THE WORLDWIDE LOGO PROGRAM
LICENSING CHECKLIST

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The following is a checklist of key items and issues to consider when developing and implementing a logo licensing program that is international or worldwide in scope. It is not a comprehensive checklist of all issues arising in the trademark licensing context. For example, this outline does not address issues arising from royalty-bearing licenses because few true logo programs involve a royalty for use of the licensed logo. Accordingly, the tips set forth in this outline may not be applicable in all licensing contexts, and are intended primarily for consideration in the context of a logo licensing program of international scope.

1. **Is the Mark to Be Licensed Available for Use And Non-Infringing?**
   
   a. In the licensed territory?
   
   b. For the licensed goods?
   
   c. National searching in all major markets in the licensed territory is recommended.

2. **Is the Mark to Be Licensed Registrable in All Countries in the Territory?**
   
   a. Is it sufficiently distinctive to be registered?
      
      i. Coined
      
      ii. Arbitrary
      
      iii. Suggestive
      
      iv. Descriptive with Secondary Meaning
   
   b. Generic or Descriptive names are not registrable (unless Descriptive with Secondary Meaning acquired through substantial use).
   
   c. The requirements for distinctiveness are often higher outside the U.S. than in the U.S. Marks that will be considered suggestive under U.S. law will often be considered descriptive in other countries. Ensure that a licensed mark has sufficient distinctive content to be registrable.
3. **Registration Strategy**

a. Register in all countries in the licensed territory (current and potential) for the licensed goods (current and potential).

i. In most countries, use accrues no (or only very limited) rights – rights arise from registration.

ii. Failure to register risks a pirate licensing the mark and then using that registration to prevent use by the owner and its licensees.

b. Register the mark as it is to be used by licensees. Ensure consistent use. Failure to register as used could result in the licensor’s inability to meet use requirements, and thus to maintain and enforce rights.

4. **Is Compliance with Recordal and Registered User Requirements Necessary?**

a. Registered User Requirements: Few if any countries still have registered user requirements, pursuant to which the licensor must “register its licensed users” with the trademark authorities in order to avoid a fraud on the public and to curb trafficking in trademarks. Canada, the U.K., and Australia all had registered user requirements, but have eliminated or softened them greatly in recent years.

b. License Recordal: Many countries permit “recordal” of trademark licenses against the registration of the licensed mark, and a small handful require it. The primary reasons to record are:

i. To prove use – if the licensor makes no use of the mark itself, and must rely on a licensee’s use to prove use in the country, the recordal is mandatory in some countries and strongly recommended in many others.

ii. To permit enforcement of trademark rights by the licensee (assuming the licensor wishes to permit or require this).

iii. To ensure validity of the license agreement – in a few Latin American countries (e.g., Brazil) and certain former Soviet republics (e.g., Russia), the license may not be enforceable as a contract unless it is recorded with government authorities (not necessarily trademark authorities).
iv. To avoid abandonment – in a very few countries (e.g., South Korea, China, Liberia . . .), recordal of every trademark license is mandatory or the mark may be deemed abandoned and unenforceable. Monetary penalties may also apply.

5. **Avoid Misleading/Deceptive Logos**

a. Licensed logos are for use by the licensee in advertising and promotion of a product or service. The logo itself must not be deceptive or misleading, or it may risk challenge on truth in advertising grounds. Nor should it overstate the degree of source or sponsorship, else the licensor may be held liable for things not within its control.

b. Examples:

i. If the licensed logo indicates a relationship between the Licensee and Licensor, such as an authorized reseller relationship, the logo should include some statement of the relationship, e.g., XYZ Corp. Authorized Distributor. Use by the reseller of the XYZ logo alone (without the use of the words “Authorized Distributor”) would imply a closer relationship and a greater level of responsibility by XYZ Corp. than XYZ Corp. would want.

ii. If the licensed logo promises or implies a level of performance or specific feature, then that level of performance or feature must always be present, and the Licensor needs to ensure that there is sufficient control over the licensed product to ensure that the promised performance or feature is always present and functioning. *(See Quality Control discussion below.)*

6. **What License Agreement Terms?**

a. License Grant specific to the circumstances – ensure that the grant is narrowly crafted to encompass only the licensed activity. If the grant is broad or ambiguous, the licensor’s ability to control use and/or terminate in the event of unwanted use may be reduced.

b. Licensed Territory specifically defined – define the Licensed Territory with specificity for the same reason. Use an appendix listing countries in the Territory, so that it may be easily amended.
c. Quality Control
   i. Quality control is required in order to have a valid license and to avoid abandonment of rights
      1. U.S. courts are reluctant to find abandonment, and therefore relatively limited quality control will usually suffice
      2. Many countries outside the U.S. are more willing to find fault with a licensing program and therefore to find that the licensor may not enforce rights. Real quality control should be both written into the agreement and actually exercised.
   ii. Quality Control means control over the product or service offered under the licensed mark, not just control over the appearance and presentation of the mark itself. QC will by definition be specific to the licensing program in question, e.g.
      1. In an ingredient logo program, much of the QC will be inherent in the fact that the licensor manufactures the ingredient product, e.g., a microprocessor or food additive. Other QC provisions may pertain to the licensee’s finished product, e.g. memory and performance requirements for computers, or health and calorie requirements for food products.
      2. A logo program indicating compliance with certain technical specifications will need QC provisions ensuring that the product does in fact comply with the specification. Usually some form of testing and validation should be required, to be performed either by the licensee or licensor.
      3. In a relationship program, such as an authorized reseller logo program, there is no product being branded. Rather the logo is intended to reflect a relationship between the licensor and licensee, and the QC is found in the compliance by the licensee with the terms of the relationship itself (i.e., the Distributor Agreement). Accordingly, in order to maintain QC, use of the logo must be conditioned upon compliance with the relationship agreement. In addition, it is common (and wise) for the licensee to be required to meet training requirements on the licensor’s product and/or to demonstrate (through testing) proficiency in the licensor’s product. Training and testing are an excellent way to maintain and prove actual QC.
iii. Other “standard” QC provisions are found in many licenses and are generally wise, for example:

1. A provision requiring the licensed product (service) to meet general industry standards for performance, quality, safety, reliability, etc. This provides little in the way of actual QC, but does provide a basis for termination of the license in the event the licensee’s product (service) is of extremely poor quality (even though it may contain the ingredient or meet the spec).

2. A provision requiring compliance with all laws applicable to the licensee’s business. This provides a basis for termination in the event the licensee fails to comply with applicable laws, including a wide variety of laws such as those covering financial responsibility, securities compliance, product safety, truth in advertising, etc.

iv. Rights of inspection should be reserved for anything impacting quality of the licensed goods or services, e.g., licensed product, manufacturing premises, sales and service premises, employee training, etc.

1. Under U.S. law, retaining the right to inspect alone will often be considered sufficient QC to find a valid license, even if actual QC is not exercised.

2. However, outside the U.S., actual QC is often required, and some U.S. courts have required it as well. Actually exercising the right to inspect will meet actual QC requirements.

d. Control over Usage – the licensor will also want to exercise some control over how the mark is used and presented, whether on product, in-store, in advertising, on packaging, etc.

i. Style and Usage Requirements – the agreement should contain style and proper usage guidelines covering logo sizing, spacing, color, font, and similar logo presentation requirements.

ii. Depending on the level of control the licensor wishes to exercise, the following (or similar) terms should also be considered:

1. licensee to submit all non-pre-approved material for review and approval;

2. approval shall be in licensor's sole discretion but not in bad faith;
3. approval shall be provided in writing within __ days of receipt and in the event no written disapproval is provided in that time frame approval is deemed granted.

iii. The agreements should also contain guidelines for proper trademark usage in logo format and text treatments, e.g.

1. use of the mark as an adjective,
2. use of the appropriate trademark symbol,
3. use of an appropriate trademark legend, and
4. no use of the mark/logo as the corporate name, trademark or logo in whole or in part so as to convey the impression that such mark is the property of the licensee.

iv. Style and usage guidelines should be modifiable in the licensor’s sole discretion, and should be placed in an Exhibit and/or at a specific website address, for ease of reference and ease of amendment.

e. No Assignment by Licensee – the license should not be assignable by the licensee without consent of the licensor. This is an important element of quality control, as well as good business sense. An assignee may not meet program requirements or quality control requirements, and the licensor should not have the burden of terminating an assignee of the original licensee.

f. No Franchise, etc. – The license should contain a clause expressly disclaiming a franchise, partnership, agency, employee, or other such relationships. Logo programs can often meet some or all of the requirements for a finding of franchise, partnership, agency or other unwanted relationship, and disclaiming such a relationship can help limit exposure, although exposure will not be entirely removed. For example, in some U.S. states a franchise relationship cannot be disclaimed, as a matter of public policy. The same may be true in some countries. But a disclaimer will help, at least to clarify the intent of the parties.

g. Indemnity (or reps and warranties) from licensee should be provided by the licensee protecting the licensor from product liability or other tort liability arising from the design, manufacture, marketing and sale of the licensee’s product (or service) bearing the licensed mark.
i. Use of the licensed logo in connection with licensee product or services exposes the licensor to liability arising from that product or service.

ii. Even though the licensor is exercising quality control, he does not exercise complete control over the product or service – only the licensee does, and the licensee should therefore bear responsibility for product liability, advertising, and similar claims.

h. Provisions Managing Infringement Risk – the agreement should contain provisions that manage the risk that the licensed logo may infringe the rights of another.

i. Even if thoroughly cleared in all countries in the Territory, the licensed logo may be challenged by a third party. No clearance is perfect. And challengers sometimes have an inflated view of their own rights.

ii. Fully clearing the licensed mark for all goods in all countries in the Territory, and applying to register the licensed logo (prior to commencing use) for all the licensed goods in all countries in the Territory are the best ways to limit the risk of a serious challenge. Registration protects against challenges from pirates or later innocent adopters.

iii. Managing the risk of a third party challenge otherwise largely depends on the bargaining positions of the parties, and on the allocation of risks and benefits in the overall relationship. Negotiate the best combination of the following:

1. no reps or warranties on the licensed logo;

2. no indemnity on the licensed logo for infringement of third party rights, or an indemnity on the licensed logo for infringement of third party rights, capped at a reasonable amount;

3. the right to terminate the license in the event of a challenge, upon short notice and with use to cease immediately;

4. the exclusive right to control the defense of any challenge to the licensed logo;

5. the exclusive right to settle any challenge to the licensed logo;

6. the licensee’s cooperation (at licensor expense) in the defense of any action challenging the logo.
iv. The more comfortable the licensor is that it has strong and established rights in the licensed logo, the less need there is to manage the risk with the foregoing agreement terms, some of which may be difficult to negotiate.

i. Equitable Relief – in the event the licensee engages in a serious breach of the license agreement, the licensor will likely want the ability to insist on preliminary injunction relief and possibly other equitable remedies, so that goodwill in the licensed logo does not suffer from the breach. The agreement should include a provision that equitable relief is available to the licensor in the event of breach by the licensee, and that breach by the licensee will cause irreparable harm under applicable state and federal law, such that preliminary and permanent injunctive relief is appropriate.

j. Acknowledgement of Licensor Rights – the agreement should contain a provision in which the licensee acknowledges the licensor’s rights in the licensed logo (in order to firmly establish licensee estoppel and to prevent the licensee from later adopting a similar mark or otherwise challenging the licensor’s rights in the logo). Such provisions are acceptable in most trademark licenses, although have sometimes been held unenforceable in licenses of certification marks.

i. In addition, the agreement should generally reserve to the licensor the exclusive right to enforce the mark, and should provide for licensee cooperation in enforcement efforts. Failure to reserve this right exclusively to the licensor could result in the licensee being deemed to have the right to enforce, particularly if the license is the exclusive licensee for the goods or in the Territory.

ii. Allowing the licensee the right to enforce could result in poor or inconsistent enforcement, and thus a narrowing or abandonment of rights in the licensed logo over time.

k. Make It Binding – The best license agreement in the world will do no good unless it’s binding under local law.

i. Ink Signature? — Many countries do not recognize the validity of various forms of electronic contracting, e.g., electronic signatures, click-to-accept formats, etc. If in doubt, insist on an ink signature by the licensee.
1. The U.S., Canada and all EU countries recognize the validity of click-to-accept contracts and contracts with e-signatures so long as mutual assent and other contract requirements are proven.

2. Some Asian countries, Latin American countries, and former Soviet republics are still uncomfortable with and/or have little experience with click-to-accept or e-signature contracts, and there is some doubt regarding their enforceability, although this doubt continues to decrease.

3. If the decision is to pursue a click-to-accept licensing scheme in face of the risks, ensure that the click-to-accept agreement process is transparent to the licensee, and is provable in court. Multiple clicks should be required to complete the assent to the agreement, so that it cannot be argued that the acceptance was a “mistake”. Specific clicks on particularly important and/or onerous provisions should also be required, so that it is easier to prove that the licensee read the agreement.

ii. Local Language – a number of countries require that contracts be in the local language, or at least in a language that the licensee knows and understands.

1. Consider translation of the license agreement into the local language of the licensee (very expensive); or

2. Include a clause in the agreement that the licensee must separately initial containing a representation by the licensee that he/she reads and understands the language of the agreement and will not raise language as a defense to the agreement.

iii. Local Law – some countries will not enforce an agreement that designates another country’s law as controlling. And remember that if the licensor is called upon to enforce the agreement against the licensee, the enforcement action will necessarily take place in a court in the licensee’s country, where there is personal jurisdiction over the licensee. Better to designate local law, in order to ensure that the court does not invalidate the agreement entirely.

iv. Oppressive or Unconscionable Terms – virtually every country in the world will not enforce an agreement if it is considered to be “oppressive” or “unconscionable” or merely too one-sided. This is certainly true of consumer agreements, but is also true in the
case of business agreements particularly where there is an obvious difference between the size and/or sophistication of the parties, and/or their bargaining power.

1. Avoid individual terms or a combination of terms that make the agreement appear too one-sided.

2. Consider that an English language agreement designating U.S. law, providing no logo indemnity and requiring product indemnity from the licensee may look one-sided to a local court hearing an enforcement challenge being brought by a large, non-local brand owner against a local small business. Local language and local law will help. Choosing to provide indemnity on the licensed logo may also help.

7. Franchise Laws?

a. Definition of a Franchise:
   i. Definition varies from state to state, and from country to country, but...
   ii. Basic elements generally include:
      1. a grant of the right to sell or distribute products/services under a marketing plan/system prescribed in substantial part by franchiser;
      2. a grant of the right to use franchiser's trademark/logo in connection with the marketing plan; and
      3. a payment of a fee to the franchiser.
   iii. Meeting the plan requirement — assuming trademark and fee elements are satisfied (and they often are in a logo license relationship), whether the program constitutes a franchise is predicated on the existence of a “marketing plan.” In assessing this element, the U.S. Federal Trade Commission (FTC) considers whether franchiser has significant control over/provides significant assistance to franchisee. The FTC has stated that the term “significant” relates to the degree to which franchise is dependent on franchiser's superior business expertise. Significant types of “control” include: (i) site approval, (ii) site design/appearance, (iii) hours of operation, (iv) production techniques, (v) accounting practices, (vi) personnel policies and practices, (vii) promotional campaigns
requiring franchisee participation or financial contribution, (viii) restrictions on customers, and (ix) location or sales area restrictions. Significant types of “assistance” include: (i) formal sales, repair, or business training programs, (ii) establishing accounting systems, (iii) furnishing marketing management, marketing, or personnel advice, (iv) selecting site locations, and (v) providing a detailed operating manual. To be considered “significant”, the controls/assistance must be related to franchisee's entire business operation, not just its method for selling a specific product or products that are a small portion of franchisee's business. But beware – there is case law finding the existence of a “marketing plan” in contexts that are far from what might be considered the traditional franchise – and the level of marketing control or assistance required has sometimes been found in the standard logo license combined with a fairly standard sales relationship.

iv. Review applicable law for specific governing provisions.

b. Consequences of a finding of “franchise”

i. In most states, the primary consequence of a finding of franchise is that the franchisee (licensee) is accorded special rights and protections, primarily having to do with termination of the relationship. Additional notice requirements may apply. And in a few states, termination is not permitted except for good cause.

ii. In a smaller group of states, the finding of a franchise will impose on the franchiser (licensor) a series of financial disclosure and reporting requirements, as well.

c. Avoiding Franchise Status – the best way to avoid franchise status in the context of a logo program is to limit the plan element, namely to limit franchiser's power and authority to regulate daily business activities/operations. Of course, for trademark purposes, a licensor must exert at least passive control of the licensee business or product. This type of control focuses on monitoring and inspecting for quality purposes. To minimize incurring franchise status, licensor's control be limited to the product or service offered under the logo, and should not expand into daily activities and operation of the business. To minimize the risk of vicarious liability for claims arising out of the operation of the business, licensor should minimize its control over such operations and seek to make clear to third parties that the businesses are independently owned and operated.
d. If you are particularly concerned that you may be treading too close to franchise status (more likely in the context of a logo license covering a broad set of services, as opposed to particular products or narrowly-defined services), consider the following practical tips:

i. require all communication (including electronic) clearly indicate that the business is a “licensed, independently owned and operated entity” (stationary, purchase orders, promotional materials, business cards, checks, etc.,);

ii. signage to the same effect should be clearly present and visible to third parties/general public;

iii. the agreement between the parties should address “control” considerations so as to avoid direction over daily operations and focusing quality control on the particular licensed product or service only;

iv. the agreement should specify the relationship of the parties (not franchise, partners, joint venture but are independent entities;

v. the agreement should provide that licensee shall indemnify licensor against claims arising from the operation of the business;

vi. the agreement should require licensee to carry adequate insurance to cover such claims-including quality of carrier, nature and level of coverage, prior notice of cancellation, identity of named insureds;

vii. licensor should review its own insurance coverage;

viii. agreement should incorporate appropriate language limiting licensor's liability to licensee as well as licensee's indemnity to third party claims against licensor;

ix. the agreement should include appropriate choice of law and forum (and consider arbitration or ADR requirements).

8. Program Administration

a. Ease of Negotiation – for large logo program with many licensees around the world, negotiating even a small percentage of the licenses individually will consume substantial resources.

i. Counsel your clients to position the agreement as non-negotiable, and to forego a few licensees rather than negotiate terms.
ii. Draft an agreement that is reasonable, and one that your clients can sell to prospective licensees without having to negotiate terms. Forego the most protective agreement in favor of one that the licensor and licensee can both live with.

b. Ease of Amendment – for a large logo program with many licensees, the licensor will want to be able to modify and update the logo program over time, without the need for renegotiating and re-executing hundreds or thousands of license agreements.

i. The Agreement should be drafted to allow the licensor to change certain terms unilaterally. For example, the Licensed Logo should be defined as the logo set forth in Exhibit A and any future logo provided by Licensor, in Licensor’s sole discretion, upon X days notice. This allows the licensor to update the logo as market needs require without amending the license agreement or reopening it for negotiation. Other terms that the Licensor may wish to be able to change unilaterally, upon notice, include:

1. Licensed Territory
2. Style and Usage Guidelines
3. Certain QC elements, such as product features for licensed products, or training requirements for service reps.

ii. Use exhibits liberally. Any portion of the Agreement that the Licensor may wish to change unilaterally or may wish to amend with relative ease should be dropped into exhibits, so that a new exhibit can be provided when a change is made, without changing the main agreement.

c. Ink Signature vs. Electronic Contracting

i. Electronic contracting (click-to-accept or e-signature) has a number of benefits in terms of program administration. It is often easier and cheaper to post the license agreement on the web, have it “signed” electronically, and then stored electronically.

ii. If the decision is to proceed with a click-to-accept license, take the necessary steps to able prove assent (see above), and make sure that the agreement is not subject to invalidation on other grounds (e.g., local language, oppressive terms, etc.)
d. Records Maintenance – Maintaining good records can be essential to proving the existence of a license, and the existence of actual quality control, both of which may be necessary to prove in an enforcement action (against either the licensee or a third party).

i. Maintain original signed license agreements for the life of the licensed mark
   1. Ensure that logo license agreements are not destroyed pursuant to the licensor’s usual document retention program.
   2. License agreements should be retained beyond the life of the license or of the licensing program, so that the licensor can prove valid licensing practices for the entire life of the licensed mark.

ii. Maintain complete records of quality control measures so that actual quality control can be proved in the event of a challenge to the validity of the license or the mark (which is likely to arise in an enforcement action relating to the licensed mark).
   1. Document product testing;
   2. Document all inspections;
   3. Document training sessions, etc.

— end —