Typical Problems in Connection
with the
Termination of Trademark Licence Agreements

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### Abbreviations

<table>
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>Art., Arts.</td>
<td>Article, Articles</td>
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<tr>
<td>BGB</td>
<td>Civil Code; Bürgerliches Gesetzbuch (Germany)</td>
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<td>BGE</td>
<td>Decision of the Federal Court; Bundesgerichtsentscheid</td>
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<td>BGH</td>
<td>Federal Court; Bundesgerichtshof (Germany)</td>
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<tr>
<td>CC</td>
<td>Civil Code; Schweizerisches Zivilgesetzbuch vom 10.12.1907, Stand 18.3.2003, (SR 210)</td>
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<td>EC</td>
<td>European Community</td>
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<td>e.g.</td>
<td>exempli gratia (for example)</td>
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<td>etc.</td>
<td>et cetera (and so forth)</td>
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<tr>
<td>et seq.</td>
<td>et sequens (and the following one or ones)</td>
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<tr>
<td>GRUR</td>
<td>Gewerblicher Rechtsschutz und Urheberrecht (Germany)</td>
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<tr>
<td>i.e.</td>
<td>id est (that is, such as)</td>
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<td>IP</td>
<td>intellectual property</td>
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<td>LA, LAs</td>
<td>Licence Agreement, Licence Agreements</td>
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<td>para.</td>
<td>paragraph</td>
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<td>TLA, TLAs</td>
<td>Trademark Licence Agreement, Trademark Licence Agreements</td>
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<td>TM, TMs</td>
<td>Trademark, Trademarks</td>
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Introduction

Subject

The termination itself, as well as termination issues, are often neglected in trademark licence agreements (TLAs). We therefore focus on these topics and demonstrate typically occurring problems, how they have been solved in practice and the precautions that can be taken during contract negotiation in order to avoid these issues at termination.

It is not intended as a comprehensive review of problems but rather an overview of common issues with particular emphasis on how they can be solved, or better still, avoided.

Definition of a Trademark Licence Agreement

In a trademark licence agreement (TLA), a trademark (TM) owner, the "licensor", grants the right to use a trademark which is an intellectual property (IP) for commercial purposes to another party, the "licensee". This is usually for a limited period of time and against payment of a royalty or licence fee.¹

The licensor may grant the right of use exclusively to one single licensee or non-exclusively to more licensees and for an area covering all or only part of Switzerland (Art. 18, para. 1 Trademark Protection Law).

A TM licence may be written, oral or implied by a course of actions.² As with all contracts, it is preferable that the licence be in writing. A written licence minimises the risk of litigation in respect of the rights and obligations of the parties and also minimises uncertainty as to the terms of the licence.

Scope

We limit this essay to TM licences granted for the production and sale of products and/or services and agreements concluded for the sale of products and/or services only. We exclude other licence agreements (LAs), such as patent, copyright, design or know-how LAs as these have some different legal aspects also with regard to termination. We focus on Swiss law with some mention of German law where appropriate. We also consulted and

¹ Streiff/Pellegrini/von Kaenel, 251.
² With reference to: Hilty, 300.
quote German literature as this is often referred to in Swiss literature and practice.

1. Regulation by Swiss Law

The TLA is qualified as an IP contract "sui generis" and is undisputedly a well established IP contract. The term "sui generis" simply means that the Special Part of the CO is not applicable per se (as opposed to, e.g. an employment contract or rental agreement). However, it is clear that the General Part of the CO is applicable. LAs may be concluded in a free form as long as specific requirements are not stipulated by law (Art. 11 para. 1 CO). As such requirements do not exist, there is no mandatory form for LAs and the freedom of content stipulated in Article 19, para. 1 CO is, of course, also applicable, except that impossible, unlawful or immoral contract points would render a contract null and void (Art. 20, para. 1 CO).

The licence agreement (LA) is mentioned in different special acts of the Intellectual Property Law but without specifying its form or content. The Trademark Protection Law, as the word implies, focuses on the protection of the TM and the rights (and obligations) of the TM owner, such as the owner's exclusive right of use (Art. 13), the right to transfer the TM (Art. 17), the right to assign the use (Art. 18) and the right to claim damages (Art. 55 CO).

In summary: the TLA is not specifically regulated by Swiss law. In addition, Federal jurisdiction in respect of licence agreement issues has not changed much since 1925 but is marked by considerable variation. It cannot be overlooked that until this day the Federal Court has pursued an ad-hoc jurisdiction without succeeding in setting up general rules which would serve the security of law (Rechtssicherheit).

3 Stieger, sic! 1999, 4.
4 Hilty, 160 et seq.
5 Hilty, 299 et seq.
6 Hilty, 341.
7 Hilty, 153.
2. Duration and Termination

2.1 Duration

In principle, the parties are free to decide on the duration of the TLA. The more complex the goods and services in respect of investment, the longer the initial contract period in the interest of both parties. LAs may be concluded for a specific term and the contract may also specify tacit renewals for either another term or a specified number of years if neither party gives notice of termination.

However, it is common to conclude LAs for an indefinite term.\(^8\)

It is surprising, however, how often one comes across LAs which either do not regulate or contain incomplete clauses regarding termination.\(^9\)

If the agreement is silent regarding duration and also contains no provisions for termination, the contract may terminate with the lapse of the protection right, in case of a patent or model. But this cannot be applied to a TLA, as a TM can easily be renewed at the end of each ten year period without any further examination as per Article 10, para. 2 Trademark Protection Law. To assume that a TLA should only be valid for the first TM protection period would, in most cases, not correspond to the intention of the parties. This applies in particular to the licensee who, after having made considerable investments to introduce and establish the product and/or services in the market, would suffer extensive losses due to an insufficient period of amortisation of his investment.\(^10\)

This leads to the following two questions: firstly, how can a TLA which has been concluded for an indefinite period be terminated and, secondly, is it possible to terminate a TLA which stipulates a long term or an excessive duration. Following are our findings to these points; always assuming that the agreement itself contains no clauses clearly specifying the duration and when or how the TLA can be terminated, nor can the duration be implied from other contract clauses.

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\(^8\) Troller, 292.

\(^9\) Stieger, sic! 1999, 3; of opposite opinion: Hilty, 961.
2.2 Ordinary Termination (ordentliche Kündigung)

Although it is undisputed that the General Part of the CO is applicable, it does not contain any clearly suitable provisions applicable to the ordinary termination of a continuous agreement (Dauerschuldverhältnis). Furthermore, as the TLA is not regulated in the Special Part of the CO, one has to look elsewhere.

Article 27 CC (protection against excessive commitment) makes it clear that there has to be a limit to the duration of a contractual relationship as everlasting contracts fulfil the definition of "excessive commitment". Jurisdiction and literature indisputably confirm that mandatory rights and obligations resulting from "eternal contracts" are inadmissible.

On the other hand, doctrine is reticent on the question as to whether an LA with a defined term can be terminated. Often, there is no proper differentiation as the arguments used for termination refer to reasons for extraordinary termination and thus ignoring the possibility of an ordinary termination with a given notice period. Until now, jurisdiction has hesitantly, and only in a very few cases, approached the subject as to whether an LA with a defined term can be terminated by ordinary termination. Also, the German practice deals extensively with extraordinary termination but hardly mentions ordinary termination.

However, in recent literature some indications are to be found that an ordinary termination may be possible. The following is cited as an example to confirm this.

Factually, every contract which has been concluded for a long term but without regulating the possibility of giving notice is terminable "as from a certain point of time". If this were not the case, this would be detrimental to both parties: the terminating party would have to search for a reason for early termi-

12 BGE 93 II 300; BGE 97 II 399; BGE 113 II 210 et seq.; Stieger, sic! 1999, 12.
13 Hilty, 962 et seq.
nation (which is usually not easily found/provable) and the other party would find itself in a non-contractual position without having had a reasonable time to adjust to this situation.\(^{14}\)

The "as from a certain point of time" allows the definition of the period of non-termination to be dependent upon (or to be judged by) the size of the investment and commitment involved. In principal, this view is confirmed by the Federal Court which states that the point of time at which (or as from which point onwards) a contract can be terminated, has to be decided on a case by case basis. This further depends upon the intensity and the commitment of the obligor as well as on the relationship between the contributions made and received.\(^{15}\) This case was about a supply agreement and although the statement above can be regarded as generally applicable to LAs, the verdict itself cannot be taken as valid jurisdiction applicable to TLAs.

To summarise, it is clear that a TLA of undetermined duration can be terminated at some point of time for no cause. For a TLA of long duration it depends on whether the duration is regarded as being excessive, whereby the definition of "excessive" has to be judged on a case by case basis. If the duration is found to be excessive, the TLA is terminable by giving an appropriate notice period. If not, the situation in respect of TLAs is unclear until today, whereby in practice, the party wanting to terminate the relationship will either give notice for no cause or search for a breach to justify the termination. In either case, compensation will be an issue.

### 2.3 Notice Period

The purpose of a notice period in the case of ordinary termination is to give the party receiving the notice a reasonable time to adjust. Due to the tremendous variety of LAs (and combination of different licences in an LA) it is difficult to find a formula that is generally applicable, let alone a formula suitable for TLAs.\(^{16}\)

\(^{14}\) Hilty, 957 et seq.

\(^{15}\) BGE 114 II 161 et seq.

\(^{16}\) With reference to: Hilty, 969.
The main difference between the contracts regulated in the CO and those which are not, i.e. the various LAs, is that the latter often require extensive investment by the licensee in order to be able to fulfil the purpose of the contract and upon termination those investments may immediately lose their value. This raises the question as to what notice period is reasonable.\(^{17}\)

The longest notice period stipulated by law is six months (for lease and rental agreements and for partnerships, Articles 266d, 296 and 546 para. 1 CO respectively).

The views mostly represented in literature cover LAs in general with, if at all, only a marginal mention of TLAs and can be summarised as follows: a reasonable notice period has to be evaluated on a case by case basis taking a variety of factors into account, such as investment, for how long the contract has been in force, etc.; six months seems to be appropriate in a large number of situations, but in some cases it may be too short or too long. Generally, the longer the contractual relationship and the higher the investment, the longer the appropriate notice period. Although it is clear that the same principles which apply to regulated contracts also apply to non-regulated contracts, it is also clear that dispositive provisions from regulated contracts (mainly from lease and rental contracts) cannot be strictly applied as a rule. Furthermore, depending on the type of LA it may be appropriate to consider whether notice periods stipulated for types of regulated contracts other than those mentioned in the previous paragraph may be applicable. Lastly, it may be best left to the judge to decide based on Article 1 para. 2 CC.\(^{18}\)

Federal jurisdiction confirms this, stating for the first time in 1966 that applying provisions from regulated contracts has to be exercised with caution although the LA contained similarities to regulated contracts. The Federal Court took the termination provisions from leasehold and contract law into consideration but rejected them in this particular case whilst stating in the same judgement that it reserved the right to apply those provisions under special circumstances. In particular, the six months’ notice period which ap-

\(^{17}\) Hilty, 962.

\(^{18}\) Representative for many: Hilty, 969 et seq.; Stieger, sic! 1999, 5,11.
plies to leases according to Article 290 (now 296) CO is not readily applicable in view of the investment which had to be amortised.\textsuperscript{19}

2.4 Extraordinary Termination (ausserordentliche Kündigung)

If, through a troubled performance (valid reason), the impairment of one party is so severe that a continuation of the contract cannot be reasonably expected, this represents sufficient grounds to terminate the agreement. This can be stated as a generally accepted principle both in case law\textsuperscript{20} and literature.\textsuperscript{21}

Valid reason is generally defined as a destruction of trust and confidence between the parties to such an extent that the contract cannot be maintained - not even until the expiration of an ordinary notice period. However, as valid reason is not a legally defined term, it is left to the judge to decide in each individual case whether, according to Article 4 CC, the incident claimed to have led to the destruction of trust and confidence can be qualified as a valid reason. A significant violation of a major or collateral obligation is generally accepted as a valid reason.\textsuperscript{22} The judge's decision on the partial or full admissibility or rejection of the valid reason stated will in turn impact the award of damages.

The notice of termination is a one-sided declaratory act,\textsuperscript{23} this means that it cannot be contested by the affected party for unreasonableness (only for invalidity); the only course of action open to the affected party is to claim liqui-dated damages if it considers the termination to be unjustified.

As one of the terms used in German for extraordinary termination (fristlose Kündigung) implies, the termination should take effect immediately without a notice period. In practice this has to be evaluated on a case by case basis.

\textsuperscript{19} BGE 92 II 299 et seq.
\textsuperscript{20} BGE 92 II 300 et seq.; BGE 96 II 156 et seq.
\textsuperscript{21} Representative for many: Willi, Rz 42; Bühler, 14; Stieger, sic! 1999, 11; Hilty, 981.
\textsuperscript{22} With reference to: Stieger, sic! 1999, 11; Hilty, 984; Stumpf/Gross, Rz 485; Pagenberg, 183; Fammler, 126.
\textsuperscript{23} Willi, Rz 42.
It may be evident in some situations that a remedy period is pointless and therefore, termination will take effect immediately, such as, e.g. if the licensee or the licensor has ceased his business activities with respect to the licensed object, the marketability of the product or services no longer exists or the licensor states that he will not take action against a third party infringement thereby confirming an explicit non-performance.\(^{24}\)

In view of the established relationship between licensor and licensee and the business interests at stake for both parties, the non-defaulting party will in general notify a breach to the defaulting party and grant a – usually short - period of remedy stating that the contract will terminate if the breach remains uncured at the lapse of the remedy period. Swiss and German literature as well as German law (Art. 326, para.1 BGB) and case law even request that an appropriate notice period be given in cases of deficiencies in performance.\(^{25}\)

Based on the performance obligations contained in most TLAs the most frequent breaches leading to an extraordinary termination notice are:

**Defaults by licensee:**

- Failure to pay the agreed royalty or licence fee
- Infringement or misuse of the TM rights (using the TM for other products or services or outside the agreed territory, adapting TM material and/or components)
- Failure to comply with licensor’s instructions to alter or improve the licensed object
- Incomplete or false reporting of required data (sales and/or production records required to substantiate the correct calculation of the fees due)
- Quality of goods or services are not according to standards and specifications.

\(^{24}\) Hilty, 592.

\(^{25}\) Hilty, 989; Stumpf/Gross Rz 488; Pagenberg, 184; BGH, 2.5 1991, GRUR 1992 page 114.
Defaults by licensor:

- The usability of the licensed object is not as agreed, either through a technical default or because the licensor is not legally entitled to freely dispose of the TM licence (e.g. pledged)
- Lack of contractually agreed support (supply of material, documents or goods)
- Failure to take action against third party infringement
- Failure to renew TM protection.

If either party is placed in receivership or files for bankruptcy the contract is not automatically terminated and it is also unclear whether this constitutes a valid reason for extraordinary termination. It is, therefore, advisable to insert an appropriate clause in the TLA.\(^{26}\)

Although the basic right to give notice does not lapse, it has to be observed that a notice of extraordinary termination has to be given relatively quickly upon the occurrence of the incident it refers to. Too long a delay leads to acceptance, or at least tolerance, of the breach and a waiver of the right to terminate for cause.\(^{27}\)

One opinion infers that notice may only be given within the forfeiture period applicable to the breach the notice relates to (i.e. 12 months); this is derived from an adjusted interpretation of Articles 21 and 31 CO.\(^{28}\)

2.5 Conclusions for Contractual Regulations

2.5.1 Duration, Ordinary Termination and Notice Period

A specified minimum duration creates a clear situation and provides a certain security for both parties. The possibility of giving notice of termination for no cause will help to avoid conflicts (and possibly litigation) later on. As the notice periods for TLAs are not regulated by law and in view of the magnitude of

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\(^{26}\) Stieger, Referat, 14, 23; Stumpf/Gross, Rz 496.

\(^{27}\) With reference to: Stieger, sic! 1999, 12; Hilty, 960.

\(^{28}\) Hilty, 960.
different TLAs it is difficult to establish a generally applicable formula.\textsuperscript{29} A term for the notice of termination appropriate for the individual TLA should therefore be included.

\begin{itemize}
\item This Trademark Licence Agreement shall be entered into for an inde-
terminate period; after an initial period of (3, 5, 10) years either party may terminate this agreement by giving (6, 12) months' prior notice in writing, effective (at the end of the calendar month, contract year, cal-
endar year).\textsuperscript{30}
\item This Trademark Licence Agreement shall be entered into for an initial
term of (5, 10) years and shall automatically be renewed for periods of
(3, 5, 10) further years if neither party objects thereto in writing no later
than (6, 12) months prior to the expiry of the initial term or of each re-
newed term.\textsuperscript{31}
\end{itemize}

\subsection*{2.5.2 Extraordinary Termination}

To avoid disputes and increase clarity, the parties are well advised to specify the causes giving right to an extraordinary termination. The list should separate the breaches where termination takes effect immediately from those where a grace period will be given. A procedure to give the breaching party (usually the licensee) an opportunity to cure its breach should also be in-
cluded as, particularly, it is not in the licensor's prime interest to terminate the TLA or claim damages but rather to ensure that the provisions of the agree-
ment are being adhered to. In this way, the licensee too, is given a chance to document his goodwill to continue the agreement.\textsuperscript{32}

The samples below are not intended to be, and cannot be, a complete list of material breaches; in practice the parties will agree on suitable provisions applicable to the licensed object and their individual situation.

\begin{itemize}
\item Hilty, 969.
\item With reference to: Heuss, 130.
\item Fammler, 45 et seq.
\item Fammler, 129.
\end{itemize}
• In case of a substantial breach by the Licensee of an obligation under this Agreement the Licensor will notify the Licensee of the breach and demand that the breach be remedied completely within (one, two weeks; 20, 30 days). If the breach is not cured within said period, the Licensor is entitled to terminate the Agreement with immediate effect if:

a) the Licensee is in default with a payment as per Clause ….. of this Agreement

b) the Licensee misuses the Trademark or other specifications of the Licensed Object as per Clause …. and Appendix …. of this Agreement or

c) the Licensee fails to comply with the standards of quality of the goods and/or services as set out in Clause …. and Appendix ….;

• The Licensor is entitled to terminate this Agreement with immediate effect if the Licensee reports incorrect or false financial data leading to under-payment of 5% or more of the Royalties and such fact has been confirmed by an independent auditor.

• In case of breach by the Licensor of any one of his obligations as per Clause…. of this Agreement (investment in product development or new products, support and/or delivery of material to Licensee, best efforts to maintain/enhance Trademark value) the Licensee will notify the Licensor of the breach and demand that the breach be remedied within (20, 30 days). If the breach is not cured within said period, the Licensee is entitled to terminate the Agreement with immediate effect.

• Either party is entitled to terminate this Agreement with immediate effect if:

a) the other party becomes insolvent, is placed in receivership or bankruptcy proceedings are initiated against it;

b) the other party transfers, assigns or disposes of more than 50% of its ownership interest.

Based upon our experience and also confirmed by literature, conflicts are best avoided if the parties discuss and regulate their understanding at the outset, especially as the justification of termination for a valid reason often can only be answered by a judge.\(^\text{34}\)

\(^{34}\) With reference to: Stumpf/Gross 488.
3. Typical Issues on Termination

3.1 Goods in Stock and Use of TM

3.1.1 Problem

At the termination of the TLA, the licensee is likely to still have products in stock. In the case of a TLA for the manufacturing and sale of goods, the licensee may also have orders still to be fulfilled. These situations occur in the event of a relatively short notice period or termination for cause.\(^{35}\)

The right to use the TM ceases on termination and any use beyond the termination date is held to be a TM infringement. Also, the licensee is not permitted to sell or otherwise market the licensed products, unless agreed differently.\(^{36}\)

Seen from the TM owner's point of view, he may wish to sever the relationship with his former licensee as quickly as possible, not wanting the licensee to use the TM any longer and to ensure he gets the final payment as quickly and accurately as possible. The licensor may also be pushed for time because he may have granted the TM licence for the area to a new licensee.

The licensee, on the other hand, is only interested in the best financial solution for him. He may have invested in machinery for the production of goods and would therefore want to keep them working at full capacity for as long as possible to pay off the investment. Or, he may wish to sell off the products quickly, and therefore at a reduced price, to make room for whatever new product lines he will sell.

3.1.2 Possible Solutions

Assuming this issue is not regulated in the contract, the parties may negotiate a so-called selling-off period, agreeing on a possible price reduction and also, whether the TM may still be used (depending on the product this may or may not be feasible). The majority of doctrine confirms the licensee's right to

\(^{35}\) Fammler, 140; Hilty, 999 et seq.

\(^{36}\) Troller, 293.
a reasonable selling-off period in most cases whereby the duration will de-
pend upon the nature of the licensed products or services. A selling-off pe-
riod may only be waived if termination occurred because of a substantial
breach by the licensee (e.g. TM infringement), if the licensee terminated the
TLA and therefore had the opportunity to adjust production or wind down the
inventory during the notice period or if the licensor buys the inventory.37

The licensor or the licensee, or both parties, may wish for the remaining in-
ventory to be returned to the licensor, in which case the licensee would want
to be reimbursed at purchase price or at least at cost price in the case of a
manufacturing licence, whereas the licensor would want to acquire the goods
at a reduced price to compensate for his additional handling efforts. Prevail-
ing doctrine is of the opinion that the licensor can request to purchase all in-
ventory at a fair price. Fair price meaning not detrimental to the licensee, al-
though a certain price reduction is acceptable. For manufactured goods the
reimbursement should cover at least the cost of material and production.38

3.1.3 Conclusions for Contractual Regulations

Due to the variety of TLAs, the parties are strongly advised to discuss and
agree on, or clearly exclude, a selling-off period during contract negotiations
to suit their individual needs. The selling-off period should create a clear
situation and therefore all aspects should be taken into account and these
differ widely depending upon the type of the licence (e.g. for the production
and sale of goods, for production only, for sale of goods only) and the li-
censed objects (e.g. job-work or mass production and stock turnover time).39

It is also very important to regulate to what extent the TM may still be used.

Below are some sample clauses taken from literature and our practice which
can be used as a basis to regulate the above mentioned issues and avoid
possible litigation because of differing points of view.

37 Hilty, 998 et seq.; Fammler, 140 et seq.; Stumpf/Gross, Rz 482.
38 Hilty, 999; Fammler, 141.
39 With reference to: Hilty, 997; Fammler, 140.
A clear clause ending the use of the TM and any trading activity related to the TLA:

- Upon termination or expiration of this Agreement for any reason, Licensee shall immediately
  a) cease to use in any manner whatsoever the Trademark and any sign, logo, symbol or material related to the Trademark; and
  b) cease to trade or otherwise hold itself out in any manner, whether direct or implied, that could give the impression that Licensee is in any way still affiliated or connected with Licensor.

Obligation by the licensor to purchase all inventory and regulation of price:

- The Licensee does not have the right to distribute the existing inventories of Products after termination of the Agreement. The Licensor is obligated to purchase any remaining inventories of the Products as far as such Products are not damaged or have other defects. The purchase price shall amount to 80% of the Licensee’s regular sale price to its direct customers, which purchase price must be at least as high as the production cost.\(^\text{40}\)

Purchase of inventory at the choice of the licensor and conditions of selling-off:

- Upon expiration or termination of this Agreement for any reason, Licensee shall within five (5) days thereafter notify the Licensor of the unsold Products remaining in Licensee’s possession. The Licensor shall have the option, upon notice to the Licensee within thirty (30) days to purchase all or any part of the remaining Inventory at a price equal to the price paid by the Licensee. Upon expiration, the Licensee shall have the right to sell and distribute any Inventory not purchased by the Licensor in the regular course of business for a period of up to ninety (90) days after the date of expiration. Upon Termination for breach by the Licensee, any Inventory not purchased by the Licensor shall be destroyed or may be sold only after the Trademarks and features embodying IP Rights have been removed. In selling off its Inventory, the Licensee shall not represent or imply that Licensee is any longer an authorised representative of the Licensor. In all cases, the Trademarks must be completely removed from the premises, and the premises may no longer appear associated with the Trademark.

Allocation of freight cost if inventory is purchased by licensor:

- The transport and freight cost shall be borne by the Licensee.\(^\text{41}\)

\(^\text{40}\) Fammler, 48.
\(^\text{41}\) Liebscher, 138.
• The transport and freight cost shall be borne by the Licensor.\textsuperscript{42}

Selling-off clauses:

• Within six months after the declaration of termination of this Agreement, Licensee shall have the right to sell all Licensed Items remaining at that date under the conditions agreed upon or, as the case may be, to finish and fulfil all agreements which have been entered into prior to the declaration of termination.\textsuperscript{43}

• The Licensee shall have the right to distribute its existing inventories of Products and also Products that are still being produced in the regular course of business for a period of up to three months (one year) from the Agreement's termination date.\textsuperscript{44}

3.2 Return of Material

3.2.1 Problem

Every TLA contains a usually lengthy section specifying the licensee's performance obligations. These include quality standards of the products and/or services to be adhered to, and in case of a production licence, there is confidential documentation containing detailed specifications of the licensed object. In addition, details of the composition of the TM and the scope of use are made available to the licensee, often in the form of a TM manual. All this information appertains to the TM and is the licensor's IP.

Upon termination, the licensor will want to ensure that the licensee does not continue to use (or misuse) any material or confidential know-how.

3.2.2 Possible Solutions

It is expedient to include a clause which obligates the licensee to return all material in his possession and, depending upon the TLA, even specifically list the documents in the interest of protecting the licensor's IP rights.

\textsuperscript{42} Liebscher, 138.
\textsuperscript{43} Pagenberg, 55.
\textsuperscript{44} Fammler, 48.
If a selling-off period has been agreed it should be specified to what extent and in which way the material or know-how can still be used. This can be a full use or a limited use, excluding, e.g. the printing or ordering of new brochures, distributing give-aways, etc.

### 3.2.3 Conclusions for Contractual Regulations

A clear and up-to-date clause taking into account the growing application of information technology:

- After the termination the Licensee shall immediately return at his cost to the Licensor all documents and any other objects supplied by the Licensor. This also applies to any copies thereof as well as the representation in "new electronic media" like Internet material. If the return of such material is not possible, the Licensee shall destroy them and provide proof thereof to the Licensor.\(^{45}\)

By a small adaptation of the first part of the sentence, the clause above can be used to cover the use of material until the end of the selling-off period: "After the termination of the agreed selling-off period the Licensee shall ...."

A clause allowing flexibility to find a solution according to the situation prevailing at the time of termination which is not exactly foreseeable at the signing of the TLA:

- To the extent advertising materials, brochures, price lists, etc. containing the Licensed Trademarks are required by Licensee after the expiration of the sell-off period, the parties shall endeavour to come to an agreement which does justice to the interests of both parties.\(^{46}\)

### 3.3 Calculation of Licence Fee

#### 3.3.1 Problem

If an initial sum was paid by the Licensee at the beginning of the TLA, licensor and licensee may be of different opinion as to partial reimbursement in the case of extraordinary termination.

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\(^{45}\) Liebscher, 138.

\(^{46}\) Fammler, 48.
If the TM application cannot be turned into a valid registration, its use has to be ceased and the licensee is deprived of his business or at least part of it. The question is whether the licensee can claim back the royalties he paid in good faith for a TM that turned out not to be valid?

If there is a selling-off period at the end of the contract or notice period, the question may arise whether the obligation to pay the licence fee ends with the termination of the contract or whether royalties are due up to the end of the selling-off period.

Another problem can occur for the licensee if the licence fee is calculated per unit. During a selling-off period the licensee may need to reduce the selling price in order to wind down the inventory. If the licence fee still has to be paid, the licensor receives the same amount per unit but the licensee's margin per sold unit will be smaller because of the reduced selling price.

However the situation is different if the licence fee is calculated based on a certain percentage on the net sale.

<table>
<thead>
<tr>
<th>Advantage to Licensor</th>
<th>Advantage to Licensee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>During normal contract term</strong></td>
<td><strong>During normal contract term</strong></td>
</tr>
<tr>
<td>Royalty per unit: 0.50 CHF</td>
<td>Percentage of Net Sales Rev: 5%</td>
</tr>
<tr>
<td>Price/Unit: 10</td>
<td>Price/Unit: 10</td>
</tr>
<tr>
<td>Units sold: 500</td>
<td>Units sold: 500</td>
</tr>
<tr>
<td>Sales Revenue: 5'000</td>
<td>Sales Revenue: 5'000</td>
</tr>
<tr>
<td>Licence Fee: 250</td>
<td>Licence Fee: 250</td>
</tr>
<tr>
<td>Sales Margin: 4'750</td>
<td>Sales Margin: 4'750</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>During selling-off period</strong></th>
<th><strong>During selling-off period</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalty per unit: 0.50 CHF</td>
<td>Percentage of Net Sales Rev: 5%</td>
</tr>
<tr>
<td>Price/Unit: 7</td>
<td>Price/Unit: 7</td>
</tr>
<tr>
<td>Units sold: 500</td>
<td>Units sold: 500</td>
</tr>
<tr>
<td>Sales Revenue: 3'500</td>
<td>Sales Revenue: 3'500</td>
</tr>
<tr>
<td>Licence Fee: 250</td>
<td>Licence Fee: 175</td>
</tr>
<tr>
<td>Sales Margin: 3'250</td>
<td>Sales Margin: 3'325</td>
</tr>
</tbody>
</table>
3.3.2 Possible Solutions

The situation regarding partial reimbursement of a one-time payment is unclear. Many different expressions are used which may be interpreted differently by licensor and licensee. The parties are therefore strongly advised to clearly define the purpose and modalities of such a payment in the TLA. Practice and literature\(^47\) mainly distinguish between two types:

- A lump sum is paid for entering into the contract and may relate to the licensor's recovery of investment or cost of assistance to be rendered. In this case the amount is generally not refundable in case of termination before the end of the agreed term and therefore includes a certain risk for the licensee.

- A down payment is regarded as an advance payment and will be credited against royalties to accrue. In case of early termination, any unused amount should be refundable.

If the presumed TM right is null and void, it is generally agreed that the obligation to pay royalties ceases from the point of time when it becomes clear that the protection of the TM right does not, or no longer exists.\(^48\) It is also accepted doctrine that royalties already paid cannot be claimed back.\(^49\)

Regarding the payment of royalties during a selling-off period, literature offers differing opinions: on one hand stating that royalties have to be paid beyond the end of the contract\(^50\) and, on the other hand, that in principle all obligations cease with termination and, therefore a clear ruling should be included in the TLA.\(^51\)

If the TLA provides for a royalty per unit, the parties may regulate a reduced licence fee during a selling-off period to eliminate this disadvantage to the licensee.

\(^{47}\) Hilty, 490, 1004; Stumpf/Gross, Rz 490; Pagenberg, 143.
\(^{48}\) Bühler, 5; Hilty, 349; BGE 85 II 44 et seq.; BGE 116 II 196.
\(^{49}\) Stieger, Referat 9; Tissot, 475.
\(^{50}\) Hilty, 999.
\(^{51}\) Fammler, 141.
Assuming the last two issues are not particularly regulated in the contract, the parties may negotiate a solution together with the problem of the remaining Goods in Stock.

### 3.3.3 Conclusions for Contractual Regulations

A clause for a non-refundable lump sum payment:

- Licensee shall pay a single fixed royalty ("Basic Charge") of CHF ..... upon the execution of this Agreement. The Basic Charge shall not be credited towards the current royalty payments. A repayment of the Basic Charge upon the premature termination of this Trademark Licence Agreement shall be excluded.\(^{52}\)

### 3.4 Liquidated Damages\(^{53}\)

#### 3.4.1 Problem

If one party defaults on its contractual obligations this may give the other party the right to claim liquidated damages (Art. 97, para. 1 CO). There are various neglects or defaults that can give rise to a claim. Much will depend upon the nature of the licensed object and the performance agreed in the TLA. Mostly it is a material breach which leads the non-defaulting party to terminate the contract early and claim damages. The right to claim damages (Art. 42, para. 1 CO) always presumes that damage has been sustained and can be proven.

Liquidated damages can, among others, relate to the investment made with a view to a long duration and which therefore has not been fully amortised (unless explicitly excluded in the LA),\(^{54}\) the loss of the business and future profits or the compensation for obligations towards third parties which can no longer be fulfilled.

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\(^{52}\) Fammler, 39.

\(^{53}\) The English language uses the expression “Liquidated Damages” both for “Schadenersatz” and “Konventionalstrafe”.

\(^{54}\) Hilty, 975.
The following Articles from the CO may be considered for liabilities arising out of LAs:

Art. 20  (Nullity)
Art. 23 et seq.  (Error and deception regarding the licensed object)
Art. 41 et seq.  (Liability towards third parties originating from the use of the licence)
Art. 91 et seq.  (Default of one of the parties to the contract)
Art. 97 et seq.  (Non-performance or unduly performance)
Art. 160 et seq.  (Liquidated damages)

The following are the most common causes leading to early termination followed by a claim for liquidated damages based on one of the Articles above:

It is the licensor's obligation to ensure the valid existence of the licence and its usability (but this does not include economical and commercial profitability unless specifically agreed). If the protection of the TM is not given, the licensee may rescind or terminate the contract. Doctrine and case law state that rescission is possible based on Articles 20 and 24 CO but also an extraordinary termination cause whereby the latter is favoured by many authors when the contract has entered into force and it may not be practicably possible to rescind (which means to unwind retrospectively), particularly if royalties have already been paid. Such cases occur when the licensor registers a TM application and, immediately and in good faith, invests in developing the TM and signs a TLA to start marketing and selling the products or services and – as there is an objection period for TM registrations (TM registrations may be objected to by the owner of an older TM on the grounds of near-duplication or too close a similarity) – after one or two years the TM may

55 Bühler, 1.
56 BGE 115 II 255.
57 Bühler, 8; Troller, 289.
58 Hilty, 350; Bühler, 5.
59 Bühler, 5; Hilty, 349; BGE 85 II 44 et seq.; BGE 116 II 196.
61 Tissot, 478.
not receive final approval and be struck off the register. If third party rights lead to the cessation of use of the presumed TM rights, the licensee can claim damages based on Article 97 or 107 et seq.\(^61\)

Although only mentioned marginally, a wilful faulty performance is the most common cause of default,\(^62\) i.e. the performance does not correspond to the agreed terms: the licensor defaults on his obligation to undertake all reasonable steps to maintain the IP in the agreed usable state\(^63\) (i.e. obligation to defend third party infringement or obligation to pay renewal fees),\(^64\) he demonstrates a lack of support, the availability of and the material itself are substandard, etc.; in case of the licensee, the quality of the licensed object produced and/or services sold do not meet the agreed standards or he did not use best efforts, i.e. defaults on the obligation to use (if, e.g. a minimum turnover or a fee per item has been agreed).

The licensee may have infringed the licensor's TM by using it outside the scope of the licence or by using the TM beyond the term of the licence or beyond the additional selling-off period granted. Misuse of the TM by the licensee may result in damage to the licensor's image, a decrease in the economic value of the TM and, subsequently, detrimental financial consequences. An infringement of an IP right is a tort (unlawful act) and in case of TM infringement, the licensor can sue for damages according to Article 55, para. 2 Trademark Protection Law. Additionally, if the licensee derives a profit, he can be requested to surrender it to the licensor according to Article 423 CO.\(^65\) This is most likely to occur if the licensee continues to sell the products or services beyond the expiry of the TLA.

If the licensee fails to pay the agreed royalty or neglectfully or repeatedly under-reports royalties, the licensor may, apart from terminating the contract for cause, claim for lost income.\(^66\)

\(^{62}\) Hilty, 570.
\(^{63}\) With reference to: Troller, 290.
\(^{64}\) Tissot, 480.
\(^{65}\) With reference to: Hess, 99 et seq.
\(^{66}\) With reference to: Tissot, 484.
The licensee may also be liable for damages if he does not return all documents and material at the end of the contract.\textsuperscript{67}

Furthermore, the licensee may be liable for damages if he breaches confidentiality and passes information on the licensed object to third parties.\textsuperscript{68}

### 3.4.2 Possible Solutions

Neither the licensor nor the licensee can obtain total protection from claims for liquidated damages, nor is it possible for either party to be requested to waive the right to claim liquidated damages in all instances. A total waiver of all rights to claim damages is not lawful under Swiss law: Article 20 CO would render such an agreement or the relevant parts containing illegal provisions null and void, Articles 41 and 99 CO contain mandatory provisions for liability and Article 100, para. 1 CO nullifies the contractual exclusion of liability for unlawful intent or gross negligence.

Clauses can be inserted to minimise certain risks or to quantify the amount of liquidated damages in some instances. The inclusion of an agreed liquidated damages (penalty) clause is advisable to define the "price" of certain breaches or defaults at the outset and thus clarify the consequences and facilitate the enforcement. However, practice shows that this is not readily acceptable.

The TLA is largely influenced by the circumstances of the licensed object and this leads to widely varying requirements and, therefore, liquidated damage or penalty clauses have to be formulated according to the individual situation.

### 3.4.3 Conclusions for Contractual Regulations

Based on the above, we include risk minimising clauses on TM protection, a typical clause confirming the licensor's right to claim damages, an insurance

\textsuperscript{67} Bühler, 14.

\textsuperscript{68} Bühler, 9; Landolt, 11.
clause, a clause partially indemnifying the licensee for his investment and a general penalty clause.

Regarding the protection of the TM and in order to protect the licensee's investment and business efforts, the licensee is well advised to verify the status of the TM registration prior to concluding a TLA and insist on the inclusion of a suitable clause. If the licensor warrants the validity of the TM and this turns out to be false later on and leads to termination, the licensee has proof to claim damages according to Article 23 et seq. CO.

- The Licensor is the owner of the Swiss Trademark Registration No. ..., with priority dated 3rd March 1998, registered on 10th October 1999 for the following goods.\textsuperscript{69} ..., ..., ..., ...

- The Licensor guarantees that he is not aware of any legal deficiencies of the licence hereunder. He particularly guarantees that he is aware neither of any third party's prior rights to use, nor of a dependency of the Licence on third party's licences.\textsuperscript{70}

In the following clause the licensor avoids liability but it does not provide a secure situation for the licensee:

- The Licensor guarantees neither the validity of the Licence nor the commercial exploitability, and shall not be liable accordingly.\textsuperscript{71}

The clause below states the licensor's rights to claim damages for a breach related to the TM licence itself. This clause strengthens the licensor's position as the licensee hereby acknowledges the licensor's right to claim liquidated damages for defaults other than those regulated in the CO. (The CO regulates so called positive contractual breaches, e.g. the obligation to pay licence fees, to keep books and records or to conclude a product liability insurance, whereas the obligations below are called real ("dingliche") contractual obligations, which in turn means related to the TM and trade mark right.)\textsuperscript{72}

\textsuperscript{69} Fammler, 32.
\textsuperscript{70} Pagenberg, 45.
\textsuperscript{71} Pagenberg, 45.
\textsuperscript{72} With reference to: Fammler, 126 et seq.
Irrespective of the right to terminate this Agreement without notice according to Clause..., and the other rights to which Licensor is entitled following the breach of this Trademark Licence Agreement, Licensor may assert the rights under the Licensed Trademark(s) against Licensee if Licensee is in breach of one of the following provisions of this Trademark Licence Agreement:

1. term of the Licence;
2. the form in which the Trademark may be used according to the Registration thereof;
3. the type of goods or services for which the Licence was granted;
4. the Territory in which the Trademark may be attached;
5. the quality of the goods manufactured by Licensee.\textsuperscript{73}

An obligation to conclude a product liability insurance minimises the risk of exposure for both licensor and licensee.

Licensee is obligated to maintain product liability insurance with an insurance sum of at least CHF ... for the term of this Agreement and for the period of twelve months beyond the permitted use of the Licensed Trademark(s) following termination of this Agreement.\textsuperscript{74}

The Licensee may be indemnified for investment which becomes useless at the end of the notice period, depending on circumstances such as the length of the notice period, the expected duration assumed in good faith by the licensee and a possible partial further use of the investment, and provided an indemnification has not been excluded in the agreement.\textsuperscript{75} In other words, the situation is unclear.

In this case, a claim for liquidating damages or costly litigation can be avoided by inserting an appropriate clause in the agreement. We have not been able to locate a sample clause in literature, but have come across several TLAs in practice containing such a clause.

In the following sample we have assumed that a TLA has been concluded for a period of five years to sell goods of a certain brand and the licensee is obligated to pay for the lavish fit-out of the shop, according to the licensor’s specifications, including the buying of TM signs and logos. Furthermore, the

\textsuperscript{73} Fammier, 45.
\textsuperscript{74} Fammier, 37.
\textsuperscript{75} Hilty, 974 et seq.
licensee has to invest in specific bookkeeping software and points of sale to comply with the licensor’s reporting requirements.

- If Licensor terminates the Trademark Licence Agreement before the end of the Term for no cause, Licensor will indemnify Licensee for the non-amortised investment as at the date of termination on the basis of a five-year amortisation period of the proven investment.

General contractual penalty clause in favour of the licensor:

- For every day on which a situation exists which is in violation of Clauses ... and ..., the Licensee shall owe to the Licensor a penalty of CHF ..... per day and any related commission independent of any fault of the Licensee. The Licensor may claim any damages exceeding the amount of the penalty as well as exercise any other rights.  

4. Change of Control and Change of Contract Party

4.1 Problems

A change of control or change of contract party may result in undesirable consequences for both parties.

If the licensee wishes to sell his business (or a part of it), many uncertainties may arise for the licensor. The licensor might disapprove because the new party is a competitor, is in financial difficulties or has a bad reputation. The new party may not have the required know-how to maintain the quality or the experience to run an efficient sales organisation to ensure the existing sales level.

On the other hand, if the licensor were to sell his business, the problems which could occur are no less, but different. The new party might not be interested in investing in the continued development of the products or services due to other more profitable business lines and the licensee may no longer get the same maintenance or support. The TM rights may not be handled in the appropriate manner regarding renewal or defence against third party infringements. Over many years, the TM products or services may have attained an excellent market recognition which the licensee is not willing to

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76 Liebscher, 138.
lose. All these factors could lead to an extensive loss of income for the licensee.

The listed problems are certainly not complete but clearly show that both licensor and licensee should have an interest in either being able to influence or take action in case of a party change.

4.2 Possible Solutions

One has to distinguish between different types of party changes as the legal situation is different. We concentrate on the most common ones.

A change of contract party occurs when either licensor or licensee sells or transfers the enterprise, or the part of the enterprise which includes the TLA, to a third party. Swiss law does not accept a one-sided "replacement" of a contract party without a contractual or legal basis. The legal basis is given for some regulated contracts (e.g. Article 261 and 333 CO) but there is no such provision for the TLA. Therefore, the change of contract party requires the consent of either licensee or licensor, as the case may be. This also applies if another company within a company group is to replace the actual contract party.\textsuperscript{77}

A change of control occurs when a third party takes over the majority or all of the shares of the company of one of the contract parties. This is not regarded as a change of contract party, because the company remains the same. In case of a merger, all assets and liabilities of the dissolving company are taken over by the surviving company and this includes continuous agreements. Hence, in these cases, the other contract party's consent is not required. A termination for valid reason may be possible in certain cases; i.e. if some of the situations stated under 4.1. occur.\textsuperscript{76}

\textsuperscript{77} Stieger, Referat, 11 et seq.

\textsuperscript{76} With reference to: Stieger, Referat, 13; Hilty, 726.
In case of assumption of assets and liabilities of an enterprise according to Article 181 CO, opinions in literature differ as to whether this includes continuous agreements.\footnote{Stieger, Referat, 12; Hilly, 722.}

Due to the differing and unclear situations that may arise, the parties are well advised to agree in writing which changes give the right to one or both parties to terminate the TLA. Granting the other party a pre-emptive right is a possibility which might be considered in a few cases.

\section*{4.3 Conclusions for Contractual Regulations}

One often finds a clause restricting the licensee:

\begin{itemize}
  \item The Licensee may not assign any rights or obligations under this Agreement to a third party without the prior written consent of the Licensor.
\end{itemize}

It is also common that the licensor reserves the right to assign:

\begin{itemize}
  \item The Licenser may assign rights and duties under this Agreement to a third party or to a related party or to the acquirer of the Trademark.\footnote{Liebscher, 139.}
\end{itemize}

We also refer to the last sample clause under 2.5.2, page 11.

\section*{5. Obligations Beyond Termination}

\subsection*{5.1 Problem}

Although the business relationship has come to an end, some obligations continue to bind or restrict the parties beyond termination.\footnote{Troller, 292; of opposite opinion: Fammier, 141.} The liability for the products has to be maintained to cover possible claims from customers, this can be either the licensor's or the licensee's obligation depending upon which party manufactured the licensed object. The licensor is interested in the continued protection of his IP rights and wants to ensure that proprietary information is not passed on to third parties or will still be used by the licen-
see. This could harm the reputation and value of the TM, impede the licensor's future business and endanger the continued economical success of the licensed object.

5.2 Possible Solutions

The product liability is easily covered by ensuring that the appropriate clause in the TLA states that insurance cover has to continue for a certain period beyond termination (see 3.5.3, page 24).

It is common to include a confidentiality clause which obligates both parties not to disclose any confidential information acquired from each other during the term of the contract and, additionally, specifies the licensee's obligation in respect of know-how, business or manufacturing secrets. As it is in the main interest of the licensor, he should ensure that such a clause is included and applicable beyond termination. But even if not stated in the agreement, the Federal Court has decided that the licensee is bound beyond termination to keep secret and not make use of any confidential information acquired during the contract term.\textsuperscript{82}

Depending upon the type of TLA, it may be appropriate to include a covenant prohibiting the Licensee from taking up any competitive activity within a certain area and for a defined period of time. This is particularly important in the case of a production licence, although the licensor's rights are protected by Article 3d of the Unfair Competition Law. Caution has to be exercised in the case of a simple sale or distribution licence as a non-competition clause may contravene the Antitrust Law. The clause should also contain the licensee's obligation not to register or attempt to register any similar TMs.

\textsuperscript{82} BGE 102 la 505 et seq.
5.3 Conclusions for Contractual Regulations

Confidentiality clause:

- The Licensor and the Licensee agree to keep in strict confidentiality all information, know-how and trade secrets obtained from the other party during the term. This includes any and all information which has not been publicly disclosed. The use of confidential information by the Licensee is limited to the purpose of fulfilling this Agreement. This obligation of confidentiality shall remain in force for a period of five years beyond the termination of this Agreement.

Non-competition and Trademark protection clause:

- During the term of this Agreement and thereafter, the Licensee shall not manufacture or distribute any products which are identical, similar or otherwise competing the Licensed Products and shall not register or attempt to register any trademark identical to or with confusingly similar denominations or features of the Trademark.

Summary and Conclusions

TLAs, along with all other LAs, are not specifically regulated in the Special Part of the CO although the General Part of the CO is applicable. On the positive side, this gives licensor and licensee great freedom to set up a TLA tailored to their requirements. On the negative side, the lack of legal parameters leads to uncertainties and unclear situations, and different interpretations occur more often than in regulated contracts.

The lack of clear clauses on how, when and under which circumstances a TLA can be terminated leads to disputes as provisions from the different types of regulated contracts are only applicable to a certain extent. Other issues that have to be settled at termination are: how the remaining inventory is dealt with, what happens to material and confidential information which was given to the licensee and the payment of royalty during a selling-off period. These points are not clearly regulated by law and literature offers differing opinions in some cases. Unclear situations also occur when there is a change of contract party.

We have listed these problems, given our findings as to how they are dealt with in literature, jurisdiction and practice and added some sample clauses to
each point as an input to how a certain problem can be avoided at the outset.

Further aspects, such as reducing the exposure to liquidated damages and ensure TM protection beyond termination, have also been included.

As Contract Law does not provide clear solutions for many issues in TM licensing, it is important to regulate all aspects relevant to the parties and not to neglect termination.

Due to the wide variety of TLAs, there is no standard template and the samples available in literature will always have to be adapted to suit the individual requirements. We have therefore included a chart to assist the parties in defining suitable clauses regarding the procedure in case of TM infringement, which may or may not end with termination. Annex II is a comprehensive list of contract points intended as a check-list to choose the points required to set up a TLA which is a good basis for a win-win situation.

Walchwil, 19. 12.2003

Alice Scheurer

Kloten, 19.12.2003

K. Woodhatch

Karin Woodhatch
Annex I  Dynamic contract clauses

LG = Lizenzgeber
LN = Lizenznehmer
LV = Lizenzvertrag

83 © Locher, Christoph, Staub Hilti & Partner, Gossau.
Annex II  Checklist for contractual contents

In most licensing situations it is necessary to make the agreement fit the circumstances of the business deal made or about to be made. There is no standard LA which can be completed by filling in the blanks.

This checklist may be useful/helpful to choose the suitable provisions for a TLA and to avoid possible conflicts during the contract term and at termination.

Preamble or Introduction
- Purpose of agreement

Definitions
- Identification of the parties
- Company name and legal form
- Legal place of business
- Definition of the parties "Licensor", "Licensee"
- Definition/description of the grant of Licence "Licence", (exclusive, non-exclusive or sole licence)
- Definition/description of "Trademark", "Goods", "Services", "Right"
- Definition of territory
- Field of license
- Boundaries of grant

Legal Status of the TM
- Request and verify the status of TM registration
- Indications of the registered TM(s)
- National Swiss TM, International TM, EC TM, other National TM
- Registration number(s), date, expiration date
- Nature of goods or services covered
- Possible restrictions

Sub Licence
- Right to grant sub licence
- No right to grant sub licence
- Right to grant sub licence upon consent of Licensor

Registration of the Licence
- Right to request registration in the TM Licence Register
- Define cost

84 Fammler, 9 et seq.; Small, 65 et seq.; Pagenberg, 57 et seq.
Form of Use and Notice of License
- Obligation to use the TM
- Proper TM use (registered form), correct characteristics, colours
- Marking of licensed goods
- Use of ownership notices on goods and in advertising
- Approvals of all advertising prior to release
- Measures of control of display of licensed TM

Quality Assurance
- Quality control of goods/services
- Establish written standards and specification of quality
- Approvals prior to initial sales
- Periodic sampling for purpose of quality control
- Permission to make inspection
- Testing by independent party
- Training for employees
- Required purchase of key ingredients
- Check production reports

Product Liability
- Security deposit
- Product liability insurance (by Licensee or Licensor, allocation of premium)

Licensor's Warranty
- Warranty of legal status of licensed TM
- Warranty of use and maintenance of validity
- Warranty that TM is free of rights of third parties, no pledges
- Warranty that no rights are granted to third parties, territory

Additional Obligations of the Licensor
- Obligation not to pledge the licensed TM
- Obligation to inform Licensee in case of enforcement measures

Royalties
- Percentage of Licensee's net sales
- Royalty per unit sold
- Scale down royalty (once certain amount of sales has been reached)
- Scale up royalty (low during start-up, increasing when business is established)
- Minimum royalty for a certain accounting period, to be credited to current royalties
- Down payment upon signing, to be credited or not against royalties
- Initial lump sum (entry fee) to be credited or not against royalties;
- Initial lump sum partially refundable or not in case of early termination
Accounting Obligations
- Keep full and accurate books and records to permit calculation and verification of royalties
- Present periodic reports (quarterly, monthly, annual)
- Documentation of the manufactured and sold products, customers, delivery
- Right to inspect the documents for auditing
- Obligation to store the documents according to law
- Sanctions for inaccurate or incomplete reporting
- Liquidated damages triggered by specified level of unreported royalties
- Definition of cost of auditor; at charge of Licensee if specified %age-deviation established

Billing and due Dates
- Fix the accounting date (monthly, quarterly, annual), place of payment
- Fix the manner of payment
- Fix default procedure for non-payment or late payment
- Procedure for rectifying possible mistakes in settlement statement

Taxes
- VAT tax
- Governmental charges

Defence of the Licensed Trademarks against Infringements by Third Parties
- Obligation to inform each other of TM infringements
- Procedure/action plan against infringements (see Annex I)
- Claiming compensation for Licensee's loss
- Definition of bearing infringement cost

Attacks by Third Parties on the Use of the Licensed Trademarks
- Obligation to inform each other of proceedings instigated by third party against Licensor or Licensee
- Obligation to support each other

Oppositions, Petitions for a Cancellation, Actions for Cancellation
- Exclusive right of Licensor to defend TM: to enter oppositions or petitions for cancellation

Maintenance of the Licensed Trademarks
- Obligation of Licensor to maintain TM
- Obligation of Licensor to procure renewal of TM protection
- Define cost allocation
Non-Aggression Clause
- Licensee’s obligation not to derive rights from the use of the TM or support attacks by third parties
- Toleration of new TM registration(s) by Licensor
- Obligation of Licensee not to file any TM for identical or similar goods or with identical or similar name, description or features

Breach of the Licensing Agreement
- Definition of remedy period and when applicable
- Define procedure for extraordinary termination
- Definition of material breaches giving right to extraordinary termination (list breaches or refer to applicable contract clauses)
- General clause: extraordinary termination for valid reason
- Define time to give notice

Transfer of Rights and Obligations
- Licensor/Licensee may/may not assign rights
- Change of Control: prior consent of other party required
- Right of first refusal

Term of Contract
- Minimum duration
- Initial time of 3, 5, 10 years, automatically renewable for successive terms unless one party gives notice of termination
- Indeterminate period
- Term of notice period for ordinary termination

Obligations beyond Termination
- Notification of remaining inventory
- Obligation by Licensor to purchase inventory
- Define duration of selling-off period
- Define price reduction
- Destruction of remaining goods
- Return documents, TM signs, logos, material
- Confidentiality obligation
- Non-competition clause (if permissible)
- Indemnification for non-amortised investment

Disputes and Dispute Settlement
- Define settlement procedure
- Define arbitration clause and procedure
- Place of arbitration
- Language of arbitration
- WIPO or ICC arbitration
- Define cost allocation

General Provisions
- Define the applicable law and place of jurisdiction (at beginning of negotiations!)
- Salvatorian clause
- Define address of notice