§ 6.03 FASHION LICENSING *Karen Artz Ash*

[A] Introduction

The fashion world is built substantially on a foundation of brand licensing. While some companies and design houses have very sophisticated licensing partners, there is no question that virtually any license can be improved. In fact, many licenses contain language that may create unforeseen issues. Often these issues are identifiable only in litigation.[16]

Lawyers and business executives who negotiate brand licenses rarely have a glimpse into the courtroom. However, lessons from the courtroom put meaning behind the words. There is no better contract than one negotiated by someone who understands the effective lessons taught by litigation.

[B] Contractual Considerations

Trademark (*i.e.*, brand) license agreements are, by their nature, living, breathing instruments. This is especially true in the field of fashion products (*e.g.*, apparel and accessories). They govern how people live together as business partners, united in the mutual goal of exploiting a common property right. The trademark itself has an identity of its own, just as the business partners have their own discrete identities. They all come together, governed by the words lawyers write. The words live on, often beyond their scriveners and long after the memories of negotiations have faded. Negotiated ambiguities become fertile ground for battle. The battles are the best teachers and the lessons learned the most unforgettable. Here are some of the lessons learned from such battles. They are particularly applicable to fashion licenses where brand consistency is everything.

Always use consistent language within a clause or section if the same thing is intended in each section. Variations in language lend credibility to the view that there was a reason for the variation and an opportunity for each party to posit that reason in a way most advantageous to it. Avoid the use of "and/or," as this is a built-in ambiguity always susceptible of multiple interpretations. Believe it or not, there is case law construing the phrase "and/or." Unfortunately, that case law provides no answers. Rather, it suggests that there is no universal construction of this phrase and no consensus about whether it is to be construed as exclusive, inclusive or both.[17]

Either define the prestige, reputation or identity of the trademark carefully or specifically allow for it to adapt and change. Nebulous, self-defining standards support differing interpretations. If acceptable channels of distribution define the brand's integrity, then those channels should be carefully and precisely defined. If, for example, previously used channels of distribution are the criteria, then those specific channels should be identified. Otherwise, when the question arises, there may be some unexpected results.

If a license is very long in duration, make certain that it accommodates a potentially changing marketplace. Licenses written 10 to 15 years ago never contemplated retail sales over the Internet, by mobile or other electronic means, or the warehouse club phenomena for upscale, albeit pared-down, shopping. The licensor should seek prior approval over new retail channels. The licensee should opt for

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[16]The author wishes to thank David B. Sherman, Special Counsel at Katten Muchin Rosenman LLP, for his invaluable assistance in preparing this section.

[17]*In re* Marriage of Lima, 638 N.E.2d 1186, 1189 (Ill. App. 2d Dist. 1994). "The combination "and/or" connects terms without particularity of what it intends to describe. The combination is a deliberate amphibology, susceptible of more than one interpretation and is a purposefully ambiguous expression, useful in its self-evident equivocality." *See also* Bank Bldg. & Equip. Corp. of Am. v. Ga. State Bank, 209 S.E.2d 82 (Ga. App.1974).

maximum flexibility. Either way, a meeting of the minds should be evident within the four corners of the agreement.

Brand licenses may include more than one trademark, but every agreement should clearly identify the specific trademark(s) being licensed and the form(s) in which such mark(s) may be used. As brands expand, it is not uncommon for brand owners to create new product lines or collections under derivative marks. Rights to such marks may be valuable, particularly those derived from well-known brands. Licensees may seek rights of first refusal or negotiation for derivative marks, while licensors may be better served to reserve rights to such marks and maintain flexibility. By addressing such rights explicitly, at the outset, parties to a license may avoid disputes and enable new business opportunities.

Brand licenses should also explicitly provide for how licensed products will be designed, the level of control each party may exercise, and the review and approval processes that are in place. While it is standard practice for fashion designers to look to a variety of sources for "inspiration," the line between legal inspiration and illegal infringement is thin and not a straightforward formula. Relying on the common misconception that making a set number of changes (often called the "Three Change Rule," the "Five Change Rule" or the "20% Rule") to a design will circumvent infringement puts businesses at risk of being on the receiving end of a legal claim. An indemnification clause should set forth the parties' respective responsibility for legal claims or lawsuits brought in connection with the products and trademarks (or other licensed rights) under the agreement. Insurance requirements supporting an indemnification obligation and ensuring that the party charged with indemnifying the other will have insurance to support the representation should also be included.

If a retail price criterion defines a product or its market positioning, the passage of time and inflation should be figured in. A price point today can be virtually meaningless in 10 years. Amendments should always be properly integrated. Often, as the parties perform their contract, they agree to change its terms, sometimes re-defining financial terms, royalty calculations and remittances. It is crucial that the single modifications made to one provision are carried through as reflected in necessary changes to other clauses. A fresh re-reading of the entire agreement will highlight interdependent clauses and definitions.

The merger clause (*i.e.*, the clause that says that the document supersedes all other discussion or written materials) serves an important role. It is important to define whether the parties' course of conduct should govern their performance or if the contract governs under all circumstances. Absent specific and express language contemplating an evolving course of conduct, the standard merger clause governs.

On the other hand, if the intention is to embody all circumstances and practices in the written agreement, make certain that the merger clause is comprehensive. In a litigation, years of accepted behavior can be rendered meaningless simply because the contract expressly provides that only the written word governs. Conversely, one party's self-help cannot change contractual obligations nor can one party impose undue responsibility on the other if the merger clause expressly acknowledges that the words in the agreement constitute the "entire agreement."

If the parties intend for there to be a fiduciary relationship or any other type of special relationship, the drafting attorney should use language that expressly provides for such a relationship in the agreement. For example, if the license agreement provided that it contained "the entire understanding and agreement between the parties concerning its subject matter," one party is barred from claiming that the other party breached a fiduciary or other role imposing special duties based on the "close business relationship" between the parties. Special duties are not imposed by law, but rather, must be specifically and expressly imposed and assumed.[18]

[18]Oursler v. Women's Interart Ctr. Inc., 566 N.Y.S.2d 295 (1st Dep't. 1991) ("a conventional business relationship, without more, does not become a fiduciary relationship by mere allegation."). *See also* Northeast Gen. Corp. v. Wellington Adver., Inc. 624 N.E.2d 129 (N.Y. 1993).

Similarly, where parties intend to bind or release past or future affiliates, license agreements should specifically reference those parties. Courts have held that "[a]bsent explicit language demonstrating the parties' intent to bind future affiliates of the contract parties, the term 'affiliate' includes only those affiliates in existence at the time that the contract was executed."[19] These decisions, supported by the principle of *expressio unius est exclusion alterius* ("to express or include one thing implies the exclusion of the other, or of the alternative"), implore parties and their attorneys to consider how changes in corporate structure or existence may, over time, change the interpretation and meaning of contractual language.[20]

It is important to understand the difference between a provision that says the License may not be assigned and a provision that allows the other party to terminate if there is a "change of control." A provision prohibiting assignment forbids the licensee (typically) from transferring its licensed rights to someone else. On the other hand, a provision addressing change of control protects a party against a change in ownership, management control, or leadership of its counterparty. Typically, this provision may be triggered upon the transfer of property, assets, or stock ownership.

When drafting a license agreement, the drafter should focus on the entity they are representing, the corporate structure of that entity and include these provisions in the manner that is most suitable for their client's interests. Usually, a licensor wants to control who has the right to exploit its property.

Under contract law, a contract that is silent on assignment is generally freely transferrable.[21] Drafters should contemplate this and realize its implications including a future sale of the business. When third parties are evaluating an acquisition or an investment in a corporation, licenses are potentially lucrative. If they may be terminated based on a change of control, then the company's value to the acquirer may be significantly diminished.

Language stating that acceptance of payment or performance does not waive the right to raise objections may still not be enough to preserve all possible legal causes of action. Typically, license agreements include provisions stating that acceptance by the licensor of royalty (and other) payments does not constitute an acknowledgement that payments are adequate or that there are no outstanding breaches. Such provisions also provide, commonly, that acceptance of payments does not foreclose the availability of other legal and equitable remedies, whenever asserted. Lawyers usually believe that language of this type is enough to preserve a right by a licensor to terminate the license at any time while enjoying the benefits of payment for as long as it wishes. This view is wrong, as the continued acceptance of payment or conduct by the other party may nonetheless foreclose some remedies.

New York law holds that a party to a license agreement can elect its remedies. If one party breaches the contract, the non-breaching party can opt to continue to accept the performance of the allegedly breaching party under the contract, thereby continuing the contract. However, if it does continue, with full knowledge of how the benefits were generated (even if it makes its objections known in writing) it may not be able to come to court at a later date to seek termination of the agreement based on the breaches it has elected to live with.

Continued acceptance may simply bar any later demand for termination. What the contractual language really does is simply preserve a money claim. In order to avoid a mandated election of remedies (*i.e.*, where the only retained remedy is a possible money claim), the drafting party should include language in the license agreement stating that one party's accepting performance under the terms of the contract does not constitute an election of remedies nor bar the right to seek and obtain termination as a result of the other's breaches.

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[19] *See, e.g.*, Ellington v. Emi Mills Music, Inc., 959 N.Y.S.2d 88 (2011); VKK Corp. v. NFL, 244 F.3d 114 (2d Cir. 2001).

[20] BLACK'S LAW DICTIONARY 661 (9th ed.).

[21] UCC § 2-210(2) (2002).

[1] The Pitfalls of Anticipating Litigation

An attorney should be sure to exercise caution about every privileged communication with clients. When a party to a license agreement faces the grim prospect of litigation, as part of the process of document requests and interrogatories in a litigation, each party asks for all documents on the subject matter. While the attorney-client privilege and the work product doctrine allow a party to avoid providing copies of correspondence with its counsel, the Federal Rules of Civil Procedure require that a complete list and description of all such communications be provided in a privilege log.

The privilege log is a list of every document being withheld under the claim that those documents contain privileged information or are shielded from disclosure under the work product doctrine. The privilege log details what the withheld document is, including the date, authors, recipients and a description of its contents, and why it is being claimed as privileged.

The privilege log tells a story. Conduct by the litigating plaintiff can be tied back to the dates it received advice from its counsel or contemplated a lawsuit. Sometimes, a party's reluctance or delay in performance can be shown to coincide with its communications with counsel and preparation of a lawsuit. Under some circumstances, this story can support counterclaims and allegations of bad faith. In short, always think about the story the document will tell or the story it could be used to support in litigation.

One should also not assume that the attorney-client privilege or work product doctrine necessarily extends to parties such as public relations consultants, accountants, auditors and investment bankers who were hired by counsel. Except in certain circumstances discussed below, "the [attorney-client] privilege protects communications between a client and an attorney, not communications that prove important to an attorney's legal advice to a client."[22]

Generally, a court will narrowly construe the attorney-client privilege. It is well established that "nothing in the policy of the privilege suggests that attorneys, simply by placing accountants, scientists, or investigators [or, here, a public relations firm] on their payrolls … should be able to invest all communications by clients to such persons with a privilege the law has not seen fit to extend when the latter are operating under their own steam."[23]

There are circumstances, however, where the attorney-client privilege may extend to third parties such as a public relations firm hired by counsel in connection with the litigation. Specifically, the communications may be protected if the third party needs to know the attorney's litigation strategy in order to provide advice and such advice will directly impact the attorney's approach in including certain facts in a complaint.

[C] Bankruptcy Issues in Fashion Licensing

Trademark licenses are unique in that they require a certain level of quality control and the continuing oversight or supervision of the licensor. By their nature, these licenses may be considered personal agreements because of the selection of a particular licensee with the expectation of the licensee maintaining a defined level of quality. The affirmative duty on the part of the licensor to approve the quality of products bearing the licensed mark purportedly conflicts with certain benefits accorded a licensee of patent or copyright rights under Section 365(n) of the U.S. Bankruptcy Code. Moreover, the commonly used clauses providing for automatic termination of a license in the event of a bankruptcy may not, ultimately, have any enforceable effect. The lesson, here, is that it is very important to know the fiscal health of the other party to a trademark license. If there is an imminent potential for bankruptcy, effort should be made to have additional safeguards in appropriate circumstances.

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[22]United States v. Ackert, 169 F.3d 136, 139 (2d Cir. 1999).

[23]United States v. Kovel, 296 F.2d 918, 921 (2d Cir. 1961).

The bankruptcy of one of the parties to a fashion license agreement can be a sudden and unexpected event for the other party. Due to their interdependent relationship, licensor, licensee, and the brand can all be severely affected by the consequences of bankruptcy. The parties substantially rely upon the good standing of the other and the value of the brand, and each can affect the value and integrity of the brand, as well as the fiscal health of the other party. These interdependent relationships are governed by the written license agreement, and both the license and the parties are affected by the U.S. bankruptcy laws.

The section entitled "The Bankruptcy Code and Trademarks" describes how fashion licensing intersects with, and is affected by, the U.S. Bankruptcy Code. The section entitled "Minimizing Risk for the Non-Debtor" will discuss practical points for drafting license agreements that minimize the parties' adverse consequences of bankruptcy.

[1] Traditional Interpretation of the Code for Trademarks

Traditionally, trademarks have not been awarded the same protection as patents and copyrights in bankruptcy. The U.S. Bankruptcy Code (the "Code") defines "intellectual property" expressly to include patents and copyrights, but not trademarks.[24] Presumably, this was because trademark licenses are unique—they require a certain level of quality control and the continuing oversight or supervision of the licensor.

Trademark licenses may be considered personal agreements because a licensor selects a particular licensee with the expectation that the licensee will maintain a defined level of quality consistent with the brand. The affirmative duty of the licensor to approve the quality of products bearing the licensed mark conflicts with § 365(n) of the Code, which allows for an election by an intellectual property licensee to continue using a licensed property post-bankruptcy, permitting the licensee to use the licensed property free from the obligations set forth in the license agreement. As such, copyright and patent licensees are explicitly protected under the Code.[25]

The effects of bankruptcy on parties to a trademark license agreement are quite different under the Code. When a trademark licensor is in bankruptcy, it may reject the entire trademark license agreement, thereby terminating the licensee's right to use the licensed name and mark. License agreements are generally executory contracts that the bankruptcy trustee may assume or reject, pursuant to § 365(a). 11 U.S.C. § 365(a) (2015). Similarly, when a licensee is in bankruptcy, it may reject the license agreement. In both cases, the non-debtor party is left in a difficult position with the only recourse being a pre-petition unsecured claim for damages. Since the pre-petition claim for damages may fall short of the actual financial damage, the termination of the license may have a drastic economic effect on the non-debtor party.

[2] Recent Developments in Interpreting the Bankruptcy Code with Respect to Trademarks

In our last three updates of this section, we discussed the Seventh Circuit's 2012 decision in *Sunbeam Products, Inc. v. Chicago American Manufacturing*, which created a conflict among the circuits as to the effects of the Code on trademark licenses, as well as the determination of Congress's intent in its omission of trademarks in § 101.[26] The First Circuit's January 12, 2018 decision in *Mission Products Holdings, Inc.*

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[24] 11 U.S.C. § 101 (2015).

[25] For the protections awarded to intellectual property licensees, *see* 11 U.S.C. § 365(n) (2015); *see also* Karen Ash & Bret Danow, *Reducing the Effects of Licensing Bankruptcy*, MANAGING INTELLECTUAL PROPERTY, 38 (July-Aug. 2004).

[26] Sunbeam Prods., Inc. v. Chicago Am. Mfg., No. 11-3920, 2012 WL 2687939 (7th Cir. July 9, 2012).

v. Tempnology, LLC, n/k/a Old Cold LLC, delineated an even clearer split.[27] In *Tempnology*, the First Circuit held that rejection of a marketing and distribution agreement containing a non-exclusive, limited license to use the debtor's trademark, terminated the licensee's right to use the trademark and limited the licensee to a claim for damages. The majority opinion rejected *Sunbeam* and relied on the principle that a debtor should be able to free itself of its executory obligations to further the goal of reorganization. The majority also rejected the dissent's contention that such cases should be decided using "a case-specific, equitable approach," reasoning that such an approach would result in "increased uncertainty and costs."

As the Supreme Court denied a Petition for Writ of Certiorari in *Sunbeam*, and it is too early at the time of publication to know whether the licensee in *Tempnology* will petition, the issue is essentially left for Congress to resolve legislatively. In December of 2013, Representative Bob Goodlatte (R-VA-6) introduced a bill entitled "The Innovation Act" (H.R. 3309), which sought to include "trademarks" in the Bankruptcy Code definition of "intellectual property."[28] The bill passed in the U.S. House of Representatives by a vote of 325-91, but stalled when it was presented to the Senate Judiciary Committee, and was subsequently removed from the Committee's agenda in May of 2014. On February 5, 2015, Representative Goodlatte reintroduced the "Innovation Act" in its entirety to the House of Representatives as H.R. 9. The reintroduced bill again sought to amend 11 U.S.C. § 365 to add language which would provide that "in the case of a trademark … the trustee shall retain the right to oversee and enforce quality control for such [licensed] products or services, or both."[29]

Although the "Innovation Act" did not pass the Senate when it was first introduced in 2013, the fact that the bill was reintroduced in its entirety by its original sponsor suggested "that Congress is aware of the prejudice to trademark licensees [of the view that, in the event of a rejection, the trademark licensees would not be protected by 11 U.S.C. § 365(n)], and is attempting to remedy the omission of 'trademarks' from its definition of 'intellectual property'."[30] Despite such awareness, there has been no action on the bill since it was discussed by the Senate Small Business and Entrepreneurship Committee on February 25, 2016 (S.Hrg. 114-603). In the meantime, the rights and protections afforded to trademark licensees under the Code continue to remain uncertain.

[3] Minimizing Risk for the Non-Debtor

Although the protection of trademarks under the Code may be in flux, licensors and licensees can still take precautions to minimize risk should the other party go bankrupt. This is particularly important in the fashion industry because fashion companies are exceptionally dependent on licensing relationships and maintenance of the brand.

Many design houses do not manufacture products themselves and therefore rely on licensing third parties. The goodwill and value of a famous brand may rest in the hands of a licensee, and could be captive to the failures of that licensee's business as a whole. If the license agreement does not attempt to safeguard the licensed trademark in the event of a licensee's bankruptcy, the value of the licensor's brand, property, reputation, and integrity could be compromised. Similarly, many apparel manufacturers, distributors, and sellers rely entirely on their continued ability to manufacture and sell particular products bearing the licensor's name, brand, or property rights.

The considerations below will help minimize risk should a party to a license agreement file for bankruptcy:[31]

License agreements should provide for required prior written notice of bankruptcy filing. The license agreement should be drafted to provide for required written notice of a bankruptcy filing. With such

[28] INNOVATION ACT OF 2013, H.R. 3309, 113th Cong. § 6(d) (2013).

[29] INNOVATION ACT OF 2015, H.R. 9, 114th Cong. § 6(e) (2015).

[31] For an extensive elaboration of these points, *see* Ash & Danow, *supra* note 25, at 40-42.

notice, the non-debtor is afforded the opportunity to get involved in the proceedings prior to the court approving the rejection of the executory contract under Section 365(n) of the Code. Once rejection is approved however, Section 365(n) gives the court little leeway to fashion equitable relief to minimize the damaging effects to a license.

In the case of a debtor-licensor, a licensee should intervene prior to rejection by persuading the bankruptcy court that rejection should not be approved on equitable grounds, and that the trademarks are integrally linked to the property. Where a licensee is the debtor, the licensor benefits from notice so it can intervene if the trustee or debtor-in-possession seeks to assume the license and sell or assign the rights to another party, as it may do under the Code's protections. The non-debtor licensor would also be interested in ensuring that the level of quality for the products can be retained in the face of financial constraints.

License agreements should provide a roadmap to the bankruptcy court or trustee. Drafters of license agreements can provide a roadmap to the trustee in bankruptcy or the bankruptcy court about how to treat the license agreement by including language in the agreement that explicitly includes the trademark license within the purview of Section 365(n) of the Code. This may be accomplished by stating in the license agreement that the parties expressly and mutually acknowledge that the licensed property constitutes “intellectual property” under the Code, and that the agreement should be governed by Section 365(n) of the Code in the event the licensor files for bankruptcy.

Alternatively, licensees can attempt to come within the purview of Section 365(n) with provisions that state that the licensed trademarks are integrally linked to other licensed and protected intellectual property, such as copyrighted designs. Although such provisions are neither absolute nor binding on the trustee or court, it articulates the parties' intentions and can define the equities and the parties' relative rights in the event of the agreement's termination or rejection. Courts may also be more sympathetic to such provisions in view of recent action by Congress.

License agreements should separate different types of payments to the licensor. Many trademark licenses are structured so that the licensor provides design or consulting services to the licensee in connection with the design of products bearing the licensed trademark. As such, the licensee may pay the licensor a separate fee in exchange for the licensor's services, in addition to the trademark royalties. Therefore, the structure of these payments may be relevant when interpreting how the license relationship and the licensed property will be treated by the bankruptcy court.

The Code requires the non-debtor licensee electing to retain its rights in the license agreement to continue to make all royalty payments under the contract. The Code interprets “royalties” broadly to include all fees payable under the agreement. Therefore, licensees should carefully structure agreements so that payment of any services by the licensor are stated separately from the payment of royalties from use of the trademark, or set forth those services in a separate agreement. This way, a licensee can minimize the chance of paying for services it will no longer receive.

The benefits of other services do not continue post-bankruptcy. As stated above, licensees are not entitled to the benefits of the license agreement that require the continued support, services, and performance by the debtor-licensor. If the licensee requires the continued support or services of the debtor-licensor to create, manufacture, or develop the licensed products, it may elect not to retain the license agreement unless it has secured other rights to look to different sources for the same support or services. Thus, a licensee should ensure that the agreement allows the licensee, in the event of a licensor's bankruptcy, to provide the licensed property to the necessary third parties to secure such support without violating any exclusivity or confidentiality provisions.

Ipso facto clauses are unenforceable. *Ipso facto* clauses in license agreements trigger automatic termination or other consequences when a certain event—often the filing for bankruptcy—occurs. Although most standard form agreements almost always include such clauses, Section 365(b)(2) of the Code states that a default giving rise to termination is not a breach of a provision relating to (1) the

insolvency or financial condition of the debtor at any time before the closing of the case, (2) the commencement of the bankruptcy case, or (3) the appointment of or taking possession by a trustee in a bankruptcy case or a custodian before such commencement.[32] Therefore, any provision that ties default to termination of the agreement is unenforceable under the Code. Accordingly, any provision confirming termination rights by the licensor are best and most effectively triggered by non-performance and not by the filing for bankruptcy.

License agreements should tie termination to financial condition, not bankruptcy. Since Section 365(n) of the Code only protects non-debtor licensees, a bankrupt licensee could cost a licensor significant income from reduced sales and royalties, damage to its brand, and the possibility that its licensed rights are assigned to a third party during the bankruptcy proceedings. Therefore, a licensor is well-advised to include independent obligations in the license relating to the licensee's stature or condition which do not trigger imminent bankruptcy, but which could be indicative of a declining business. Such provisions could include default consequences for non-payment or chronic late payment, which allows troubled licensees to be terminated before it declares bankruptcy. Another tool is to establish a required minimum net worth of the licensee so that declining financial health can be identified in advance of a filing for bankruptcy.

Licensees should seek to obtain a security interest in the licensed property. To protect itself against a licensor's bankruptcy, a licensee could attempt to obtain a security interest in the licensor's trademark, goodwill, or other property. Although most licensors are reluctant to agree to such terms, it never hurts to ask. To effect an enforceable and valid security interest in a trademark, the interest should be in both the trademark and other assets to ensure the mark is accompanied by the associated goodwill. A related alternative is to convey the licensed material to an escrow agent, and license back to the licensor and licensee. However, this approach has its own problems and introduces yet another party.

[4] Additional Considerations

License agreements should include a liquidated damages provision. A liquidated damage provision, triggered by the bankrupt party's breach or failure to perform services, provides a definite amount for the court to find as to damages for the non-debtor party. Additionally, such a clause may discourage rejection of the agreement because it provides another claim against the bankruptcy estate.

The bankruptcy court does not recognize provisions which restrict assignment. The Code allows for a trustee or debtor-in-possession to assume and assign a license agreement to a third party even if the agreement contains provisions prohibiting assignment. Section 365(f)(2) of the Code only requires that the assignee provide “adequate assurances of future performance,” but provides no definition of “adequate assurances.” 11 U.S.C. 365(f)(2). So that a non-debtor party is not bound in a contractual relationship with an unfavorable assignee, license drafters should provide a roadmap to the bankruptcy trustee by including contractual provisions which specifically define “adequate assurances” in the event of assignment.

License agreements should provide a right of first refusal to the licensor. Where a licensee is the debtor, the trustee or debtor-in-possession may have the right to transfer, sell, or assign the agreement to a third party. Therefore, a non-debtor licensor should ensure that the assignment language used in the agreement does not preclude or impair any rights it has as a creditor, or the rights to object to any assumption or assignment. A non-debtor licensor may also wish to provide instructive language allowing it to intervene in the assignment process, either by required notice or a right of first opportunity and refusal.

[32] 11 U.S.C. § 365(b)(2) (2015).

[D] The Use of Licensing Agents for Fashion Properties

Licensing agents are called upon, from time to time, to help accomplish a wide variety of tasks. This, of course, depends upon the type of field (*i.e.*, the nature and complexity of the prospective licensed property), the relative sophistication of the parties seeking to exploit the future licensed property, the requisite experience required to exploit the particular property (*e.g.*, if a unique manufacturing or distribution capability is necessary), and the geographical scope of the anticipated transactions, among other things.

In order to understand the capabilities and potential advantages of engaging a licensing agent, it is important to understand exactly what an "agent" is. Specifically, in the broadest legal sense, an "agent" is one who is empowered to act on behalf of another person or entity. This is a very broad, all-encompassing definition, but it conveys the essence of an agency relationship. In the context of licensing, an "agent," who is empowered to act on behalf of his or her client, could be called upon to do the following:

- work with his or her client to develop a strategic plan. This would involve identification of the appropriate ultimate retail channels, thereby facilitating the development of a marketing plan and the target entities or persons appropriate to accomplish such strategic plan.
- vigorously identify and actively pursue opportunities with potential partners who have the proper expertise, market positioning, personalities and experience.
- proactively exploit contacts in the proper markets.
- provide guidelines on realistic financial goals for the exploitation of one or more properties.
- brokering and negotiating licensing arrangements.
- monitoring performance under one or more licenses or, in some instances, satisfying performance requirements (such as quality control, payment collection, acting as a liaison, identifying persons to assume managerial or other positions that may be required under the licensing arrangement, effecting renewals or modifications, and negotiating open terms for renewal periods).

The ability of an agent to bind a principal is a powerful reminder that agency agreements should describe, in detail, the exact scope of the relationship intended by the parties. To avoid disputes, among other things, agency agreements should expressly address issues of exclusivity, geographic territory, duration (and renewal rights, if any), the types of activities in which an agent may (or may not) engage, the manner in which the agent's compensation is (or is not) calculated for each of these activities, indemnity, termination rights and remedies for breach. Any absence of clarity may expose a principal to liability and damage its brand.

[1] Practical and Financial Considerations

The process of working with a client, identifying potential business partners, and negotiating and finalizing arrangements among several parties, requires significant time. This time commitment often approaches many months or even years from start to finish. Accordingly, while remuneration to the agent might come later, it must compensate for the time and effort already expended and, of course, compensation is often used to incentivize the agent to secure the best possible deal for his or her client.

Business terms between an agent and his or her client may, therefore, vary depending upon the type of licensing arrangement that is ultimately concluded. Typically, an agent will receive the benefit of some portion of royalties or profits that might be generated through the licensing facilitated by the agent. This financial "tail" would typically cover the duration of the initial contract term and would likely continue for the duration of any renewals, modifications or extensions. In some cases, the agent's share for any modified, renewed or extended contract might change from the initial term, often resulting in a declining

participation of the agent in the monies generated by the business relationship.

Additionally, if an agent identifies an opportunity but does not conclude the license, if the parties ultimately execute the license the agent is compensated. In the fashion industry, initial contract terms typically vary from 3-5 years (usually with an extra-long initial year), with one or multiple renewal opportunities or options (each renewal period usually commensurate with the length of the first term), contingent upon accomplishing minimum net sales and royalty targets. It is also not uncommon, if the start-up costs are high and new infrastructure is required, for the duration of a fashion license to be an initial long-term period, *e.g.*, 10 years, with one or more measured renewal options. In such circumstances where a long-term relationship is put into place, there is usually an opportunity for one or both parties to terminate earlier if performance does not reach stated goals at various measuring time periods or consecutive annual periods. Where an agent is involved, the compensation for the agent would likely be tied to the objectives and termination rights.

Other issues may arise in jurisdictions outside of the United States. For example, many European jurisdictions have adopted Council Directive 86/653/EEC of 18 December 1986, which requires principals to pay an "adequate" amount to commercial agents upon termination of the agency relationship. Such payments may be calculated based on (i) new customers the agent has brought the principal, (ii) existing customers where the agent has significantly increased the volume of business, (iii) actual loss of the agent's commissions due to termination, and (iv) the principal's existing business in the territory prior to commencement of the agency relationship. Only in certain circumstances, such as termination because of default attributable to the agent which would justify immediate termination of the contract under national law, would no such payment be due. Principals seeking to avoid paying such indemnities should draft contracts to include breaches permitting immediate termination. Principals may also seek protection though governing law and forum selection clauses, however, enforcement may be limited in some jurisdictions by conflict of law provisions.

Where there is an agent involved, these issues are factored into the economics of the transaction. Commonly, the allocation (as between the contracting parties under the license) for responsibility to the agent is expressly negotiated and set forth in the license(s). This may support a somewhat different royalty structure in order to allow for compensation of the agent.

[2] The Role of a Licensing Agent

While agents are often called upon to help expand product scope and market penetration for nascent brands, agents may also play a significant role in identifying "out of the box" opportunities for developed or well-known brands. For example, a fine watch brand or leather accessories company might do well by targeting luxury brand automotive companies for prestige product placement—such as recognizable interior clocks or upholstery. Similarly, a prestige designer brand might be interested in exploiting down-market opportunities in the mass channel. These negotiations can be sensitive, as brand integrity is at stake. A wrong move with a poor partner could compromise the exclusivity of the prestige brand.

Perhaps the best-known agency relationships are in the fields of entertainers and sports figures. Olympians often rely upon the negotiated payments they receive for product endorsement to support their training; and when they are successful and emerge victorious at sporting events, they need to move quickly to capitalize upon their accomplishments and often short lived fame. Under these circumstances, agents are able to identify appropriate opportunities (avoiding conflicts with pre-existing exclusive relationships), and move quickly to make the athlete's name and image instantly marketable. In some instances, the opportunities exist prospectively in advance—the "Wheaties" box Olympian, for example.

Licensing agents are also exceedingly valuable in servicing the Estates of deceased personalities. Often, an iconic image or someone recognizable as typifying a certain level of style or "cool"—for

example, Marilyn Monroe or James Dean—can be packaged, merchandised, and exploited long after the death of the legend. In some instances, the Estates are able to profit at levels far greater than revenue generated during the person's lifetime.

In recent years, licensing agents have played a preeminent role in identifying and exploiting the potential of a deceased personality, and even in enforcing exclusive rights against unauthorized users of the name or image. A licensing agency may be so invested in the business of exploiting a personality's name and likeness that they are willing to bear the burden of legal expenses to make sure the world is free from violators of those properties.

Entertainment personalities commonly lend their names (and talent) to fashion accessories and clothes. Indeed, some personalities such as Jennifer Lopez (J Lo) and Lauren Conrad, for example, have developed and lent their names and images to apparel and accessories marketed exclusively through a single retailer such as Kohl's or JC Penney. Often, as they are represented by agents in their entertainment lives, they turn to agents to identify licensing opportunities, negotiate equitable terms and to administer the day-to-day execution of the licensing relationships. Under these circumstances, the agent will also make sure that new opportunities do not conflict with existing ones, and that photographs or likenesses used to promote the products are commensurate with the star's image and persona.

In the United States, alone, the business of licensing has generated billions of dollars in licensing revenue, with that amount increasing exponentially each year. The role of the licensing agent, in part, is to identify and capitalize on creating marketable opportunities for new brand properties and broadening the appeal for mature ones.