

*Presenting a live 90-minute webinar with interactive Q&A*

## **Structuring Trademark Licenses: Negotiating Scope, Quality Control, Territory and Other Key Provisions**

Preventing Dilution, Navigating International Licensing  
Challenges and Minimizing Infringement Liability

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TUESDAY, APRIL 14, 2015

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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Today's faculty features:

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# Structuring Trademark Licenses: Negotiating Scope, Quality Control, Territory and Other Key Provisions

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**Peter J. Toren** is a former partner at Sidley & Austin and a former federal prosecutor – one of the first attorneys with the Computer Crime & Intellectual Property Section or CCIPs. He specializes in patent, trademark, copyright and trade secrets cases that involve diverse technologies from computer software and hardware to light-emitting diodes, biotechnology to semiconductor manufacturing and fabrications, optics and medical devices to business methods. He is the author of *Intellectual Property & Computer* (Law Journal Press), first published in 2003, and *Cyber and Internet Crime: An Overview of Procedural and Substantive Issues*, Bloomberg BNA (2014) and has written over 90 articles on a variety of legal topics. He is the winner of the 2010 *Burton Award for Excellence in Legal Writing* and was selected in 2014 by the National Law Journal as an *IP Trailblazer & Pioneer*. Mr. Toren is a frequent contributor to the press and has recently appeared in *The Wall Street Journal*, *New York Times*, *Forbes*, *CNN*, *Bloomberg TV* and *The Guardian*.



**Trademark License:** A license is an agreement under which the owner of a trademark, trade name, collective mark, or certification mark authorizes use of the designation by another. Unlike an assignment, a license does not transfer ownership of the designation. Unlike a consent agreement, a license authorizes another to exploit the good will attached to the designation through a use that is likely to be associated by the public with the trademark owner. The use of the designation by the licensee thus accrues to the benefit of the trademark owner.

Licensor's Capacity to Help Support Licensee's Program By Supporting the Trademark Through Exposure or Support On Other Products

Licensee's Capacity to Manufacture, Distribute and Market the Licensed Products



- **Clearly define licensing terms**
  - Parties are on the “same page”
  - Avoids later disputes
  - Key terms – Products, Territory, Distribution Channels, etc.
  - Need for a term sheet?

# Grant Clause

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- Define Licensed Property
  - What is being licensed?
  - Specificity of description of marks being licensed
- Licensed Products/Services
  - Appropriate for sale under the mark?
  - Is the licensor retaining the right to use the mark?
  - Quality of goods?
- Exclusive v. Nonexclusive License
  - Exclusive license – standing to sue
  - Precludes all parties, including licensor
    - ✦ May be broken down by trade channels, types of products, territory
  - Sole license – Licensor retains rights
- Sublicensing – Must be specifically allowed by the license
- Territory – Multinational
  - Gray market goods
- Term of License
  - Should be definite

# Quality Control

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- Licensor
  - Must control the quality of goods/services offered by the licensee under the mark.
    - ✦ Failure – “Naked” license, may result in abandonment
- Level of Quality Control
  - Direct Control
    - ✦ Supply of products/ingredients,
    - ✦ Manufacturing method
    - ✦ Inspection of facilities
    - ✦ Inspection of products
  - Indirect Control – Reliance on licensee to control quality
    - ✦ Knowledge of previous quality of licensee’s products
    - ✦ Adequate basis for reliance
      - Relationship
  - Actual Control

- Franchises
  - Avoid “significant” control
    - ✦ Sell certain type, quality/quantity
    - ✦ Utilize training manuals
    - ✦ Purchase ingredients/products from designated suppliers
    - ✦ Advertise/promote goods in a specified manner
  - Federal Franchise Rule
    - ✦ Franchises regulated by the FTC
  - State Franchise Statutes
    - ✦ Granted right to engage in the business of offering selling or distribution goods/services under a marketing plan or system prescribed in substantial part by franchisor
    - ✦ Franchisee’s business is substantially associated with franchisor’s trademarks
    - ✦ Franchisee is required to pay a franchise fee

- Get involved as early as possible
- Review production models/production samples
- Review drafts of all packaging, labels, advertising
- Firm deadlines for each stage of production
- Review product packaging, etc after product on market
- Document all inspections.

# Licensee's Use of Mark

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- Licensee
  - Must use the trademark properly
    - ✦ Appropriate trademark symbols
    - ✦ Use mark in combination with generic term to avoid genericizing of mark.
    - ✦ Appearance of mark – Designs, logos, typefaces, colors, etc.
      - Need to create uniform appearance
  - Quality of licensor's goods – Licensee may have no remedy if the licensed mark becomes devalued through the activities of the licensor

- **Licensor**
  - Should be obligated to seek and maintain registrations of licensed mark for licensed products in all territories covered by the license.
- **Licensee**
  - Should be required to assist the licensor in obtaining and maintaining registrations of the licensed mark for the licensed products by providing evidence of use
- **License**
  - Should provide for payment of registration and maintenance expenses.

# Policing/Enforcing Licensed Rights

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- License – detailed procedures when infringement occurs
- Who may sue?
  - Licensors - 15 U.S.C. sec. 1114(1) limits the right to sue for infringement of federally registered mark to the registrant.
  - Exclusive licensee
  - Nonexclusive licensee - 15 U.S.C. sec. 1125(a) (“any person who believes that he or she is or is likely to be damaged”)
- Infringement notification provision
- Actions instituted by licensor
  - Licensee should be required to assist licensor
  - Licensor should be required to keep licensee informed
  - Licensee may want the right to become involved
- Actions Instituted by Licensee – Protect its interest
- Expenses
- Settlement – Right of approval
- Monetary recoveries



# Licensee Estoppel Clause

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- Doctrine of license estoppel applies to a trademark license
  - Licensee cannot claim that the licensed trademark has become abandoned due to the licensor's failure to exercise control over the quality of the goods or services provided under the license.
    - ✦ Licensee should be required to recognize validity of licensed mark
    - ✦ Acknowledge that its use of the licensed mark insures to licensor's benefit
    - ✦ Merger rule may extinguish any prior common law rights the licensee may have developed before it entered into the license
    - ✦ Licensee should be explicitly prohibited from challenging validity of licensed trademark
    - ✦ Court determination of validity – License should include a provision regarding whether licensee is required to pay royalties if a court determines that the mark is invalid

# Marking Requirements

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- Licensee should be required to use proper trademark markings at direction of licensor
  - ®
  - “Registered in U.S. Patent and Trademark Office
  - “Reg. U.S. Pat. & Tm. Off.”
  - Failure may prevent recovery of damages for infringement (15 U.S.C. sec. 1111).
  - TM/SM – Mark is considered a trademark
  - Licensing legends – “Official Licensed Products”

- **Royalty Types**

- Paid up – royalties paid in full at commencement of license
- Running royalty - % of shipments or sales
  - ✦ Gross sales, net sales, units shipped, etc.
  - ✦ Deductions
- Minimum royalties – fixed dollar amount or guarantee that may or may not be credited against a royalty based on sales
  - ✦ Licensee pays regardless of the amount of sales
- Record keeping
  - ✦ Keep detailed records of manufacture/sales
  - ✦ Audit

- License Indemnification
  - Obligated to indemnify the licensor for any potential product liability resulting from use of the licensed products
    - ✦ “Stream of Commerce”/“Enterprise Liability”
    - ✦ “Apparent Manufacture”

- Licensor – required to obtain and maintain adequate product liability insurance
  - Licensor should be named as insured under the policy
  - Provide copy of insurance policy/renewals to licensor
- Licensor Indemnification – Represents/warrants that it owns the TMs and be obligated to indemnify licensee for any claims of TM infringement resulting from licensee's use of the licensed mark within the terms of the license agreement

# Breach of License

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- Notice of Breach/Cure Period –
- Recurrent Breaches/Material Breaches
- Preliminary Injunction

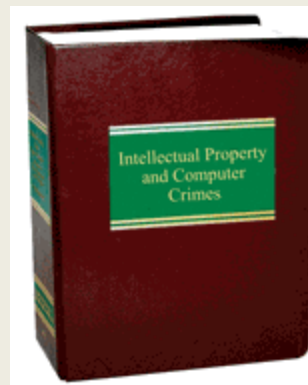
- **Common Grounds**
  - Breach/failure to cure
  - Material breaches – nonpayment of royalties, quality control issues
  - Failure to meet minimum sales targets
  - Acquisition of licensee by third party
  - Bankruptcy?
- **Effect of Termination/Expiration of License**
  - Discontinuing manufacturing/selling of licensed product
  - Licensee has a duty to take whatever steps necessary to stop using a licensed TM where the license ends unless the license agreement provides to the contrary
  - Disposition of remaining inventory
    - ✦ Sell-off period
    - ✦ Destruction of remaining inventory
    - ✦ Licensor's purchase of remaining inventory

# Need More Information?

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## ***Intellectual Property & Computer Crimes*** (Law Journal Press)

Detailed analysis of the Economic Espionage Act; Computer Fraud and Abuse Act; Trademark Counterfeiting Act; Criminal Copyright; DMCA; State Criminal IP Violations.



***An Analysis of Economic Espionage Act Prosecutions: What Companies Can Learn From It and What the Government Should Be Doing About It!*** (BNA's Patent, Trademark & Copyright Journal, September 21, 2012)

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.....  
Protecting Your Company's Intellectual Property Rights



# Thank You!

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- Questions
- Please Contact Me!

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# PART TWO: CONSIDERATIONS FOR INTERNATIONAL TRADEMARK LICENSING

By

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# Topics for Discussion

1. Local Law Issues
2. Cultural Issues
3. Enforcement
4. Pitfalls/Best Practices

## LOCAL LAW ISSUES

International trademark licenses require significant consideration of the local laws in the licensee's jurisdiction. Issues to consider include:

1. Foreign trademark clearance/registration in the relevant jurisdiction.
2. Manufacturing practices and standards in the relevant jurisdiction.
3. Labelling and packaging requirements in the relevant jurisdiction.
4. Infringement and counterfeits in the relevant jurisdiction.
5. The need to record the trademark license agreement in the relevant jurisdiction.
6. Choice of law/choice of venue provisions.

## LOCAL LAW ISSUES (cont'd)

### ***Trademark Clearance and Registration.***

- The first steps a prospective licensor should undertake in pursuing international licensing opportunities is the clearance and registration of the marks to be licensed.
- Some foreign jurisdictions – most commonly in Asia – are first to file jurisdictions, as opposed to first to use.
  - Many jurisdictions do not recognize “common law” trademark rights and thus do not permit the licensing of unregistered rights.
- In appropriate circumstances, marks should be cleared and registered both in the foreign language as well as in the original language.
  - Chinese characters versus English language marks?
  - What does the translated version of the mark mean?
- Clearance should be done by local counsel with knowledge of domestic trademark law.
  - Registration through Madrid system or through domestic filing?
- Consider advising client to obtain foreign copyright registrations in catalogues, brochures, etc. to support licensing program. China and India both allow for copyright registration.

## LOCAL LAW ISSUES (cont'd)

### ***Trademark Clearance and Registration (cont'd).***

- What happens if the licensee registers the licensor's marks instead of the licensor?
  - The licensee will own the mark(s). Trademark rights are territorial in nature.
  - Trademark license should include: (1) express terms restricting licensee from registering the licensor's trademarks (or marks confusingly similar thereto) either as trademarks, domain names, etc.; and (2) for any such registrations improperly obtained, language affirmatively assigning all such registrations to licensor.
- For any improperly registered domain names, license agreement should include language assigning domain name, as well as affirmative obligations on the part of the licensee to sign all documents and take all appropriate actions with respect to the relevant domain name registrar.
- Many foreign jurisdictions do not recognize licensee estoppel. As such, a licensor should include language restricting the licensee's ability to challenge the licensor's ownership of the licensed marks.

## LOCAL LAW ISSUES (cont'd)

### ***Elements of Trademark License.***

- International trademark licenses should, at a minimum, include the following:
  - Description of trademark
  - Assignment of use (i.e., identify the scope of the rights being granted; for example, exclusive or non-exclusive, the relevant territory, the licensed products, the sales/marketing/trade channels, etc.)
  - Consideration
    - BUT, no consideration required under laws in certain Asian countries, most notably, China.
- Certain jurisdictions may have particular forms that the trademark license must take. Consult with local counsel to verify.

## LOCAL LAW ISSUES (cont'd)

### ***Manufacturing Issues.***

- The majority of international license agreements grant the licensee rights to manufacture the licensed products.
  - BUT, many foreign jurisdictions – especially emerging markets – do not require or enforce substantive workplace health and safety requirements. This is a potential P.R. disaster for licensors and could tarnish the goodwill associated with the brand.
- An international license agreement should include: (1) obligations on the part of the licensee to comply with licensor's ethics policies; (2) substantive factory audit provisions; and (3) obligations the right to terminate the agreement and/or require that the licensee no longer use a particular manufacturer where "cause" is shown.
- Factory audit should cover more typical items such as facilities, equipment, organizational structure, product capacity, quality assurance, etc., as well as social accountability.
  - Licensor should consider right to have an SA8000 audit conducted in order to protect against P.R. issues in connection with child labor, forced labor, etc.
  - Licensor should include language permitting termination of license and/or termination of manufacturer for human rights violations.



## LOCAL LAW ISSUES (cont'd)

### ***Labels and Packaging.***

- Quality control provision in the typical domestic trademark license will provide the licensor with, at a minimum, approval rights as to the licensed products' labels and packaging.
  - BUT, in the international licensing context, the licensor is typically not well-suited to determine whether the licensed product's packaging is in compliance with the relevant jurisdiction's packaging and labelling laws.
  - Translation of English language packaging may also be problematic.
  - Quality control provisions protect against "naked licensing." Note that "naked licensing" is not recognized in some countries, but quality control provisions should still be employed so as to ensure that licensed products are of sufficient quality and safety.
- Licensor in international trademark license may choose to shift primary responsibility for compliance with labelling and packaging laws to the licensee, while still retaining final approval rights as to appearance and placement of the licensed marks.
  - If Licensor retains ultimate approval rights, best to engage counsel in local jurisdiction so as to ensure compliance with local laws.

## LOCAL LAW ISSUES (cont'd)

### ***Infringement and Counterfeits.***

- International license agreements should provide a means for identifying and addressing counterfeits.
- License should identify:
  - Who has the right to take action - licensor or licensee?
    - If the licensee can take action, can they do so on their own, or must the licensee wait for approval from licensor or wait until the licensor elects not to take action?
  - License should identify how costs of enforcement actions will be allocated between the parties.
  - License should identify how damages awards or settlement payments from enforcement actions are to be allocated between the parties.
  - License should specify what obligations the licensee has to prevent counterfeits:
    - Require controls on labels?
    - Require controls on packaging?
  - Where licensor retains sole rights to go after counterfeiters, the licensee will expect it to do so!

## LOCAL LAW ISSUES (cont'd)

### ***Infringement and Counterfeits (cont'd).***

- Some jurisdictions have specific rules as to when a licensee can bring an infringement action.
- In the E.U., subject to provisions of the license agreement, a licensee may bring an action for infringement of a Community Trademark only if the owner of the mark consents to the action.
  - However, an exclusive licensee may bring such proceedings if the owner of the mark, after formal notice, does not bring an infringement action within an appropriate period.
- An E.U. licensee may also, for the purpose of obtaining compensation for damages, be entitled to intervene in infringement proceedings brought by the owner of the Community Trademark at issue.

## LOCAL LAW ISSUES (cont'd)

### ***Recordation of License Agreement.***

- Unlike in the U.S., many foreign jurisdictions require that trademark licenses be recorded with the patent and trademark office of the relevant jurisdiction.
- Failure to record will not invalidate the license, but is still advisable.
  - Recordation serves as “proof” of the licensee’s rights in the mark
  - Although failure to record will likely not affect the validity of the license agreement, it may undermine attempts by the licensor to enforce its rights against third-party infringers.
    - Some countries do require registration for *erga omnes* (e.g., “towards everyone”) effect: Ecuador, Honduras, Mexico, Uruguay
  - Recordation may act to prevent subsequent, conflicting license of same mark in same jurisdiction.
- If license is substantively modified post-recordation, it should be re-recorded.

## LOCAL LAW ISSUES (cont'd)

### ***Choice of Law/Choice of Venue.***

- To what extent are choice of law/choice of venue provisions enforced in foreign jurisdiction? U.S. licensors generally prefer to designate U.S. law and a U.S. venue – is that a good idea?
  - Most jurisdictions will enforce choice of law/choice of venue provisions designating the application of a foreign governing law and/or a foreign venue.
    - Governing law/venue should have reasonable connection to the agreement, and should likewise not be contrary to public policy.
    - Many jurisdictions will have exclusions related to certain categories of contracts which will require application the jurisdiction's law.
  - However, will the foreign jurisdiction enforce a U.S. judgment? If not, designation of U.S. law/venue could be a mistake.
    - If the foreign licensee has no U.S. assets, then licensor will need to enforce the judgment against the licensee in licensee's jurisdiction.
    - Some foreign jurisdictions – including in China – will generally not enforce U.S. judgments.

## LOCAL LAW ISSUES (cont'd)

### ***Data Privacy Issues.***

- With the proliferation of e-commerce, a trademark license may involve the use of a mark in connection with an e-commerce platform.
- In the international licensing context, this type of agreement may involve the cross-border transfer of customer personal data.
- Obtaining and sharing customer personal data has significant privacy law implications.
  - In recent years, various countries – particularly, in Europe – have enacted legislative restrictions regarding the types of customer information that may be transmitted to third parties and in what circumstances customer information may be transmitted.
  - For example, under the U.K.'s Data Protection Act of 1998: (i) data may be used only for the specific purpose for which it was collected; (ii) may not be disclosed to a third party without obtaining the specific consent of the individual; and (iii) personal information may not be sent outside of the E.U. unless the individual has consented, or adequate protection is in place.
- Both licensees and licensors should account for data privacy issues!

## LOCAL LAW ISSUES (cont'd)

### ***Currency and Taxes.***

- Will the licensee pay in U.S. currency or in foreign currency?
  - Foreign currency in some jurisdictions may be subject to substantial fluctuation.
- For royalties based-licenses, certain jurisdictions require withholding taxes on royalties.
  - Local tax issues may require adjustments to royalty percentages/payments.
  - Consult local counsel for full assessment of tax landscape.
- Note: Registering trademark license with relevant jurisdiction may result in lower tax rate.

## CULTURAL ISSUES

International trademark licenses require not only a consideration of local laws, but also cultural issues. Cultural issues that may be relevant to the transaction include:

1. The history and heritage of the brand being licensed.
2. The interests of potential licensees in short term gain versus the licensor's interest in long-term brand development.
3. Licensee's knowledge of consumer preferences in relevant jurisdiction versus the licensor's desire to retain quality control.
4. Consideration of local sales/distribution channels.
5. Cross border use of marks.
6. Improper benefits/payments to governmental and quasi-governmental officials.



## CULTURAL ISSUES (cont'd)

### ***Brand History.***

- Brand history can be important to potential foreign licensees, especially in emerging markets.
  - It is not uncommon in some emerging markets – particularly in Asia – for a domestic company to register a mark in the U.S. or in Europe and then market the product as a Western brand, using a fabricated brand history. Shows that brand history and heritage is important to consumers in some markets.
  - In attracting potential licensees in these markets, it is important to describe the history and heritage of the licensor's brand.
  - Licensees in these markets may want to obtain the right in the license agreement to use and reference the licensor's brand history.
- Foreign translation issues may also be cause for concern.

## CULTURAL ISSUES (cont'd)

### ***Mentality of Potential Licensees.***

- In some markets, there is a conflict between the interests of the licensee and the interests of the licensor.
  - Licensee, assuming the license agreement will not be renewed, may be looking for short-term “bang for buck”; whereas the licensor may be more interested in the long-term growth of the brand.
  - Lesser known brands may require a more substantial upfront investment, thereby making it difficult to find licensing partners.
  - Prospective licensees in some markets may desire to acquire brands as opposed to licensing them.
- How do you incentivize licensees to invest in the brand while ensuring short term returns?
  - Structure term and termination provisions in license agreement so as to include reasonable renewal criteria.
  - “License to own” licensing structure? Because trademark rights are territorial in nature, rights in particular jurisdictions can be sold/assigned without affecting rights in other jurisdictions.
    - “License to own” licensing structure commonly includes right on the part of licensee to purchase trademark rights in limited territories upon occurrence of certain events. Joint venture is another option.

## CULTURAL ISSUES (cont'd)

### ***Licensee's Knowledge of Local Consumer Preferences Versus Need for Quality Control.***

- Quality control is imperative in structuring trademark licenses. Effective quality control provisions may include final approval by the licensor of the licensed product, as well as substantive input and/or approval rights with respect to marketing strategies.
- However, in the international licensing context, prospective licensees, knowing more about consumer preferences and effective branding strategies in the relevant market, may desire more rights as to product design and marketing. How do you balance these interests?
  - Structure license so as to permit licensee substantive rights in the design, appearance and marketing of the licensed product, while retaining ultimate approval rights in the licensor.
  - For existing products, provide licensee the right to modify the licensed product, subject to final approval by licensor.
  - Licensor should be prepared to provide licensee more rights as to design/marketing of licensed products.

## CULTURAL ISSUES (cont'd)

### ***Understanding Local Sales/Distribution Channels.***

- A trademark license will often grant the licensee the right to distribute licensed products in certain limited markets and/or sales/distribution channels – for example, in grocery stores, in department stores, etc.
- However, sales/distribution channels may vary from country to country.
  - For example, in some Asian countries, department stores consist of vendors renting space at a particular store, and then being responsible for merchandising for that space and for the hiring of sales personnel. This is a significantly different model than in the U.S. and/or in Europe, and has the potential to effect the licensee's costs.
- A trademark licensor should conduct substantial diligence on its potential licensees and on any sales/distribution channels prior to entering into the license agreement.

## CULTURAL ISSUES (cont'd)

### ***Cross Border Use of Marks.***

- Trademark license agreements typically grant trademark rights in certain limited jurisdictions.
  - In the international licensing context, one licensee may have rights in one country but not in others.
- This can be problematic in certain geographic regions, such as in Europe, where cross-border sales of products are common.
- International trademark licenses should include substantive restrictions on cross border sales of licensed products, including the right to terminate licensee for cross border uses.
  - Consider requiring that licensee direct cross border inquiries to licensor, who can then respond directly, or: (1) authorize the licensee to respond to such inquiries; or (2) direct such inquiries to the licensor's licensee in the relevant jurisdiction.
  - Restrictions on cross border uses should also extend to the licensee's resellers and distributors. Such restrictions can be included in purchase orders.

## CULTURAL ISSUES (cont'd)

### ***Improper Benefits to Government Officials.***

- In some countries, unauthorized payments to government officials are, if not culturally acceptable, at least ignored.
- When licensing marks in these jurisdictions, U.S. licensors should consider including an “anti-kickback” provision. For example:

In connection with the performance of its obligations under this Agreement, Licensee will not, and will ensure that its employees, directors, officers, agents, contractors and/or other persons acting on its behalf (collectively, the “Licensee Representatives”) do not: (i) directly or indirectly offer or pay, or authorize such offer or payment, of any money, thing of value, or any other advantage to any person to influence that person in an improper manner, regardless of whether that person works in a public or private capacity; and (ii) pay, offer, promise to pay, or authorize any payment, contribution, gift or anything of value to any Public Official, including, without limitation, any payoff, influence payment, bribe, rebate, kickback or commission sharing) for the purpose of favorable treatment in obtaining or retaining business for or with, or directing business to, any person or securing any other improper advantage. Without prejudice to the generality of this Section, Licensee will comply with, and will ensure that all Licensee Representatives comply with, all applicable laws relating to bribery and corruption including the U.S. Foreign Corrupt Practices Act of 1977 and the UK Bribery Act 2010 (each as amended from time to time) (“Anti-Corruption Laws”).

- Also consider including in the license agreement an obligation to comply licensor’s ethics/social responsibility policies.
- Law imposes obligation to monitor and licensee compliance.

## ENFORCEMENT

Enforcing a trademark license agreement against a licensee requires the consideration of multiple factors, including:

1. Where to sue and how to enforce judgments.
2. Potential for compensation claims.
3. What to do with inventory of licensed products held on hand by the licensee.

## ENFORCEMENT (cont'd)

### ***Where to Sue.***

- In the event of a breach, where should the licensor sue to enforce the license agreement?
  - As noted above, U.S. licensors prefer to designate U.S. law as the governing law and a U.S. forum as the required forum.
  - As noted above, most jurisdictions, including in the U.S., will enforce those provisions in most cases.
  - Also, most U.S. courts will recognize personal jurisdiction over the licensee where there is an enforceable choice of law provision.
- However, should the licensor designate U.S. law and a U.S. forum?
  - Licensor should evaluate whether: (1) the licensee has assets or a presence in the United States; and (2) whether the jurisdiction in which the licensee resides will enforce U.S. judgments?
  - If the answer to either of the above is “no,” then the licensor may want to designate the law/venue of the licensee’s jurisdiction.
    - U.S. is not a party to any blanket international convention or treaty governing the recognition and enforcement of foreign judgments throughout the world. Thus, enforceability determined largely based on domestic law of relevant country.
    - Counsel should retain and consult with a local lawyer in the relevant jurisdiction in determining the enforceability of judgments.



## ENFORCEMENT (cont'd)

### ***Where to Sue (cont'd).***

- Foreign arbitration awards may be enforced with more reliability in certain jurisdictions.
  - This is because more than 140 countries that have ratified the New York Convention on Recognition and Enforcement of International Arbitration Awards (the “New York Convention”) are treaty-bound to enforce foreign arbitral awards.
  - Note there is no comparable international treaty for the enforcement of foreign court judgments.
- Thus, instead of designating U.S. law and a U.S. venue, consider including an arbitration provision requiring disputes be subject to international arbitration before an internationally recognized neutral arbitrator such as the Hong Kong International Arbitration Centre or the London Court of International Arbitration, as applicable.
- Can designate U.S. law in such proceedings, but this may cause a country to choose not to enforce the arbitration award on “public policy” grounds. Chinese courts have been known to set aside arbitration awards on this basis.

## ENFORCEMENT (cont'd)

### ***Compensation Claims.***

- In some countries and in some circumstances, the unilateral termination or non-renewal of a trademark license agreement can entitle the licensee to a “compensation” claim.
  - Compensation claims are typically based on the licensee/distributor’s gross margin over a certain period, or the building of the licensor’s brand awareness.
  - Purpose of these laws is to compensate the licensee for its efforts in building the brand.
- How to deal with potential compensation claims?
  - Include in license agreement language waiving compensation claims. Such waivers are enforceable depending on the jurisdiction, and even if potentially unenforceable, can have a chilling effect on licensees.
  - Negotiate longer sell-off rights in exchange for waiver of claim.

## ENFORCEMENT (cont'd)

### *Inventory Issues.*

- When a license agreement is terminated, control does the licensor have, if any, with respect to the licensee's current inventory of products? This should be accounted for in the agreement.
  - Sell-off Right: The licensor can provide the licensee a set period of time in the license agreement whereby the licensee can dispose of its existing inventory.
    - BUT, the sell-off right should restrict the licensee from “dumping” licensed products in other markets, or from selling licensed products in non-standard retail channels (i.e., discount retail channels).
    - Sell-off provisions typically require that the licensee destroy remaining licensed products post-expiration of the sell-off period.
    - Likely do not want to grant the licensee a sell-off right where the termination of the agreement is as a result of the licensee's breach.
  - Purchase Right: The licensor can require in the license agreement that the licensor has the right to purchase the licensed products or that any successor licensee has the right to purchase licensed products.
  - Destruction: The licensor can require that the licensed products be destroyed.

## PITFALLS/BEST PRACTICES

- Insufficient clearance and evaluation of trademark landscape.
  - Licensors should conduct substantial diligence on availability of the marks to be licensed. Availability of mark in one country does not mean availability of mark in other countries.
- Permitting licensee to register trademarks/domain names without express obligation to assign.
  - If licensor permits the licensee to register marks at issue (almost always a bad idea), there should be express obligations on the part of the licensee to assign those rights post-termination.
- Failing to account for compensation claims.
  - Licensor's failure to provide language waiving compensation claims will result in unexpected costs post termination expiration/termination.

## PITFALLS/BEST PRACTICES (cont'd)

- Failure to properly consider choice of law/choice of venue.
  - U.S. law and U.S. venue may not be the best option! Does the licensee have U.S. assets and/or will foreign jurisdiction enforce a U.S. judgment? Is arbitration an option?
- Taking too much responsibility for policing counterfeits.
  - Counterfeits dilute the mark for the bona fide licensed products. If the licensor retains sole right to enforce against counterfeits, the licensee will expect aggressive enforcement.
- Lack of diligence on local tastes and local sales/marketing channels.
  - Licensors must do their homework!

## PITFALLS/BEST PRACTICES (cont'd)

- Last but not least, failing to properly utilize local counsel!
  - Local counsel is imperative to evaluating the validity and enforceability of the license agreement and its terms!

## DISCLAIMER

The information included in this document is intended for informational purposes only and is not intended to serve as legal advice regarding specific matters nor should it be construed as a legal opinion. Neither this presentation or this document establish an attorney-client relationship between you and Schwabe, Williamson & Wyatt. The information included in this document should not be used to replace the advice of a licensed attorney.



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Matthew R. Wilmot is a Shareholder/Partner with the Pacific Northwest law firm Schwabe, Williamson & Wyatt, P.C. Matt's practice is focused on the representation of technology-based companies and clients in other industries having intellectual property assets, including software companies and independent software and mobile app developers; SaaS companies and other providers of cloud-based services; bioscience companies, in particular, diagnostics companies; media and content distribution companies; footwear and apparel companies; providers of business intelligence data; and manufacturing and distribution companies.

Matt has represented clients in a broad range of intellectual property, technology, and other related transactions both in the United States and internationally, including patent and technology licensing; software licensing (including SaaS); trademark, copyright, and content licensing; collaborations and consortia; research and development (including university research); technology transfer; materials transfer; supply and manufacturing; distribution and resale; and the overall development, protection, commercialization, and use of intellectual property rights.



# Sample Trademark License Provisions

# License Provisions

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## 1. Ownership of Rights

LICENSOR has the exclusive right to license the Trademarks for use in association with the Licensed Products in the Territory. With the exception of the rights expressly licensed hereunder to LICENSEE, all other rights relating thereto are expressly reserved by LICENSOR.

## 2. Grant of License.

- 2.1 LICENSOR grants to LICENSEE an exclusive, nontransferable, non-assignable license to use the Trademarks solely in connection with the manufacture (and have manufactured by sub-contractors according to LICENSEE specifications), sale, offer for sale, advertising, promoting and distributing (and having distributed by authorized sales agents of LICENSEE) the Licensed Products solely within the Territory and, for this purpose only, to affix the Trademarks on or to packaging, displays, sales, advertising and promotional materials, used or distributed in connection with the Licensed Products (“Promotional and Packaging Material”).
- 2.2 Agreements with third parties for the manufacturing or distribution of any of the Licensed Products do not require LICENSOR’s prior consent. However, LICENSEE agrees that the Licensed Products will not be manufactured in any so-called “sweatshops”, or using any child labor or under any other abusive conditions, or in countries in which the U.S. State Department has either prohibited U.S. companies from doing business or has recommended that they not do business, and the Licensed Products will be manufactured in compliance with federal and state labor, health, safety and related laws.
- 2.3 All distributors of LICENSEE will be bound by the provisions of this agreement and will grant to LICENSEE all rights in and to any materials, designs, labels or packaging created by them.
- 2.4 All subcontractors and distributors of LICENSEE must meet the quality standards established by LICENSEE. LICENSEE will manufacture the Licensed Products in the Far East. If LICENSEE becomes aware of any change of subcontractors, LICENSEE agrees to notify LICENSOR thereof.

## 2. Grant of License

- 2.5 **Sublicense.** Except as provided herein, LICENSEE shall have the right to grant sublicenses to third parties in all countries in the Territory except the United States and Canada with the approval of LICENSOR, such permission to be reasonably provided. LICENSEE shall not have the right to grant sublicenses to third parties in the United States and Canada.
- 2.6 **Assignments.** The license granted hereunder is, and shall remain, personal to LICENSEE and shall not be granted, assigned, or otherwise conveyed by any act of LICENSEE or by operation of law. For the purposes of this Paragraph 2.6, any sale or transfer of any ownership interest in LICENSEE shall constitute a prohibited assignment of the license granted hereunder. LICENSEE shall have no right to grant any sublicenses without LICENSOR'S prior express written approval. Any attempt on the part of LICENSEE to arrange to sublicense, other than as provided in Paragraph 2.5 herein, or to assign to third parties its rights under this Agreement, shall constitute a material breach of this Agreement.
- 2.7 LICENSOR shall have the right to assign its rights and obligations under this Agreement without the approval of LICENSEE.

## 3. Term / Renewal

- 3.1 This Agreement shall commence and be effective on January 1, 2008 (“Effective Date”) provided this Agreement has been executed by both parties and LICENSOR has received the fully executed Agreement and the Advance payment (see paragraph 4.1). Thereafter, this Agreement shall continue for an “Initial Term” terminating on 2011, unless terminated prior thereto pursuant to this Agreement.
- 3.2 LICENSEE may, upon written notice to LICENSOR at least 90 days prior to the end of the Initial Term, elect to renew the term of this Agreement for additional 3 year periods (“Renewal Terms”) if LICENSEE meets the following requirements and is not otherwise in breach of the provisions of this agreement:
- 3.2.1 If LICENSEE pays a Royalty of \$1,000,000 over the Initial Term with payment of at least \$750,000 in the final year of the Initial Term resulting from sales, LICENSEE may renew the Agreement for an additional three years (“First Renewal Term”). If LICENSEE pays a Royalty of \$1,750,000 per year over the First Renewal Term [with payment of at least \$1,000,000 in the final year of the First Renewal Term resulting from sales], LICENSEE may renew the Agreement for an additional three years. (“Second Renewal Term”). (Initial Term and Renewal Terms constitute the “Term”).

# Sample Provisions

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## 4. Initial Payment; Royalty Provisions

- 4.1 A payment of \$50,000 is payable to secure this Agreement as a non-refundable Payment (“Advance Payment”) pursuant to the following schedule: \$10,000.00 paid upon execution of this Agreement.
- 4.2 LICENSEE agrees to pay LICENSOR a Royalty of six percent (6%) based upon Net Sales of the Licensed Products sold in the Territory.
- 4.3 “Net Sales” shall mean gross sales of the Licensed Products by LICENSEE or its affiliates less only standard discounts and allowances provided such discounts and allowances do not exceed 5% of gross sales. No other deduction shall be made for cash or other discounts, taxes, commissions or uncollectible accounts nor for any costs incurred in the manufacture, sale, distribution or exploitation of the Licensed Products. No Royalty shall be paid by LICENSEE based on LICENSEE’s usual Net Sales price on any unbilled Licensed Products used by LICENSEE or any of its affiliated companies for in-store displays.
- 4.4 LICENSEE has discretion to set pricing; however, all pricing shall be established by LICENSEE in a commercially reasonable manner and all Licensed Products shall be sold by LICENSEE at competitive prices not substantially more nor substantially less than the price customarily charged by LICENSEE for similar products to unaffiliated businesses.
- 4.5 Licensed Products may not be sold in conjunction with or bundled with any other products.
- 4.6 For the Initial Term commencing January 1, 2008 and terminating on September 1, 2011, LICENSEE agrees to pay LICENSOR a “Guaranteed Minimum Royalty” of no less than \$250,000 annually, which shall be paid as follows for the Annual periods:  
\$250,000 by October 1, 2009, \$250,000 by October 1, 2010; \$250,000 by October 1, 2011.
- 4.7 For the Renewal Terms, concerning September 1, 2011, LICENSEE agrees to pay LICENSOR a “Guarantee Minimum Royalty” of no less than \$500,000 annually which shall be paid as follows:  
First Renewal Term: \$500,000 by October 1, 2012; \$500,000 by October 1, 2013; \$500,000 by October 1, 2014.  
Second Renewal Term: \$500,000 by October 1, 2015; \$500,000 by October 1, 2016; \$500,000 by October 1, 2017.

## 5. Statements and Payments

- 5.1 LICENSEE shall provide LICENSOR within forty-five (45) days after the end of each calendar quarter (“Royalty Period”) a complete and accurate statement of its Net Sales for that quarter, said statement to be certified as accurate by an officer of LICENSEE, and shall pay the Royalties owing to LICENSOR for that quarter. Such statements shall be in conformance with the requirements of LICENSOR including, but not limited to, reporting separately by Licensed Product SKU by size, Licensed Trademark utilized, quantity sold, price per unit, etc. and must be submitted whether or not any Licensed Products have been shipped or Royalties have been earned during the Royalty Period.
- 5.2 Acceptance by LICENSOR of any statement furnished or Royalty paid shall not preclude LICENSOR from questioning its correctness and in the event of inconsistencies or mistakes, they shall be immediately rectified by LICENSEE.
- 5.3 All payments shall be remitted in United States currency payable to the order of LICENSOR and mailed to LICENSOR’s address stated in the preamble or as may be revised hereafter by LICENSOR. Any conversion of foreign currency to United States currency shall be at an exchange rate no less than offered by Chase Bank in New York, New York, on the date of conversion.
- 5.4 A Royalty obligation shall accrue upon the sale of Licensed Products regardless of the time of collection by LICENSEE. For purposes of this Agreement, a sale is made when a Licensed Product is billed, invoiced, shipped, or paid for, whichever event occurs first.
- 5.5 Time is of the essence with respect to all payments and interest at the rate of one and one-half percent (1 1/2%) per month and shall accrue on any amount due LICENSOR calculated from the date on which payment was due.
- 5.6 Any and all Royalty payments, whether denoted as Advances, as Guaranteed Minimum Royalty payments, or otherwise, shall be nonrefundable.



## 6. Audit

LICENSEE shall keep accurate books of account covering all transactions relating to this Agreement. LICENSOR and/or its representatives shall have the right, at reasonable hours of the day upon reasonable notice, to examine such books and all other documents and material in the possession, custody or control of LICENSEE with respect to this Agreement, and to make copies and summaries thereof no more than three (3) times per twelve (12) month period. In the event an Audit reveals an underpayment, LICENSEE shall immediately remit payment in the amount of the underpayment plus interest calculated at the rate of one and one-half percent (1 1/2%) per month from the date such payments were due. In the event such underpayment is greater than \$1,000 or five percent (5%) of the reported royalty, whichever is greater, for any Royalty Period, LICENSEE shall reimburse LICENSOR for the cost and expense of such Audit. All books of account and records of LICENSEE relating to this Agreement shall be retained for at least three years after termination of this Agreement.

## 7. Artwork & Packaging

- 7.1 The form and content of all work relating to the Trademarks must be approved by LICENSOR prior to use.
- 7.2 LICENSOR will provide to LICENSEE upon request, at LICENSEE's expense, artwork which LICENSEE reasonably requests. All artwork relating to the Trademarks, regardless of who created or contributed to the works, except any artwork which displays the LICENSEE trademark, shall be the sole and exclusive property of LICENSOR on a buy out basis in perpetuity. LICENSEE shall provide LICENSOR with a copy of all finished artwork utilized for Licensed Products in either disc or film format, at LICENSOR's discretion. All artwork not meeting the standard of approved samples shall be destroyed by LICENSEE. LICENSEE shall pay LICENSOR, within thirty (30) days of receiving an invoice therefore, for artwork done by LICENSOR or third parties under contract to LICENSOR in the development and creation of the Licensed Products and/or the Promotional and Packaging Material.
- 7.3 LICENSEE agrees to use the Trademarks only in the form and manner and with appropriate legends as prescribed from time to time by LICENSOR in writing with reasonable notice, and not to use any other trademark or service mark in combination with any of the Trademarks without LICENSOR's prior written approval.
- 7.4 The quality and style of the Licensed Products and all Promotional and Packaging Material relating to the Licensed Products shall be consistent with similar goods presently sold or distributed by LICENSEE in the Territory.
- 7.5 All Promotional and Packaging Material and all Licensed Products on which the Trademarks are used shall contain the name and address (at least city and state) of LICENSEE, the letters "TM" next to each trademark shown or any other appropriate trademark notice provided by LICENSOR, and the following legal notices, all of which shall be permanently affixed.

© 200\_\_ Company A. All trademarks and copyrights are the property of Company A, Inc. and used under license.

# Sample Provisions

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## 8. Approvals

- 8.1 No Licensed Product shall be distributed by LICENSEE prior to LICENSOR's approval of pre-production prototypes or samples of each such Licensed Product and/or Promotional and Packaging Materials. Further approval will be necessary if there is any change proposed by LICENSOR or LICENSEE in type, style, model, grade, description or the like from any previously approved Licensed Product and/or Promotional and Packaging Materials. Should approval or disapproval of samples submitted prior to manufacture or use not be received by LICENSEE within ten (10) business days of the submission, LICENSEE must contact LICENSOR and request a reply. Failure to receive a reply shall be deemed approval by LICENSOR if LICENSOR or its representative do not notify LICENSEE of LICENSOR's disapproval within an additional ten (10) days. If samples are disapproved, LICENSOR will give specific reasons therefore, and LICENSEE will thereafter correct or modify as directed by LICENSOR and resubmit samples for approval following the procedures outlined above. Licensed Product and/or Promotional and Packaging Materials shall not be advertised, manufactured, distributed, sold, or used which differ from the approved samples. Notwithstanding the above LICENSOR recognizes the extreme time constraints faced by LICENSEE in the preparation of its initial Licensed Product and/or Promotional and Packaging Materials and accordingly at least during the period until September 1, 2008 LICENSOR will make its best efforts to provide written approvals within Five (5) business days of receipt of materials.
- 8.2 Once LICENSOR has given final approval, LICENSEE shall submit, at its own expense, six (6) reference samples in each size, color, and/or material in which the product and/or Promotional and Packaging Materials is produced. All subsequent product of the Licensed Product and/or Promotional and Packaging Materials will conform in their specifications, patterns, and quality to the reference samples approved by LICENSOR, except insofar as variations may be approved by LICENSOR. Upon the subsequent request of LICENSOR, LICENSEE agrees to send to LICENSOR reasonable quantities of samples of Licensed Product and/or Promotional and Packaging Materials, at LICENSEE's expense, for the purposes of testing, inspection, and review. 8.3 In the event the above quality standards are not maintained throughout the Term, LICENSOR has the right to require LICENSEE to immediately discontinue manufacturing, selling and distributing Licensed Product and/or Promotional and Packaging Materials which do not meet such quality standard.
- 8.4 Approval or disapproval of Licensed Product and/or Promotional and Packaging Materials shall lie solely in LICENSOR's reasonable discretion, and any Licensed Product and/or Promotional and Packaging Materials not so approved shall be deemed unlicensed and shall not be manufactured or sold by LICENSEE. Approval of a Licensed Product and/or Promotional and Packaging Materials which uses particular artwork does not imply approval of such artwork for use with a different Licensed Product.

## 9. Compliance with Standards

- 9.1 Each Licensed Product shall comply with all applicable laws and regulations and shall meet established safety standards as stipulated for the age group for which the Licensed Product is intended, LICENSEE agrees that all fabrications will meet the then current code with respect to flame retardant and nontoxic materials.
- 9.2 All Licensed Products shall contain the suggested age usage for each product in a prominent position on packaging.
- 9.3 LICENSOR shall at all times have the right to inspect the manufacturing facilities of the Licensed Products upon five (5) days' notice to LICENSEE, and all such facilities shall comply with the standards established by LICENSEE and with the provisions of this Agreement.
- 9.4 **RECALLS.** If an event has occurred with respect to a Licensed Product which may be reasonably expected to damage or denigrate the Mark or to create a substantial health risk, LICENSEE shall direct a market withdrawal, stock recovery and/or recall of any such Product. Upon mutual agreement LICENSEE shall direct a market withdrawal, stock recovery and/or recall of any Licensed Product which does not materially comply with the quality requirements of this Agreement. In addition, LICENSEE shall direct a recall of any Licensed Product in the event that a recall of the Product is required, ordered or recommended by any court or government agency or any applicable law or regulation, for any reason. LICENSEE shall bear primary responsibility for market withdrawal, stock recovery and/or recall procedures and expenses, however the Parties agree that no royalty shall be applicable to any Licensed Product withdrawn, recovered or recalled. Any request for a market withdrawal, stock recovery and/or recall by LICENSEE hereunder shall not prejudice any other or additional right or remedy LICENSEE may have under this Agreement out of or resulting from or in connection with LICENSEE's (1) performance or non-performance of its obligations under this Agreement; or (2) negligent or willful acts or omissions (or such actions or omissions of LICENSEE's agents, employees, contractors, or consultants).

## 10. Exploitation by Licensee

- 10.1 As is reasonable, LICENSEE shall meaningfully consult with LICENSOR regarding coordinating LICENSEE's sales and marketing of the Licensed Products with LICENSOR's general sales and marketing strategy for the Trademark.
- 10.2 LICENSEE shall commence manufacture, distribution, and sale of the Licensed Products in commercially reasonable quantities so that the first shipment of at least two lines of Licensed Products to retail accounts can be made by September 30, 2008 for retail sale for the 2008 holiday buying season and, thereafter, shall continue to distribute and sell all of the Licensed Products throughout the Territory on a continuous basis in a commercially reasonable manner.
- 10.3 LICENSEE shall use all reasonable efforts to sell the Licensed Products.
- 10.4 LICENSEE shall not directly nor indirectly through any affiliate company in which LICENSEE or any of its controlling shareholders, officers or directors owns an interest individually or in the aggregate in excess of ten percent (10%), sell any Licensed Products. LICENSEE's sales shall be direct to bona fide retailers only.
- 10.5 LICENSEE shall not use a personality or celebrity to endorse or promote any Licensed Products without the prior express written approval of LICENSOR.

## 11. Goodwill

LICENSEE recognizes the value of the goodwill associated with the Trademarks. LICENSEE agrees, during the Term(s) and thereafter, never to attack the rights or LICENSOR in such or the validity of this license. LICENSEE agrees that its use of the Trademarks inures to the benefit of LICENSOR and that LICENSEE shall not acquire any rights in the Trademarks.

## 12. Trademark and Copyright

- 12.1 LICENSOR may obtain, at its own expense and in its name, appropriate copyright and trademark protection for the Property and/any Trademarks, and LICENSEE agrees to cooperate with LICENSOR in all such matters. If a country is added to the Territory and LICENSOR does not or has not obtained trademark protection in that country, LICENSEE may agree to pay for the trademark protection in that country in the name of LICENSOR.
- 12.2 LICENSEE agrees that it shall not at any time apply for any registration of any copyright, trademark or any other designation which would affect the ownership of the Property and/or Trademarks nor file any document with any governmental authority to take any action which would affect the ownership thereof.
- 12.3 LICENSEE agrees that it shall not at any time use or authorize the use of any trademark, trade name or other designation identical with or substantially similar to the Trademarks. LICENSEE agrees not to associate the Property and/or Trademarks with other properties, trademarks, personalities, or characters without LICENSOR's written permission.
- 12.4 If LICENSEE becomes aware of the use of any of the Property (or any confusingly similar designations) by any third party, which use is or may be an infringement of or unfair competition with respect to the Property, LICENSEE will notify LICENSOR thereof. LICENSOR will have the sole right to decide whether or not action will be taken against such third parties, and LICENSEE will cooperate fully with LICENSOR in every such action. LICENSOR will pay all expenses of such action and will be entitled to all damages or other amounts that may be recovered. However, if LICENSOR fails or refuses to prosecute or to permit LICENSEE to prosecute any alleged infringement or unfair competition by third parties, then LICENSEE may terminate this Agreement immediately upon notice. In such an event, LICENSEE will be relieved of responsibility for any further payments to LICENSOR under the Agreement.

## 13. Indemnification

LICENSEE agrees to defend, indemnify and hold LICENSOR, and its parent company, their officers, agents and employees, and the owners harmless against any and all liability, claims, demands, suits, loss, damages, causes of action and judgment, out-of-pocket costs and expenses, including reasonable attorney's fees, directly or indirectly arising out of the LICENSEE's manufacture, sale, offering for sale, distribution, promotion and/or advertising of the Licensed Products or LICENSEE's agents, employees, contractors, licensees.

## 14. Insurance

LICENSEE shall, throughout the Term, obtain and maintain at its own expense standard product liability insurance, the form of which must be acceptable to LICENSOR, naming LICENSOR as an additional insured. Such policy shall provide protection against all claims, demands and causes of action arising out of any defects or failure to perform, alleged or otherwise, of the Licensed Products or any use thereof. In no matter which currency such policy is drawn, the amount of coverage shall be at least the equivalent of USD\$1,000,000 for each claim and at least the equivalent of USD\$3,000,000 in the aggregate. The policy shall provide for thirty (30) days notice to LICENSOR from the insurer in the event of any modification or termination of such coverage. LICENSEE shall furnish LICENSOR a certificate of insurance as well as a copy of the amended endorsement evidencing same within thirty (30) days after execution of this Agreement but in any event, prior to any manufacture and distribution of the Licensed Products.

## 15. Seconds

LICENSEE shall, throughout the Term, obtain and maintain at its own expense standard product liability insurance, the form of which must be acceptable to LICENSOR, naming LICENSOR as an additional insured. Such policy shall provide protection against all claims, demands and causes of action arising out of any defects or failure to perform, alleged or otherwise, of the Licensed Products or any use thereof. In no matter which currency such policy is drawn, the amount of coverage shall be at least the equivalent of USD\$1,000,000 for each claim and at least the equivalent of USD\$3,000,000 in the aggregate. The policy shall provide for thirty (30) days notice to LICENSOR from the insurer in the event of any modification or termination of such coverage. LICENSEE shall furnish LICENSOR a certificate of insurance as well as a copy of the amended endorsement evidencing same within thirty (30) days after execution of this Agreement but in any event, prior to any manufacture and distribution of the Licensed Products.

## 16. Termination

The following are in addition to the termination rights provided elsewhere in this Agreement:

- 16.1 LICENSOR shall have the right to immediately terminate this Agreement on written notice should LICENSEE:
  - 16.1.1 Make, sell, offer for sale, use or distribute any Licensed Product or Promotional or Packaging Material without having the prior written approval of LICENSOR or continue to make, sell, offer for sale, use or distribute such after receipt of notice from LICENSOR withdrawing approval of same due to subsequent noncompliance;
  - 16.1.2 Fail after receipt of written notice from LICENSOR to immediately discontinue the distribution or sale of Licensed Products or the use of any Promotional or Packaging Material which does not contain the appropriate legal legend;
  - 16.1.3 Subject the Licensed Product or any Promotional and Packaging Material to any voluntary or involuntary order of any government agency involving the recall of any of the Licensed Products;
  - 16.1.4 Or its controlling shareholders, officers, directors or employees take any actions in connection with the manufacture, sale, distribution or advertising of the Licensed Products or the Promotional and Packaging material which damages or reflects adversely upon LICENSOR or the Trademarks;



## 16. Termination

The following are in addition to the termination rights provided elsewhere in this Agreement:

- 16.1.5 Breach any of the provisions of this Agreement relating to the unauthorized assertion of rights in the Trademarks;
- 16.1.6 Fail to make timely payment of Royalties when due or fail to make timely submission of Royalty statements when due two or more times during a twelve-month period or fail to pay the Guaranteed Minimum Royalty due for each 12 month period; or
- 16.1.7 Breach any provision of this Agreement prohibiting LICENSEE from directly or indirectly assigning, transferring, sublicensing or other encumbering of this Agreement or any of its rights or obligations hereunder.
- 16.2 A party may terminate this Agreement on thirty (30) days written notice to the other party, under any of the following circumstances, provided that during the thirty (30) day period, the defaulting party fails to cure the breach:
  - 16.2.1 Should LICENSEE, after commencing to sell and distribute Licensed Products, fail to continue to sell and distribute such in commercially acceptable quantities in all countries in the Territory for two consecutive Royalty Periods;
  - 16.2.2 Should LICENSOR or LICENSEE violate or breach any of its [material] obligations under this Agreement;
  - 16.2.3 Should LICENSEE file a petition in bankruptcy or be adjudicated as bankrupt or insolvent, make an assignment for the benefit of creditors, an arrangement pursuant to any bankruptcy law, or if LICENSEE discontinues its business or if a receiver is appointed for LICENSEE which is not discharged within thirty (30) days thereafter; or
  - 16.2.4 Should any Licensed Products be sold by LICENSEE at prices which are clearly not competitive prices as such are customarily charged by LICENSEE for similar products to unaffiliated businesses.

## 17. Effect of Termination

- 17.1 If this Agreement is terminated under paragraph 16.1, no Licensed Products may thereafter be sold or distributed or any Promotional or Packaging Material used without the prior written approval of LICENSOR.
- 17.2 Upon termination of this Agreement, notwithstanding anything to the contrary herein, all Royalties on shipments made shall become immediately due and payable.
- 17.3 If this Agreement is terminated under provisions other than paragraph 16.1, Licensed Products which are on hand or in process of manufacture at the time the notice of termination is received or at the time of the expiration of the Agreement as the case may be, may continue to be sold or distributed for a six month period (“Sell-off Period”), provided that all Royalties with respect to that period are paid and that LICENSOR may itself use or license the use of the Trademarks in any manner and that LICENSEE provide LICENSOR with an inventory of Licensed Products it intends to sell or distribute during such period. No products sold during the Sell-Off Period shall be at “distress” or “fire sale” prices or represented in any other way so as to encourage prices lower than those before the Sell-Off Period. If such sales occur, then the sell-off period shall be discontinued immediately.
- 17.4 Upon termination of this Agreement, all rights hereunder shall revert to LICENSOR who may license others to use the Trademarks in any way whatsoever. LICENSEE shall refrain from any further use of the Trademarks and, at LICENSEE’s option, either turn over to LICENSOR all other materials which reproduce the Licensed Products or give LICENSOR satisfactory evidence of their destruction. LICENSEE shall be responsible for any damages caused by the unauthorized use of such molds or reproduction materials which are not turned over or destroyed.
- 17.5 LICENSEE acknowledges that its failure to cease the manufacture, sale or distribution of Licensed Products or any class or category thereof at the time of termination or expiration will result in immediate and irreparable harm to LICENSOR and to the rights of any subsequent licensees. LICENSEE acknowledges that there is no adequate remedy at law for failure to cease the manufacture, sale, or distribution, and LICENSEE agrees that in the event of such failure, LICENSOR shall be entitled to equitable relief by way of injunctive relief, and such other relief as any court with jurisdiction may deem proper.

## 17. Effect of Termination

- 17.6 Within thirty (30) days after termination or expiration of this Agreement, LICENSEE shall provide LICENSOR with a statement indicating the number and description of the Licensed Products which it had on hand or in the process of manufacturing as of the expiration or termination. LICENSOR shall have the option of conducting a physical inventory to ascertain or verify such. In the event LICENSEE refuses to permit LICENSOR to conduct such physical inventory, LICENSEE shall forfeit its rights hereunder to dispose of such inventory.
- 17.7 In the event this Agreement is terminated by LICENSOR pursuant to Paragraph 16, LICENSOR shall have the right (i) to recover any unpaid Royalty payable by LICENSEE pursuant to this Agreement, (ii) to exercise any rights or remedies it may have against LICENSEE in equity, including the right to specific performance and (iii) to recover from Licensee as liquidated damages percentages of the Annual Guarantees as follows:
- In the event of termination after January 1, 200\_ during the first Annual Period, or during subsequent Annual Periods in the Initial Term or in any subsequent Renewal Term: one hundred (100%) percent of the balance of the Annual Guarantee for the Annual Period of termination plus fifty (50%) percent of the Annual Guarantee for the first subsequent Annual Period, if any, plus twenty-five (25%) percent of the Annual Guarantee for the second subsequent Annual Period, if any. In arriving at this formula for computing liquidated damages, LICENSOR and Licensee have considered, among other factors, LICENSOR'S substantial investment in the Trademark, the uncertainty of Licensor's ability to relicense the Trademarks for the Licensed Products; and, if relicensed, the uncertainty as to whether LICENSOR can relicense the Trademarks for the Annual Guarantees specified herein.

## **18. Purchase of Licensed Products by Licensor.**

- 18.1 LICENSOR shall have the right to purchase the Licensed Products at such times and in such quantities as LICENSOR desires.
- 18.2 If LICENSOR desires to purchase Licensed Products for promotional purposes only (not for resale), LICENSEE agrees to sell such Licensed Products at LICENSEE's cost with the Royalty owing to LICENSOR being waived for these purposes only.
- 18.3 If a third party secured by LICENSOR desires to purchase Licensed Products for resale through premium sales, direct response, direct sales, personal appearances or other means (other than to retailers), LICENSEE agrees to sell such Licensed Products upon terms to be negotiated including the Royalty to LICENSOR.
- 18.4 If LICENSOR desires to purchase Licensed Products for its own direct sales (other than to retailers) LICENSEE agrees to sell such Licensed Products upon the most favorable terms and at the lowest wholesale price offered by LICENSEE to any of its customers, regardless of quantity requirements, including the Royalty owing to LICENSOR.

## 19. Representations and Warranties

19.1 LICENSOR represents and warrants that:

- 19.1.1 It is duly organized under applicable law and it has the full authority to enter into and perform all of the duties and obligations contemplated under this Agreement;
- 19.1.2 It is the owner of all right, title and interest in and to the Trademark and its rights are not the subject of any encumbrance, lien or claim of ownership by any third party;
- 19.1.3 At no time during the term of this Agreement will it assign, transfer, encumber, or grant rights in or with respect to the Trademarks that are inconsistent with the grants and other rights reserved to LICENSEE under this Agreement;
- 19.1.4 It has not engaged in any conduct, or omitted to perform any necessary act, the result of which could invalidate the Trademark or affect its enforceability, and it is not aware of any fact that puts in question the validity or enforceability of the Property; and
- 19.1.5 To the best of its knowledge, LICENSEE's use of the Trademark will not infringe the valid proprietary rights of any third party.

19.2 LICENSEE represents and warrants that:

- 19.2.1 It is duly organized under applicable law and it has the full authority to enter into and perform all of the duties and obligations contemplated under this Agreement;
- 19.2.2 It will comply with all applicable governmental laws, rules and regulations in connection with the manufacture, distribution, sale, and use of the Licensed Products and its activities under this Agreement.
- 19.2.3 It has the financial capacity to perform all of the duties and obligations contemplated under this Agreement;
- 19.2.4 Marketing Commitment. It will develop and implement a reasonable plan to market the Licensed Product.

## 19. Representations and Warranties Indemnifications

- 19.3 LICENSOR hereby agrees to indemnify and hold LICENSEE and its parent company and its officers, agents, employees and shareholders harmless from any and all judgment, out-of-pocket cost and expenses including reasonable attorney's fees, directly or indirectly arising from the breach of any of the above representations and warranties.
- 19.4 LICENSEE hereby agrees to indemnify and hold LICENSOR and its parent company and its officers, agents, employees and shareholders harmless from any and all judgment, out-of-pocket cost and expenses including reasonable attorney's fees, directly or indirectly arising out of LICENSEE's manufacture, sale, offering for sale, distribution, promotion and/or advertising of the Licensed Products.

## 20. Force Majeure

Neither party will be in default hereunder by reason of its delay in the performance of or failure to perform any of its obligations hereunder if such delay or failure is caused by strikes; acts of God or the public enemy; riots; fires; interference by civil or military authorities; compliance with governmental laws, rules and regulations; delays in transit or delivery; or any other causes beyond its reasonable control.

## 21. Dispute Resolution

- 21.1 The parties agree that before implementing Paragraph 21.2 below, they will make a good faith effort to resolve any dispute, controversy or differences which may arise between the parties under or in connection with this Agreement. Initially, both parties shall exchange brief summaries identifying the issue and their view of the issue, with the complaining party providing the initial summary. Then a discussion shall be held at a location agreed to by the parties between an authorized representative LICENSOR and an authorized representative of LICENSEE. If the representatives are not able to reach an agreement then an Officer of LICENSOR and an Officer of LICENSEE shall meet at the offices of the LICENSOR and attempt to resolve the issue. If no resolution is reached then either party shall be permitted to implement the procedure in Paragraph 21.2 below.
- 21.2 All disputes, controversies or difference which may arise between the parties under or in connection with this Agreement or for the breach thereof or as to the arbitrability of such disputes, controversies or differences, which are not resolved pursuant to Paragraph 21.1 above shall be finally settled by final and binding arbitration conducted in New York, NY under the then current Commercial Rules of the American Arbitration Association (including Supplementary Procedures for International Commercial Arbitration), subject to the following additional provisions:
- The arbitration shall be conducted by one person, and the arbitrator shall have familiarity with trademark licensing agent agreements. The arbitrator shall have no power to waive, alter, amend, revoke, or suspend any of the provisions of this Agreement. The written award of the arbitrator shall set forth the arbitrator's decision as to which party shall bear the fees and expenses of the arbitration (including, without limitation, the fees of the arbitrator, administrative expenses and attorneys' fees incurred by any or all of the parties) or the proportion or amounts of such fees and expenses which each party shall bear. Except to the extent necessary to enforce an arbitration award or to the extent required by law or court or administrative order, all arbitration proceedings and awards shall be kept confidential by each party, arbitrator, representative, counsel or witness. Judgment may be entered in any court of competent jurisdiction on any arbitration award and such award shall be final and binding.
- 21.3 This Agreement shall be construed and interpreted in accordance with the laws of the State of New York without regard to the conflicts of laws provisions thereof, the parties agree that it is executed and delivered in that state, and LICENSOR and LICENSEE each irrevocably consent to personal jurisdiction in any civil action brought in connection with this Agreement in the United States District Court for the Southern District of New York.

## 22. Miscellaneous

- 22.1 The parties are independent contractors and nothing in this Agreement will constitute either party as an agent of the other.
- 22.2 This Agreement, together with its Schedules, constitutes the entire understanding between the parties with respect to the subject matter herein, and supersedes any prior or contemporaneous written or oral understandings, agreements, or representations between the parties.
- 22.3 Any notice, approval or consent given under this Agreement shall be deemed sufficiently given if delivered by hand, or by Federal Express, Airborne or United Parcel Service, or mailed by certified mail, postage prepaid, addressed to the party to be notified at its address shown below or at such other address as may be furnished in writing to the notifying party.

If to LICENSOR, then care of:

\_\_\_\_\_

If to Licensee, then care of:

\_\_\_\_\_

- 22.4 No waiver by either party of a breach or a default hereunder shall be deemed a waiver of a subsequent breach or default.
- 22.5 In the event that any provision of this Agreement shall be invalid, illegal or unenforceable in any respect, such shall not affect any other provision and this Agreement shall be interpreted and construed as if such provision, to the extent invalid, illegal or unenforceable, had never been part of the Agreement.



## 22. Miscellaneous

22.6 LICENSEE's rights hereunder may not be assigned, disposed of, or transferred, voluntarily or involuntarily, to anyone else without LICENSOR's written approval at its discretion. Without limitation to the previous sentence, a merger of LICENSEE into another company or the transfer of a controlling interest in LICENSEE shall be deemed a disposal of LICENSEE's rights hereunder, which, to be effective, would require LICENSOR's written approval.

22.7 Headings of paragraphs and schedules herein are for convenience of reference only and are without substantive significance.

## 23. Confidentiality

The parties agree to keep strictly confidential all confidential and proprietary sales, product, financial and marketing information received hereunder, as well as the terms and conditions of this Agreement. The parties agree not to use any such information for their own benefit, nor for the benefit of third parties, and further agree not to disclose any of such information to any third party except as may be required by government authority or a court of competent jurisdiction.