

LICENSOR AND LICENSEE DISPUTES – TRADEMARK ISSUES

June 16, 2010

Licensed furniture collections are all the rave as reported [here](#) in *Furniture/Today*. As these relationships multiply and mature, disputes between licensors and licensees are arising with more frequency. One area ripe for disagreement relates to the licensee's use of the licensed trademark.

1. LICENSOR.

(a) **Concerns:** Licensors are obligated by law to carefully control and police the use of their trademark or risk its loss, especially if the licensee is using the mark outside the scope of the license or is selling product of inferior quality. But there are inherent risks if the licensor decides it must litigate to enforce its rights, including counterclaims by the licensee attacking the validity of the mark (if such a claim is allowed by the court), claims of inadequate quality control (which may frustrate the licensor's ability to litigate or worse lead to loss of protection), and claims of breach of the license agreement and covenants of good faith and fair dealing.

(b) Strategy:

(i) Litigation is expensive and time consuming with no guarantee of success. However, if settlement can't be achieved and litigation is unavoidable, licensor must assess whether its trademark is vulnerable to attack by the licensee. This includes (1) reviewing whether the mark is [incontestable](#) which would protect it from certain claims of invalidity; (2) carefully reviewing the prosecution history of the trademark to determine if there are any statements or exchanges with the examining attorney that may be used to attack the mark; (3) determining if the mark may be challenged by a claim of [abandonment](#) or (4) that the mark has become generic through common use.

(ii) The licensor should be able to show tangible steps it has taken to control the nature and quality of the products being manufactured and sold by the licensee to avoid a claim of "naked licensing" and loss or weakening of the licensor's protection. Some typical [quality control provisions are described here](#).

(iii) The licensor should carefully review the licensing agreement to ascertain whether it has fulfilled its own obligations to the licensee, that it has adhered to the provisions regarding notifying the licensee of breaches, and that it has followed any mandated alternative dispute mechanisms such as negotiations between executive officers, mediation and arbitration.

2. LICENSEE.

(a) **Concerns:** Licensees invest substantial amounts of time and capital to manufacture, market and sell licensed products. Therefore licensees can't afford to have the licensing relationship

continued...

interrupted or terminated with the rights to the trademark reverting to the licensor. Licensees related concerns include (1) licensor's or a third party licensee's use of the mark outside of the scope of the license agreement that may affect the value of the mark (e.g., brand consistency), (2) that the licensor will not maintain the mark, (3) that the licensor will not defend the mark against a claim of infringement or will not enforce and prosecute its rights against a third party infringer, and (4) that the licensor will not exercise its rights of approval regarding the use of the mark in a reasonable manner with respect to design of the product, product specifications and quality, packaging, advertising materials, sourcing, new product categories, and the like.

(b) **Strategy:**

(i) Licensee should make sure that it has its own house in order. Is it complying with the terms of the licensing agreement with respect to, among other things, (1) the scope of the license grant relating to the type of product being manufactured and sold, the distribution channels used, and the territory that the product is being sold in; (2) the adherence to product specifications and approval requirements; (3) compliance with all federal, state and local statutes, rules and regulations with respect to manufacturing and selling; (4) the overall quality of the products being commercialized; and (5) the use and display of the mark in packaging, advertising and marketing. If the licensee is in material default with respect to any of these items, it risks termination of the license agreement.

(ii) Licensee should ascertain whether there are any affirmative defenses available to it if the licensor resorts to litigation against the licensee, such as (1) [laches or acquiescence](#), (2) [abandonment](#) of the mark by licensor, (3) [fair use](#) by the licensee, (4) [generic nature](#) of the mark, (5) "[unclean hands](#)," (6) trademark misuse, and (7) violation of antitrust statutes.

(iii) With respect to defending or prosecuting infringement claims, the licensee may request "step-in" rights to defend or prosecute infringement claims if the licensor fails or chooses not to.

There are numerous other potential licensor and licensee areas of disagreement, as well as strategies to resolve these matters, that we will discuss in the future. Please feel free to comment below or email your questions, thoughts and experiences to jcohen@ctswlaw.com or jcohen@homefurnishingslaw.com.

Y. Jerry Cohen, Partner

C | T | S | W

Cohen Tauber Spievack & Wagner P.C.

420 Lexington Ave., Suite 2400

New York, New York

(212) 586-5800

[**jcohen@ctswlaw.com**](mailto:jcohen@ctswlaw.com)

[**jcohen@homefurnishingslaw.com**](mailto:jcohen@homefurnishingslaw.com)