICENSEE NOT AGENT**

This Agreement shall not be construed as appointing the LICENSEE as LICENSOR'S agent or an associate of LICENSOR, nor as giving to the LICENSEE an interest in the business or property of LICENSOR, or *vice versa* nor as giving to the LICENSEE the right to act as the representative of LICENSOR.

### **18.2 NO JOINT VENTURE**

Nothing herein contained shall be construed to place the parties in a relationship of partners or joint venturers and the LICENSEE shall have no power to obligate or bind LICENSOR in any manner whatsoever unless LICENSOR agrees in writing to be so bound.

## **19.0 NOTICES**

### **19.1 ADDRESS FOR NOTICES**

Any notice, consent, approval, direction or instrument required or permitted to be given to any party hereunder shall be in writing and may be given mailing the same postage prepaid or delivering the same addressed to the said party at the following address:

LICENSOR

LICENSEE

Attention:

Attention:

Fax Number:

Fax Number:

E-mail Address:

E-mail Address:

or to such other address as the party to whom the notice, consent, approval, direction or instrument is to be given shall have last notified the other party, giving the same in the manner provided for in clause 19.1.

### **19.2 DELIVERY OF NOTICE**

Any notice, consent, approval, direction or other instrument aforesaid, if delivered, shall be deemed to have been received on the date on which it was delivered (unless such delivery is received after 5:00 p.m., local time, in which case it shall be deemed to have been received the following normal business day), or, if mailed, shall be deemed to have been received:

- a) on the third (3rd) normal business day following the day on which it was mailed from with the Territory; or
- b) if mailed from outside of the Territory, on the date of delivery thereof.

### 19.3 SUBMISSION OF SAMPLES OF PRODUCTS, ITEMS, ADVERTISING AND PROMOTION

Any submission of samples of Products, Items advertising or promotion for consent or approval pursuant to this Agreement, to be made by the LICENSEE to LICENSOR shall be made to LICENSOR at its address and in accordance with the terms of this clause and LICENSOR shall have at least ten (10) working days following receipt of such submission to inspect same, provided however that should the consent or approval, as the case may be, not be given within such period, then such consent or approval, as the case may be, shall be deemed not to have been given.

### 20.0 VARIATION, ALTERATION AND WAIVER

#### 20.1 CHANGE OF AGREEMENT

Any approval or consent to be given pursuant to the provisions of this Agreement or any variation, alteration or waiver of any of the rights of LICENSOR or obligations of the LICENSEE hereunder must be in written form and signed by LICENSOR.

#### 20.2 WAIVER

The waiver by LICENSOR of strict compliance or performance of any of the terms and conditions of this Agreement or of any breach thereof on the part of the LICENSEE shall not be held or deemed to be a waiver of any subsequent failure to comply strictly with or perform the same or any other term or condition of this Agreement or of any breach thereof.

### 21.0 ATTORNMEN

#### 21.1 GOVERNING LAW

This Agreement, unless otherwise specified herein, and any other documents and instruments delivered pursuant hereto shall be governed by and construed in accordance with the laws of **(country)**. Any legal action relating to the enforcement or interpretation shall be brought in (town, city, province/state.) and the procedures of the above named jurisdiction shall govern any such legal action.

#### 21.2 JURISDICTION

Each party hereto accepts and attorns to the jurisdiction of the courts of **(insert jurisdiction)** and all courts of appeal therefrom for any and all actions or matters arising out of or otherwise concerning this Agreement and the LICENSEE further agrees that, in addition to any other manner of service provided for by law, any and all pleadings and other documents, including without limitation those of an originating nature, to be served on the LICENSEE, may be served on the LICENSEE in the manner contemplated for Notices pursuant to clause 19 and the parties agree that such service shall be deemed for all purposes to be good and sufficient service of such pleading or other document, as the case may be. All legal proceedings or procedures relating to the enforcement or interpretation of this Agreement may only be brought in the Courts of **(insert jurisdiction)** which have exclusive jurisdiction under this Agreement.

### 21.3 MEDIATION AND ARBITRATION

### 22.0 HEADINGS AND PREAMBLE

The headings of all clauses in this Agreement shall be considered in the construction of this Agreement.

### 23.0 SEVERANCE

The invalidity of any clause of this Agreement or any term, condition or covenant herein contained on the part of any party shall not affect the validity of any other provision or covenant hereof or herein contained as each such covenant and provision is separate and distinct.

### 24.0 COMPLETE AGREEMENT

The entire agreement between the parties hereto is stated herein. It is understood and agreed that there are no agreements, conditions, warranties, terms, or representations, oral or written, statutory or otherwise, other than those contained herein and that all prior conversations, understandings, arrangements, statements, communications or agreements, oral or written, with respect to this agreement are hereby suspended.

### 25.0 COUNTERPARTS

This Agreement may be executed in several parts in the same form and such parts so executed shall together constitute the original Agreement and such parts, if more than one, shall be read together and construed as if the signing parties hereto had executed one copy of this Agreement.

### 26.0 TIME OF ESSENCE

Time shall be of the essence in this Agreement.

### 27.0 ASSIGNMENT AND INUREMENT

#### 27.1 SUCCESSORS AND ASSIGNS

This Agreement and any other documents and instruments given pursuant hereto shall enure to the benefit of and be binding upon the parties thereto and the respective successors and assigns of LICENSOR and the permitted successors and assigns of the LICENSEE.

#### 27.2 LICENSOR'S RIGHT TO ASSIGN

Without limiting the right of LICENSOR to otherwise assign any of its interest hereunder, LICENSOR may assign, in whole or in part, all its right, title and interest in and to this Agreement, or any provisions hereof, including without limitation all rights of action or other rights accruing to LICENSOR or which might hereafter accrue to LICENSOR under this Agreement.

## **28.0 NON-COMPETE CLAUSE**

The LICENSEE acknowledges that the LICENSEE'S name, the business reputation associated therewith, the methods and techniques employed by the LICENSEE, LICENSOR and provided to LICENSEE under this Agreement, the training and instruction to be provided hereunder, the knowledge of the services and methods acquired by the LICENSEE and the opportunities, associations and experiences established and acquired by the LICENSEE hereunder are of considerable value.

In consideration thereof and in the event of the expiration or termination of this Agreement for any reason whatsoever, the LICENSEE shall not at any time during the period of one (1) year from the date of such expiration or termination either individually or in partnership or jointly or in conjunction with any person or persons, firm, association, syndicate, licensee or corporation as principal, agent, shareholder or in any other manner whatsoever, carry on, be engaged in or be concerned with or interested in or advise, lend money to, guarantee the debts or obligations of or permit his name or any part thereof to be used or employed by any person or persons, firm, association, syndicate, licensee or corporation engaged in or concerned with or interested in any business which provides products competitive with or similar to the Products or Services licensed hereunder within the Territory; or any territory where LICENSOR carries on business directly or indirectly.

The covenants contained in this clause 28.0 shall be construed as independent of any claims or demands which the LICENSEE may have against the LICENSOR or any of its affiliates, and the existence of any claim or cause of action of the LICENSEE against the LICENSOR, whether predicated on this Agreement, or otherwise, will not constitute a defence to the strict enforcement of the covenants contained in this clause.

Subject always to the discretion of any Court of competent jurisdiction, the parties hereto agree that any breach of any of the covenants and agreements contained in this clause is the proper subject matter for interim injunctive relief, and in order to obtain such relief, it shall not be necessary for the LICENSOR to establish irreparable harm which cannot be satisfied by an award of damages.

The LICENSEE acknowledges that if any Court of competent jurisdiction shall determine that any of the covenants contained in this clause are so restrictive as to be unenforceable as to the duration, scope, or territorial restriction, the remaining provisions of this clause shall remain binding upon the LICENSEE with such reduced duration, scope or territorial restriction as may be determined appropriate by any such Court. Further, if any part of this clause is determined to be void or unenforceable, in whole or in part, it shall not be deemed to affect or impair the validity of the remainder thereof.

## **29.0 NON-SOLICITATION**

The LICENSEE during the Term of this Agreement or, in the event of termination or expiration of this Agreement shall not, for a period of one (1) year from the date of termination or expiration, either individually or in partnership or jointly or in conjunction with any person or persons, firm, association, syndicate, licensee or corporation as principal, agent, shareholder or in any other manner whatsoever, directly or indirectly carry on, be engaged in or concerned with or interested in any business which solicits or in any way deals with customers or clients of the LICENSOR or potential customers or clients of the LICENSOR for the Products or Services or any product or service competitive with or similar to the Products or Services.

### **30.0 INTERFERENCE WITH EMPLOYMENT RELATIONS OF OTHERS**

During the term of this Agreement and for a period of one (1) year thereafter, LICENSEE shall not directly or indirectly attempt to attain an unfair advantage over the LICENSOR, other licensees of the LICENSOR or any affiliates thereof by soliciting for employment or contract work any person who is, at the time of such solicitation, employed by the LICENSOR, or under contract to the LICENSOR, any other licensee of the LICENSOR or any such affiliate, nor shall the LICENSEE directly or indirectly induce any such person to leave his or her employment or breach the contract as aforesaid.

### **31.0 DIVERSION OF BUSINESS**

The LICENSEE shall not during the term of this Agreement, either directly or indirectly, for himself, or through, on behalf of, or in conjunction with any person, corporation, or entity, divert or attempt to divert any business of or any customer or client of the LICENSEE hereunder to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the LICENSOR'S business which includes, without limitation, the licensor's Trademarks or the goodwill associated therewith.

### **32.0 DISCLOSURE OF CONFIDENTIAL INFORMATION**

The LICENSEE acknowledges that its knowledge of the LICENSOR'S business system is derived from information disclosed to the LICENSEE by the LICENSOR pursuant to this Agreement and that certain of such information including, without limitation, the contents of any standards business manuals or instructions ("the Manuals"), is proprietary, confidential and a trade secret of the LICENSOR. Moreover, LICENSEE may be exposed to confidential trade-secret information, knowledge or know-how of clients and customers of the LICENSOR. Except as specifically authorized or approved in writing by the LICENSOR, the LICENSEE shall not, during the term of this Agreement, nor thereafter, regardless of the reason for the expiration of this Agreement or the cause of termination and notwithstanding the return of any documents as required under this Agreement, directly or indirectly communicate, divulge to, or use for the benefit of, the LICENSEE or any other person, corporation or entity, any such trade secrets or confidential information or knowledge or know-how or as to the business or operations of customers or clients of the LICENSOR from time to time. The LICENSEE shall cause each of its employees, sub-contractors and personnel to execute an agreement with the LICENSEE and or the Licensor as Licensor may direct agreeing to be bound by the requirements of this clause during and after their employment by or sub-contract with the LICENSOR.

### **33.0 FURTHER ASSURANCES**

The parties hereto shall from time to time execute and deliver all such other and further deeds, documents, instruments and assurances as may be necessary or required to carry into force and effect the purpose and intent of this Agreement.

**34.0 LANGUAGE OF AGREEMENT**

The parties hereto confirm that it is their wish that this Agreement, as well as other documents related hereto, including notices, have been and shall be drawn up in the English language only.

Les parties aux presentes confirment leur volonte que cette convention de meme que tous les documents, y compris tout avis qui s'y rattache, soient rediges en langue Anglaise.

IN WITNESS WHEREOF the parties hereto have hereunto executed these presents and affixed their seals by their officers duly authorized in this regard, all as of the date first above written.

(name of LICENSOR)

Per: \_\_\_\_\_  
Name:  
Position:

Per: \_\_\_\_\_  
Name:  
Position:

(name of LICENSEE)

Per: \_\_\_\_\_  
Name:  
Position:

Per: \_\_\_\_\_  
Name:  
Position:

**SCHEDULE "A"**

To the Trademark License Agreement dated **(insert date)**

between  
**(Name of LICENSOR)**

and

**(Name of LICENSEE)**

**List of Trademarks**

**SCHEDULE "B"**

The Standards of Quality

To the Trademark License Agreement dated **(insert date)**

between

(name of LICENSOR)

and

(name of LICENSEE)

---

The LICENSEE hereby acknowledges that prior to or concurrently with the initialling hereof, it has received a copy of the Graphics Standards Manual and Standards and Policy Statement and Manual, which may be amended from time to time by LICENSOR in its sole discretion, which collectively constitutes Schedule "B".

(Name of LICENSEE)

Per: \_\_\_\_\_

**SCHEDULE "C"**

Manufacturer's or Service Provider's License Agreement

To the Trademark License Agreement dated **(insert date)**

between

(insert LICENSOR'S name)

and

(insert LICENSEE'S name)

Dated           , 2           .

(LICENSOR'S name and address)

Attention: (see clause 19.0)

Sir or Madam:

This letter will serve as notice to you that pursuant to clause 8 of the Trademark License Agreement (the "Agreement") dated, 2           , between (LICENSOR) and (LICENSEE), we have been engaged as the Manufacturer or Service Provider) of the LICENSEE in connection with the (manufacture of the Products/provision of the Services).

Unless otherwise defined herein, capitalized expressions used herein shall have the meanings as defined in the Agreement.

We hereby acknowledge that we have received a copy and are cognizant of the terms and conditions set forth in the Agreement and in consideration of us being selected by the LICENSEE to (manufacture the Products/provide the Services) of LICENSOR consenting to such selection and of other good and valuable consideration, we hereby agree to observe those provisions in the Agreement. It is understood that the engagement of our company is on a royalty free basis. We agree that we shall have no right to (manufacture, sell or utilize Products/provide the Services) bear the Trademarks, except to (manufacture for and sell or provide) to the LICENSEE and further agree not to utilize any of the (Products/Services) or Trademarks or to advertise, promote or publicize ourselves as (the Manufacturer/Service Provider) in any manner or form. Without restricting the generality of the foregoing, we further agree that LICENSOR or its agents shall have the right to inspect financial and such other of our records and attend at our premises, as it deems necessary, during normal business hours to verify compliance with the Agreement, without having to give prior notice.

Yours very truly,

(Name of Manufacturer/Service Provider)

Per: \_\_\_\_\_

## **ANNEX FIVE: SAMPLE DUE DILIGENCE CHECK LIST**

### **PRE-LICENSE CHECKLIST**

#### **Organization Structure**

- Sole proprietorship
- Partnership
- Incorporated Company
- Date of Incorporation or date business commenced

#### **Type of Business**

- Manufacturer
- Wholesaler
- Services
- Other (specify)

#### **Banking**

- Name of Bank(s)
- Address(s)
- Access to Banking Statements

#### **Description of Products or Services**

- Product or Service
- Actual Sales

#### **Projected Licensing Program Details**

- License Rights Requested and Defined by Prospective Licensee
- Forecast of Sales
- Accounts to whom you plan to sell the licensed products

#### **Marketing Information**

- Does Licensee plan to conduct any advertising or promotion to support the Product?
  - If yes, what type?
  - Consumer Advertising, Trade Advertising
  - Sales, Trade Incentives
  - Other (specify)
- What Advertising Agency does prospective Licensee use.
  - Name
  - Address
  - Key Contact
  - Telephone
- What amount of advertising, promotion and merchandising monies does Licensee plan to spend in support of this new licensed product or service.

- Does Licensee have product design and art work capability?
- Does Licensee have a formal Quality Control Program?

### **Projected Sales Volumes**

### **Projected Royalties**

- Projected Total Sales
- Projected Royalty
- Advance Royalty Payment

### **Sales Territory Requested**

- Describe specifically Territorial rights requested by Licensee.

### **Distribution Facilities**

- Describe Licensee's existing channels and methods of distribution within Territory requested or services provided.
- Current distribution of products or provision of service.

### **Distribution Facility Expansion**

- If license application was successful, would expansion of Licensee's distribution/service facility be necessary? Expenditure forecast?

### **Manufacturing Facilities**

- Describe existing manufacturing/service facilities and their location.

### **Manufacturing Facility Expansion**

- If license application was successful, would manufacturing/service facility expansion be necessary for proper performance?
- If yes, give expenditure forecast.

### **Licensing Information and Experience**

- Does proposed Licensee currently manufacture any other products or provide other services under license?
- Specify which licenses prospective Licensee currently holds.
- Indicate previous licensing activity, give extent of such participation.
- Experience gained.

**Timing Information**

- Product approval submission date (services up and running by?).
- Projected Date Product Services to be provided to consumer.
- Retail sales launch date.

**General Information**

The following information is also helpful:

- prior - Annual Reports
- prior - Sales Catalogue
- prior - Letters of commendation from retailers for product quality and service
- prior - Newspaper, magazine articles about Licensee, if any.

## **CONCLUSIONS**

As mentioned at the outset, this publication was not meant to be exhaustive but rather deal with important issues in licensing both legal and practical.

It highlights the importance of due diligence prior to entering into a trademark license relationship as well as the concept of fairness when dealing with the other party, or parties, regarding a license to obtain a workable long lasting relationship.

This publication also tries to emphasize the importance of plain language license drafting to avoid the anachronism of old style licensing language to make the license and its terms and conditions more clear.

Finally the above publication emphasizes the importance of specialists and local counsel when dealing with trademark licensing, leasing and so forth in different jurisdictions.

## ABOUT THE AUTHOR



### **Kenneth D. McKay, Partner, Sim Lowman Ashton & McKay LLP, Toronto, Canada**

Mr. Ken McKay is an active litigator in the Intellectual Property Bar in Canada. He is the co-author of several books and papers relating to intellectual property, marketing and the licensing of technology; including the “Canadian Marketing Law Handbook”, DeBoo, Canada and “Trade-marks – Canadian Forms and Precedents”, Butterworth, Canada, Licensing Best Practices, John Wiley & Sons, Inc., New York.

Mr. McKay has appeared as lead counsel and co-counsel on several leading intellectual property cases at the Trial and Appeal level. As well, he appears on a regular basis before Administrative Boards such as the Trade-mark Opposition Board and has an active trade-mark agency practice.

Mr. McKay, in addition to the publishing endeavors set out above, is active as a speaker and workshop leader in the trade-mark and technology transfer/licensing area. As a very active member of the Licensing Executive Society USA/Canada (LES) and the Licensing Executive Society International (LESI), Mr. McKay is well versed in negotiating and license drafting as it relates to intellectual property, technology transfer, commercial contracts and licensing generally. As a result, Mr. McKay has attained the status of a Certified Licensing Professional (CLP).

Mr. McKay is also a member of the Canadian Bar Association (CBA), a member of the International Trademark Association (INTA), a member of the Law Society of Upper Canada, a Fellow of the Patent and Trademark Institute of Canada and a member of AIPPI.

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