

MODULE

12

Trademark Licensing

MODULE 12. Trademark Licensing

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LEARNING OBJECTIVES

1. You will understand what is trademark licensing.
2. You will learn why trademark licensing makes business sense to both the licensor and the licensee.
3. You will be able to negotiate a trademark licensing deal and prepare a simple trademark license agreement.
4. You will be able to manage a trademark licensing agreement and learn how to deal with common types of problems that may arise while managing it.

LEARNING POINT 1: Exploiting a trademark

1. What is trademark licensing?

(1) Definition

In trademark licensing, a trademark owner (Licensor) grants permission to another (Licensee) to use that trademark on mutually agreed terms and conditions.

(2) Quality control in trademark licensing

Trademark licensing was considered impossible at one time given that one of the functions of a trademark was to indicate source. 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 involved.

However, trademark licensing became acceptable where the licensor (the owner of the trademark) remained in control of the nature and quality of the goods or services sold in association with the trademark.

Quality control is, therefore, 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.

2. Different ways of licensing trademarks

(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 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.

(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.

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.

Example: Trademarks of popular companies, sports teams, universities have huge consumer recognition and appeal, allowing for brisk sales at a premium price.

(3) Brand Extension

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.

Example: 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).

(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.

Example: 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.

(5) Component or ingredient branding

A product may license the right to use the trademark of an ingredient. Using the trademark of that ingredient in the packaging, 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.

Example:

- PC computers with Intel Inside
- Diet soft drinks with NutraSweet
- Stereos with Dolby noise reduction
- Teflon in cookware

(6) Standards

Products that comply with a certain technical or other standard which adds value to its product and, therefore, customer appeal can license the right to use the trademark of the certifying entity.

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.

3. Business benefit of a trademark license

(1) Additional revenue stream

An owner of the trademark can license the use of the mark to as many users or licensees as he/she wishes and it will create an additional revenue stream by each such user.

(2) Territorial expansion

Allowing a company in a different country or region to manufacture goods or provide services to which the right to apply a company's trademark is granted through a trademark license agreement allows a company to expand into that territory.

(3) Benefit from another's manufacturing, distributing, sales or marketing capacity

Through trademark licensing a company may team up with another partner

to benefit from that others manufacturing, distributing, sales or marketing capacity, that is, without having to invest in developing such capacity within its own establishment

(4) New channels of distribution or segmenting the market

Through licensing of marks a company may enter a new channel of distribution that it had hitherto not used or enter new markets in the same geographical area (for example, the youth market, the urban, the elderly or wherever else) so that the mark could have a new or different appeal.

(5) Discontinued marks

Due to mergers and acquisitions, bankruptcy, decision to converge on a few or even one mark perfectly valuable marks may be abandoned by their owners. 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.

(6) Strategic partnerships

Licensing activity is now moving beyond the traditional style of lending a logo to truly partnering so as to give life and vitality to the core business of a company. 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.

(7) 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 to obtain a license

for the use of the mark.

(8) Increased consumer recognition and advertising

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. In addition, partnering through licensing creates efficiencies. Common costs may be shared, particularly advertising and promotion costs.

LEARNING POINT 2: Preparing to license

1. Due Diligence

(1) Knowledge of the licensee by the licensor

a. *Organizational structure*

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.

b. *What the licensee wants*

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.

c. *Financial background*

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.

d. *Business and licensing information and experience*

- What experience does the licensee have in the relevant area?

- If the licensee was a former licensee to a third party, 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 licensed the products and/or services in other countries such information would be useful to the licensor.

e. *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).

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.

(2) Knowledge of the licensor by the licensee

a. *Licensor's Trademark Rights*

First and foremost, the licensee needs to know whether the licensor is indeed the owner of the mark and/or has the right to license that mark.

b. *Other Licenses*

It would be useful for the licensee to know about other licenses in existence. Other licensee or former license experiences, past and present, with the licensor will be invaluable in the negotiation process.

c. *Specify 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 any room for licensee creativity in terms of products, services, advertising and promotion. If so, what is the process and who ultimately owns that creative work.

(3) Issues of interest to both parties

a. 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.

b. 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.

c. Sales Territories

Ultimately, an appropriate marketing territory will be mutually agreed upon by the parties. To determine the appropriate size of the territory, the assets and experience of the proposed licensee must be assessed in terms of his distribution facilities, manufacturing facilities and future expansion plans as well as the proposed licensee's business acumen.

d. General Information

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.

More Reference 2-1: Sample checklist for due diligence

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
- Actual Sales

Projected Licensing Program Details

- License Rights Requested and Defined by Prospective Licensee
- Forecast Sales of Licensed Items
- 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.

- 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.
- Newspaper, magazine articles about Licensee, if any.

Distribution Facilities

- Describe Licensee's existing channels and methods of distribution within Territory requested.
- Current distribution

Distribution Facility Expansion

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

Manufacturing Facilities

- Describe existing manufacturing facilities and their location.

Manufacturing Facility Expansion

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

Licensing Information and Experience

- Does proposed Licensee currently manufacture any other products under licensing contracts?
- Specify which licenses does prospective Licensee currently hold.
- Indicate previous licensing activity, give extent of such participation in sales dollars
- Experience gained.

Timing Information

- Product approval submission date.
- Date Product to be presented to buyers.
- Retail sales launch date.

General Information

The following information is also helpful:

- Annual Reports
- Sales Catalogue
- Letters of commendation from retailers for product quality and service

2. Trademark Valuation

Before entering into a trademark licensing negotiation in earnest, both the licensor and licensee should have a good indication of the value the trademark to be licensed. The trademark valuation is used for arriving at the royalty rate.

Several different methods are used to value trademarks, and they each have their advantages and weaknesses. Often, these are to be used to guide rather than to be taken as strict rules.

Basically, three different methods are used for valuing a trademark: (i) the cost method, (ii) the income method, and (iii) the marketing method. Please refer to module 11 'Intellectual Property Valuation' to study the detail contents regarding these valuation methods.

LEARNING POINT 3: A trademark licensing agreement**1. Preliminary clauses****(1) Title of agreement**

In most licensing situations, there is more than one agreement involved. In the case of a trademark license it would be called a Trademark License Agreement, and 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

agreement.

(2) Effective date

After the title of the agreement 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.

(3) Description of the parties

This section will contain the exact legal name of the party, 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.

(4) Preamble

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 agreement.

(5) Definitions Section

The definitions section will set out what the parties intend certain words or phrases within the agreement 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 while entering into the license agreement.

2. Grant clause (Extent of rights)

Exclusive license: An exclusive trademark license provides the licensee with the right to use trademark to the exclusion of all, including the licensor.

Thus, the trademark owner cannot use the trademark himself nor can he license any rights to others. The licensee remains the only user of that mark in the relevant market.

It may be seen as or deemed to be an assignment particularly where this is no termination date.

Non-exclusive license: 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.

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.

(1) Sub-License

The licensee may be granted the right to sub-license some or all of the rights included within the license and the licensor may wish to be a party to any sub-license that the licensee enters into.

(2) Territory

A trademark could 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, and so forth.

(3) Term or Duration

In many license agreements, the term of the license is stated in terms of three, five or ten year increments.

(4) Reservation of Rights

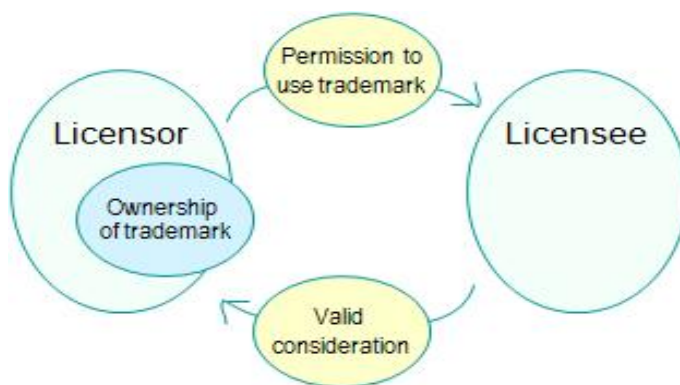
The grant clause often includes not only the grant of the rights to the

licensee but also an indication or 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.

3. Commercial and financial considerations

(1) Payment and royalties



a. *Lump sum payments*

These can take the form of fully paid up license agreements, where a lump sum is agreed to and paid at the time of the license right is being granted.

Lump sum payment may also be spread, periodically, over the term of the license.

b. *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 as against royalties.

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.

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.

Learn more: Royalty rate & Royalty base

Royalty rate : 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.

Royalty base : The base amount upon which the royalty rate is calculated whether it be called gross sales, gross profits, net sales or net profits or some other expression. It is calculated in accordance with the definition included in the definition section or in the royalty section itself.

The provisions of the royalty section would also deal with

- (1) when royalties are to be paid;
- (2) the penalty for not paying royalties on time;
- (3) the issue of withholding taxes in foreign jurisdiction where there are restrictions on the payment out of monies from the country;
- (4) and interest on outstanding payments as well as the method of payment.

In many license agreements, the royalties are paid into a trust account at a financial institution which is only accessible to the licensor. It could be as simple as a monthly cheque or bank wire transfer to the licensor.

More Reference 3-1: General or boilerplate clauses

No Joint Venture

This clause normally states quite simply that the parties are contracting parties to an agreement and that the agreement is not to be interpreted as a joint venture agreement, partnership or any other kind of special relationship other than a contractual relationship.

Service of Legal or Non-traditional Dispute Resolution Proceedings

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 agreement, which would be less expensive and more expeditious.

Notice Provisions

This clause governs notices concerning breaches of the agreement 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 to one party or the other. The notice provision indicates how those notices are to be sent in order to effect proper notice, as required under the agreement. Usually, the notice provision provides for service of documents either by registered mail, e-mail and/or fax, together with an indication of how that service will be deemed effective, so that a calculation of the relevant notice period contained in any of the provisions of the agreement can be made.

Variation, Alternation, Amendment and Waiver

This provision with respect to variation or alteration relates to the ability to unilaterally amend the agreement after it is executed. In many cases, trademark license agreements allow, from time to time, for the unilateral amendment or changes of different aspects of the agreement 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 agreement. 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 agreement which prohibits the amendment, variation or alteration of the agreement after execution without the mutual agreement of the parties to the agreement.

Waiver

Where either party fails to comply with a certain provision or obligation under the agreement 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.

Severance

This provision provides for the deletion from the agreement of clauses or subsections or even certain wording within the agreement 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 agreement, while saving the rest of the agreement, or even the section or provision in which the objectionable material appears.

Inurement Clause

This clause usually allows for the successor of the respective parties to the agreement to take over the original contract and enjoy the rights and be bound by the obligations set out in that contract. In some cases, there are personal obligations within the agreement that cannot obviously be carried forward as the original party ceases to be.

Entire Agreement Clause

This clause provides that only those terms and conditions stated in the agreement at hand are binding on the parties.

Language

In some countries, or regions of countries, an agreement may not be enforceable unless there is version of it in the local language of that country or region. Moreover, some jurisdictions will require that only the version of the license in a certain language is the official version.

Attached Schedules

This clause normally provides that the schedules referred to in the license agreement, and attached to it, form part of the agreement 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 agreement itself and in the schedules to it.

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 the agreement by the parties shall be done in a timely fashion.

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 agreement for the purposes of interpretation and effect.

Trade-name

The parties to an agreement often permit the licensee and/or sub-licensee to use one or more of the trademarks which are licensed under the trademark license agreement 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 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 is necessary, to change the name of the licensee or to delete the relevant trademarks.

Return of Materials

Trademark licenses often provide for the immediate return, upon termination, of manuals or other confidential or sensitive information provided by the licensor.

Enforcement of Termination

Most license agreements 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.

Change of Control

This provision allows for the termination of the agreement 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 agreement.

Additional Documents

Although, the license agreement 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 agreement, 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 agreement that requires the

parties to the agreement 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 agreement.

Force Majeure Clause

This clause provides that the parties will be relieved of their obligations to perform under the agreement 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.

Disclosure of a License Agreement

In most cases, neither party wishes the terms and conditions of the agreement 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 agreement or the relationship between the licensor and the licensee be approved by both parties prior to their release.

Recordal

Many countries require a license agreement 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 the licensor and the licensee liable to penalties.

Restrictions as to Import and Export of Certain Goods

Depending on the subject matter of materials licensed under the agreement, 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.

Compliance with Laws and Regulations

Normally, all agreements 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 agreement.

Shareholder Liability

In the event that the agreement is terminated, for cause or otherwise, there is no personal liability on behalf of the shareholders and that the parties to the agreement will not seek any redress from them.

Legal Rights of Redress are Cumulative

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 agreement, that does not preclude them from seeking further legal, equitable or any other relief that

may be available to them subsequently.

Telephone, Fax Number, Domain Name and Signage

Trademark license agreements 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 particularly, where they include any of the licensed trademarks within them.

Agreements May be Executed In Counter-parts

It is often the case that agreements are executed in counter-parts. Each party to the agreement may sign separate copies of the agreement and, provided all parties have signed a copy of the agreement, the agreement is binding on the parties.

The Execution Section

Although in many countries the execution of an agreement is a fairly simple procedure, which only requires the parties to the agreement to sign and date the agreement, in some jurisdictions a more formal procedure must be followed including notarization, legalization and other formalities.

LEARNING POINT 4: Managing a trademark licensing agreement

1. Responsibilities of the parties

(1) 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.

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 some cases the licensor might delegate the quality control, maintenance or monitoring to a third party monitoring agency.

(2) Infringement

There are two situations in which infringement can occur.

a. Where the licensee and/or licensor are sued by a third party

In this situations, the licensor and/or licensee should 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.

b. Where a third party is infringing the licensor's trademark

In the more usual situation, the agreement 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.

(3) Non -competition Clauses

Non-competition clauses usually deal with two major issues.

a. The operation of a competitive business **During the term of agreement**

During the term of the agreement, operating any business that may compete with the licensed business may be prohibited.

b. The operation of a competitive business **After the termination of the agreement**

A non compete clause may restrict the licensee from operating a competitive business to that of the licensor or its licensees after the termination of the agreement.

In many jurisdictions, the 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.

(4) Improvement

The improvement clause normally deals with new ideas arising from both the licensor and the licensee during the implementation of the license agreement.

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.

(5) 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.

More Reference 4-1: The other issues regarding responsibilities of the parties

Representations and Warranties

By the licensor - The licensee will normally want the licensor to warrant and represent that he is in a position to enter into the agreement and is not aware of any agreement which would prevent the valid execution of the agreement 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 agreement. The representation and warranty provisions often deal with the issue of 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

By the Licensee - From the point of view of the licensee, the representations and warranties relate mostly to its ability to enter into the agreement and the corporate status of the licensee.

Trademark Marking

In most countries, trademark marking is not mandatory. In other words, it is not necessary for the owner of a trademark to indicate that a word or design is being used as a trademark 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. Nevertheless, trademark marking is always strongly recommended whether it be by the owner or its licensee.

Maintenance of Trademark Rights

Although, typically in trademark license agreements the renewal and maintenance of trademarks is dealt with by the licensor, and is the responsibility of the licensor, 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 to having a local business entity in another country for renewing or dealing with trademark rights.

Confidential Information

Most license agreements include confidential information clauses. During the course of the agreement, 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. After the termination of the license agreement the protection of confidential information becomes all the more important. The confidentiality clause will often also require that the licensee obtain confidentiality agreements from employees and agents that are employed or retained by the licensee and have access to the confidential information of the licensor. In many cases the licensor will wish to be a party to such an agreement so that it can enforce the terms in the event the licensee fails to do so.

Assignment Rights By Licensor And Licensee

The licensor is free to assign the rights and obligations under the agreement to any third party or affiliated or related companies that it wishes. 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 agreement will not be permitted without the prior written consent of the licensee. However, the licensee is not permitted to assign its rights or obligations under the agreement without the prior written consent of the licensor.

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 endeavor, many licensors do not wish to allow a licensee the right to assign its rights and obligations under the agreement even in the case of illness, improper management or death of the licensee or principal of the licensee. The licensor may have the right to install a management team into the licensee's operation so as to allow the licensee to recover from illness or to improve or instruct the management in the proper operation of the license operation. In the event of death, the agreement 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 licensee to take over the license agreement.

Non-Solicitation Clause

During the course of the license agreement, the non-solicitation clause is usually concerned with licensees trying to lure employees from either the licensor or other licensees. After termination of the agreement, the non-solicitation clause usually continues the restriction on the poaching of employees from the licensor or other licensees or contract employees 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 course of the agreement.

Covenantor and Guarantor Provisions

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 agreement and be individually responsible for the financial and the operational requirements of the license agreement.

Insurance Clauses

Insurance clauses are included in trademark license agreements 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 agreement provide that the licensee will obtain insurance of a certain kind to protect both the licensee and the licensor against third party

claims under product liability 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.

Indemnity Clauses

Indemnity clauses are designed to provide an indemnification from the licensee or its guarantor 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 agreement.

Licensee Manufacturer Agreement

In most license agreements, 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 agreement. 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. 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 agreement.

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 agreement to impose an obligation of diligence on the licensee so that the licensor can maximize the return on the license.

2. Termination issues

(1) Termination by licensor

Termination clause 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.

Example:

- Failure to pay royalties
- Quality control problems
- Bankruptcy

(2) Termination by licensee

In certain circumstances, particularly in franchise situations, the licensor might have an obligation to advertise the product, conduct promotions, provide training, etc.

The licensor may be in breach if he does not perform these obligations in an appropriate or timely manner.

In these situations, the licensee would normally have the right to terminate.

Learn more: 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 agreement that will survive termination.

These usually relate to the maintenance of confidential information, the obligation to continue to pay royalties that were due and payable before the termination of the agreement, which have not been paid, or for the continued use of the mark in the phase out period after termination.

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.

More Reference 4-2: Sample TRADEMARK LICENSE AGREEMENT

This Trademark License Agreement (the "Agreement") is entered into as of DATE by and between the following two parties.

The Licensor: [Person, position, company name and address, e-mail, fax number]

The Licensee: [Person, position, company name and address, e-mail, fax number]

WHEREAS, Licensor owns the registered trademark (the "TRADEMARKS") shown in Attachment 1 to this Agreement;

WHEREAS, Licensor wishes to license to Licensee and Licensee is desirous of acquiring a license to use the Marks on the conditions and restrictions contained in this Agreement;

NOW THEREFORE, the parties agree as follows:

1. Grant of License

1.1 The Trademarks

Upon the terms and conditions hereinafter set forth, the Licensor hereby grants a general license to the Licensee the registered trademarks as defined in Appendix 1, and the Licensee hereby accepts the general license to use the trademarks as defined in Appendix 1, including all the trademarks, any part of the trademarks, and any design, character, symbol, and visual representation of the trademarks (collectively the "Trademarks"). The license hereunder is non-exclusive.

1.2 Scope

1.2.1 The right to use the Trademark granted by this Agreement shall only be used in the business operated by Licensee. Licensee agrees not to directly or indirectly use or authorize any other party to use the aforementioned Trademark in any other manner, unless there are contrary provisions in this Agreement.

1.2.2 The License granted by this Agreement to Licensee shall be valid in "TERRITORY" only. Licensee agrees not to directly or indirectly use or authorize any other party to use the aforementioned Trademark in any other region.

2. Terms of Payment

The Licensee agrees to pay to the Licensor a license fee and the details of license fee and the form of payment are set forth in Appendix 2.

3. Goodwill

The Licensee recognizes the value of the goodwill associated with the Trademarks, and acknowledges that the Trademarks and all intellectual property rights therein and goodwill pertaining thereto shall be the sole and exclusive property of the Licensor, and that the Trademarks have an underlying association with the Licensor by public perception.

4. Confidentiality

- 4.1 The Licensee shall protect and maintain the confidentiality of any and all confidential data and information acknowledged or received by the Licensee by accepting licensing of the Trademarks from the Licensor (collectively the "Confidential Information"). Upon termination or expiration of this Agreement, the Licensee shall, at the Licensor's option, return all and any documents, information or software including any of such Confidential Information to the Licensor or destroy it and delete the Confidential Information from any electronic devices and cease to use them. The Licensee shall not disclose, grant or transfer any Confidential Information to any third party without the Licensor's prior written consent.
- 4.2 It is agreed that Section 4.1 shall survive any amendment expiration or termination of this Agreement.

5. Representations and Warranties

- 5.1 Licensor represents and warrants as follows:
 - 5.1.1 Licensor is a enterprise legally registered and validly existing in accordance with Territory laws.
 - 5.1.2 Licensor shall execute and perform this Agreement within the scope of its corporate authority and business; has taken necessary corporate actions to give appropriate authorization and to obtain the approval and permission from third parties and government authorities, and shall not violate restrictions by laws and contracts binding or having an effect thereon.
 - 5.1.3 This Agreement shall constitute Licensor's legitimate, valid and binding obligations as soon as it is legally executed, and shall be enforceable against it.
 - 5.1.4 Licensor has exclusive ownership of the Registered Trademark under this Agreement.
- 5.2 Licensee represents and warrants as follows:
 - 5.2.1 Licensee is a company legally registered and validly existing in accordance with Territory laws.

6. The Licensor's Right of Licensing and Protection of the Licensor's Rights

- 6.1 The Licensee agrees that it will not during the term of this Agreement, or thereafter, challenge the right of licensing or any rights of the

Licensor in and to the Trademarks or challenge the validity of this license or otherwise take or fail to take any action that impairs such rights or license.

6.2 The Licensee agrees to assist the Licensor to the extent necessary in the procurement of any protection or to protect any of the Licensor's rights to the Trademarks. In the event any third party lodges a claim concerning the Trademarks, the Licensor, if it so desires may commence or prosecute any claims or lawsuits in its own name or in the name of the Licensee or join the Licensee as a party thereto. In the event any third party infringes on the above mentioned Trademarks, the Licensee shall notify the Licensor in writing of any infringements or imitations by others of the Trademarks which may come to the Licensee's attention, and the Licensor shall have the sole right to determine whether or not any action shall be taken on account of any such infringements.

6.3 The Licensee further agrees to use the Trademarks only in accordance with this Agreement and shall not use such Trademarks in any way, which, in the opinion of the Licensor, is deceptive, misleading or in any way detrimental to such Trademarks or the reputation of the Licensor.

7. Quality

7.1 Licensor authorizes Licensee to use the Marks in association with the Wares and/or Services so long as the use by Licensee is in accordance with the instructions, standards of quality and trade-mark specifications set by and approved by Licensor from time to time.

7.2 Licensee undertakes to use the Marks in strict accordance with the instructions, standards of quality and trade-mark specifications supplied by Licensor from time to time, and to use each of the Marks only in association with [the Wares and/or the Services] now set out in Schedule "A" which may be amended to add or delete Marks as Licensor in sole discretion shall decide.

7.3 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 Wares sold or to be sold in association with the Marks by Licensee. 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 observe the performance of the Services.

8. Promotion

In all cases where the Licensee produces promotional material involving the Trademarks, the production cost of such material thereof shall be borne by the Licensee. All copyrights or other intellectual property rights of such material concerning the Trademarks thereto shall be the sole and exclusive property of the Licensor whether developed by the Licensor or the Licensee. The Licensee agrees not to advertise or publicize any of the Trademarks on radio, television, papers, magazines, the Internet or otherwise without the prior written consent of the Licensor.

9. Effective Date and Term

9.1 This Agreement has been duly executed by their authorized representatives as of the date first set forth above and shall be effective simultaneously. The term of this Agreement is ten (10) years unless earlier terminated as set forth below. However, the Licensor and the Licensee shall review this Agreement every 3 months to determine whether any amendment to the Agreement is necessary depending on the circumstances.

9.2 This Agreement may be extended for one year only if the Licensor gives the Licensee its written consent of the extension of this Agreement prior to the expiration of this Agreement. However, the Licensee has no right to confirm such extension.

10. Record Filing

Within three (3) months after the execution of the Agreement, the Licensor shall make a record filing of the copy of the Agreement to the relevant trademark management authority of The Territory.

11. Termination

11.1 Termination on Expiration.

This Agreement shall expire on the earlier date of the date due and the date when the Licensor's right of licensing is terminated, unless this Agreement is extended as set forth above.

11.2 Early Termination

Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not limited to Section 6.1, 6.2 and 6.3 of this Agreement and fails to cure its breach within 30 days from the date it receives written notice of its breach from the non-breaching party. During the term of this Agreement, the Licensor may terminate this Agreement at any time with a written notice to the Licensee 30 days before such termination.

11.3 Survival.

Article 3, 4, 6 and 16 shall survive after the termination or expiration of this Agreement.

12. Force Majeure

12.1 Force Majeure, which includes but is not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning and war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event of Force Majeure. The party affected by Force Majeure shall notify the other party without delay.

12.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate measures to minimize or remove the effects of Force Majeure and attempt to resume performance of the obligations delayed or prevented by the event of Force Majeure. After the event of Force Majeure is removed, both parties agree to resume performance of this Agreement with their best efforts.

13. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and shall be deemed to be duly given when it is delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of the relevant party or parties set forth below.

Party A: [Person, position, company name and address, e-mail, fax number]
Attention:

Party B: [Person, position, company name and address, e-mail, fax number]
Attention:

14. Assignment or Sublicense

The Licensee shall not assign, lease, pledge, sublicense, or in any other way transfer the rights or responsibilities Licensed pursuant to the Agreement to any third party/parties, or transfer the economic benefits of the license granted hereby or any portion of the rights included therein to any third party without the prior written consent of the Licensor.

15. Amendment and Supplement

The Agreement shall not be amended or modified except by a written

instrument come into force only signed by both parties. The amendment and supplement duly executed by both parties shall be part of this Agreement and shall have the same legal effect as this Agreement.

16. Severability

Any provision of this Agreement which is invalid or unenforceable due to the violation of the relevant laws in any jurisdiction shall be void of effectiveness and binding force within the relevant fields of such jurisdiction without affecting in any way the remaining provisions hereof.

17. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be duly executed by a duly authorized representative each on behalf of the Party hereto as of the date first set forth above.

Licensor:.

Representative:_____

Licensee:

Representative:_____

QUIZ

Q1. Identify the incorrect statement:

- 1) Trademarks are intangible rights and the use of such a right by one excludes use of the same by another
- 2) The licensee and the licensor must know as much as possible of each other before entering into an agreement
- 3) Intellectual property assets when externally generated are now recognized as assets for financial reporting purposes
- 4) Intangible assets can be pledged as collateral to a financial institution

Answer: 1)

The inherent advantage of intangible rights is that use of one does not prevent the use by another. A song heard by one can be heard and appreciated by another at the same time. Thus a trademark can be licensed for use by many at the same time.

Q2. Identify the incorrect statement:

- 1) Franchising often includes the licensing of trademarks
- 2) Merchandising is to sell the rights in a trademark\
- 3) Licensing the use of an ingredient or component mark is most effective when the host product is less well known.
- 4) Relying on a certifying mark is a good way of increasing customer recognition and adding value to a product

Answer : 2)

Merchandising is a form of licensing where trademarks, designs, artworks as well as fictional characters (protected by these rights) and real personalities are licensed beyond the core business of the company or the product to add appeal to other, usually, ordinary consumer products such as plates and mugs.

Q3. Identify the incorrect statement:

- 1) An exclusive license provides the licensee with the right to use the trademark to

the exclusion of all, including the licensor

- 2) A licensee may have the right to grant sub licenses
- 3) The renewal and maintenance of licensed trademarks is generally dealt with by the licensor
- 4) Once an agreement has been terminated the licensee has no obligation to return any manuals or other confidential information

Answer: 4)

Most license agreements require the continuation of certain obligations once the agreement is terminated. These usually relate to the maintenance of confidential information, the obligation to continue to pay royalties that were due and payable before the termination of the agreement, which have not been paid, or for the continued use of the mark in the phase out period after termination.