

ADVERTISING &

MARKETING

BULLETIN

*A Report on Recent
Developments in Advertising
& Marketing Law*

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TOP TEN TIPS FOR STRUCTURING A TRADE-MARK LICENSE

INTRODUCTION

In order to structure a trade-mark license effectively, the parties first and foremost need to make sure that they comply with the provisions of Section 50 of the Trade-Marks Act. As the Act reads, the owner of a trade-mark may allow a Licensee to use his or her trade-mark and such use will be deemed to be use by the owner, provided that the owner has direct or indirect control under the license of the character or quality of the wares or services. The Licensor should also consider the following tips:

1. Scope of The Grant

Set out specifically which trade-marks are being licensed and include any design marks in a schedule; address whether the license will be exclusive, non-exclusive or sole; consider any market restrictions, keeping in mind that the agreement should not have the effect of unduly lessening competition; and be clear as to the term of the contract.

2. Quality Control

Licensors must actually exercise control either directly or indirectly over the character and quality of the wares or services. A quality control enforcement program should be established obligating the Licensee to satisfy written standards and specifications. The Licensor should demand inspection and sampling rights, the right to approve the product and any marketing material, training of licensee personnel, and the right to terminate if quality is not maintained.

3. Policing "Use"

Policing the use of the trade-mark itself is critical as incorrect usage can affect distinctiveness. The Licensor should ensure that the trade-mark is used only as shown in the registration, is used only on goods covered by the agreement, is accompanied by TM or ® as applicable, is written in distinguishing type, and is never used generically. Also, a proper trade-mark notice stating who owns the trade-mark and the fact that it is used under license is essential.

4. Acknowledgement of Validity

As a preventative measure the Licensor will want the Licensee to acknowledge that the Licensee will not, during the term or at any time following: attack the trade-mark registration; oppose the Licensor's applications to register the trade-marks or extend the registrations in respect of other wares or services; or otherwise challenge the Licensor's rights.

5. Confidentiality

It makes good business sense to deal with the issue of confidentiality in the trade-mark license. Otherwise a Licensee could become privy to a trade secret and later use that information to the Licensor's detriment. The parties should establish confidentiality controls such as: Licensee employee non-disclosure agreements;

obligations to mark documents "confidential"; and prohibitions against making copies. The license agreement should state that there is an obligation to maintain confidentiality during and after the term of the agreement, should outline the specific purpose for which the information may be used and should obligate the Licensee to return all documentation upon termination.

6. Sub-Licensing

Sub-licensing is not generally permissible unless the Licensor consents. If the Licensor is willing to allow sublicensing, it must ensure that it retains direct or indirect control of the character or quality of the wares or services. This can be achieved by requiring the Licensee to include stringent control provisions in any sub-license or requiring the Sub-Licensee to contract directly with the Licensor.

7. Assignment

Without express authorization, the Licensee cannot assign its rights and obligations to another party. The agreement should clearly state whether it is assignable and the terms under which an assignment is permitted. Bear in mind that a change of control of the Licensee does not trigger the Licensor's right to terminate. The Licensor will want to consider carefully whether a change of control should give rise to a termination right, and if so, should incorporate it into the agreement.

8. Royalties and Payment

Consider whether there will be any royalties paid and if so how they will be calculated. Will it be a flat amount per unit sold? Alternatively, will payment consist of a

percentage of "profit" or sales? How is profit defined? It might mean a percentage of net sales (i.e. gross sales less rebates, refunds, returns and taxes). Other considerations include: how often royalties will be paid; currency exchange and withholding taxes; penalties such as interest on overdue payments; and the right to offset.

9. Minimizing Liability

A Licensee's activities may expose the Licensor to product liability, negligence and breach of contract claims. Minimize risks by requiring: a disclaimer of liability from the Licensee for any and all trade-mark use; broad indemnification rights (including any costs associated with defending claims associated with the licensed wares and indemnity for any judgements awarded against the Licensor); and a security deposit. The Licensor should also be listed as an "additional insured" in the insurance contract.

10. Termination Provisions

The Licensor will want to consider inserting a number of triggering provisions for termination. For example, there should be a poor quality trigger so that if the Licensee fails to adhere to quality standards the Licensor will have the ability to prevent continued sales and distribution of the defective product. Another trigger may be the non-payment of royalties. The Licensor will want to ensure that following a notice of termination the proceeds from the sale of any product are held in trust for the Licensor's benefit. If the Licensor does not wish to purchase the inventory, a "sell-off" provision may be appropriate. Be careful about automatic terminations in the event of a bankruptcy, as a trustee in bankruptcy may have the power to override such a provision.

The foregoing provides only an overview. Readers are cautioned against making any decisions based on this material alone. Rather, a qualified lawyer should be consulted.

For further information, please contact your McMillan Binch LLP lawyer or one of the Practice Leaders of our Advertising & Marketing Group listed below:

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