Trademark Licensing

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Watch What the Licensor Does, Don't Listen to What It Says

Hiring the best trademark counsel and getting them to draft the best possible license agreement will not keep a licensor out of trouble. What has happened between the licensor and its licensee before that point—and certainly what happens between them afterwards—can have more to do with the terms of their licensing relationship than any contract they may sign.

Two recent cases remind us that trademark owners can be licensors long before a draft license agreement has passed between them, and that a licensor who fails to enforce specific remedial terms of an agreement can lose them. [I am indebted to Ron Coolley of Jenkins & Gilchrist in Chicago for calling attention to these cases in the November/December 2001 issue of *The Licensing Journal*.]

Villanova v. Villanova Educational Foundation

In this case, *Villanova Univ. v. Villnova Alumni Educational Foundation*, [123 F. Supp. 293 (E.D. Pa. 2000)], Villanova University had spent 28 years overseeing the putative licensee's alumni organization. Among other things, the University gave the alumni organization permission to use its trademarks and imposed strict guidelines on its use of them. When it asked a court to terminate what it called the organization's unauthorized use of its trademarks, the court said that the University could not deny a license it had granted the organization by implication. By taking enough of the actions ordinarily taken by a licensor under a written license agreement, the University had written a license agreement for itself. No licensor should find itself in the situation of having granted a license without the benefits it would have gained (clarity and certainly among them) from a written agreement.

Calvin Klein v. Wachner

Although Calvin Klein may have the last laugh (Wachner's Warnaco later declared bankruptcy, and Wachner herself has been fired without severance by her board), Mr. Klein asked the court to stop Wachner's use of distribution channels unauthorized by their written license agreement [*Calvin Klein v. Wachner*, 129 F. Supp. 2d 254 (S.D.N.Y. 2001)]. Klein knew about Wachner's violation of their agreement, however, and had in fact continued accepting royalties from her sales to those unauthorized channels of distribution in spite of their agreement. The court denied Klein's request, stating that under the legal doctrine of "election of remedies" acceptance of those royalties meant that he had chosen royalties over termination. In other words, by accepting compensation for sales clearly prohibited by the license agreement Klein allowed Wachner to amend that written contract.

Careful planning will reduce but not eliminate the risk that trademark attorneys, licensing managers, and licensing agents will face situations just like these—or worse. Who hasn't had a client or employer facing a partner of some sort who has been using that client/employer's trademark but never signed a license agreement? And who hasn't had a client or employer recommend an undocumented working solution to a problem their written license agreement did not address? The overarching lessons are simple ones: Make sure that you want to do business with anyone you allow to use your trademarks; protect yourself against them as you would against any licensee; and either enforce the specific terms of a license agreement or (if those terms do not serve the situation at hand) amend it. If not, your actions will write those provisions for you, and you may find yourself subject to a license agreement you neither read nor signed.

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