



Trademark Licensing

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The Risks of Successful License Agreements and How to Avoid Them

Last month's column described how unexpectedly successful and long-lasting licensing deals can lead to an equally unexpected pitfall: a license agreement renewed annually without amendment and rendered so out of date over the years as to pose a genuine liability to the licensor. Although the world of licensing has changed rapidly over the last ten years, and will continue to do so, many long-term licensees are operating under agreements whose legal provisions have never been amended. Brand owners, their counsel, and licensing agents need to know how to avoid the same fate in the future.

The Solution Is Already There

Many license agreements contain two separate sections, typically entitled "Special Provisions," which contains the specific terms of the deal, and "General Provisions," which contains the lengthy boilerplate clauses that represent state-of-the-art licensing at the time the deal is signed. (Other agreements segre-

gate terms specific to the deal in a separate schedule attached to the general form.)

Active licensors usually revise the terms of their general provisions either annually or semiannually, and some do so even more often. However, no matter how often the form is changed, in almost all cases, the licensor never asks existing licensees to agree to the same legal terms it requires of new licensees.

How can licensors prevent this disparity between licensees, all of whom, after all, are using the same trademark in the same legal environment? How can they enjoy the same legal commitment from both new and existing licensees? The very structure of these agreements offers the answer: Licensors could require licensees to agree up front to an annual update of the agreement's general provisions as a condition of its renewal.

Such a license agreement would require that any renewal be mutual and that, under its terms, each new licensee would agree that the licensor could condition renewal on the revision of the agreement's general provisions. Some licensees may be wary of this requirement, although they often will agree to more onerous terms for renewal than they will for an initial term. However, in most instances, no licensor will scare away a successful licensee on renewal with truly unreasonable demands.

This solution would address the licensor's interests in a number of ways. First, it would force the licensor and its counsel to review

the legal provisions of its standard license agreement every year. Second, it would make licensing programs easier to administer, since most outstanding agreements would contain the same governing terms. Third, and most important, it would reassure brand owners that most of its licensees are operating under acceptable legal provisions.

Of course, for certain types of license agreements, this solution would not be a viable option. It would not work with agreements that present their own legal particularities; a license that was not susceptible to the standard form at its beginning would not become more so over time. Nor would it work for licensing programs in which the licensee's investment is so great that it could not risk the licensor regaining all of its bargaining power every 12 months.

On the other hand, this solution would be an option for agreements that rely on the licensor's general provisions as well as agreements that provide for renewals, whether annual, biannual, or even less frequently. Even agreements with long initial terms could provide for a legal update during regular renewal periods.

Keeping License Agreements Successful and Current

This solution, which is overlooked by too many licensors and their attorneys, would reward the successful, long-lasting deals while avoiding the legal risks that often come at the cost of such success. If licensees operated under agreements whose legal provisions, if not identical to the brand owners' latest revisions, at least bore a close resemblance to them, the interests of the licensors and their agents would be far better served.

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