INDUSTRY OUTLOOK

CHANGES IN LEGAL PERSONNEL

by Jim Silver and Brad D. Rose, Esq.

ROYALTIE$ editor in chief, Jim Silver, recently sat down with Brad D. Rose, Esq., of the law firm Pryor Cashman LLP to discuss what happens when there is a change of legal personnel at a licensor. The new team often wants to change the long-held licensing contracts to reflect their own footprint. As a result, simple deals, and long-held agreements, get held up to redefine existing, agreed-upon issues. How can this be avoided?

BRAD D. ROSE, ESQ.: When there's a change in legal personnel, such change cannot, in most cases, immediately result in the unilateral amendment of an existing agreement, unless that amendment is agreed to by all involved parties. Most licensing agreements have merger clauses usually stuck in with the boilerplate provisions. A merger clause essentially states that the agreement between the contracting parties is fully and exclusively embodied in the executed license agreement and that any changes, modifications, amendments, or other understandings must be made in writing and signed by both parties in order for the change/amendment to become operative.

It is rare that the letter of a license agreement is slavishly followed like a roadmap by everyone on both sides. As a practical matter it is possible that a change in legal personnel at the licensor could result in a more strict adherence to the letter of the license agreement. It is even possible that a licensor (with or without new legal personnel) could ultimately obtain concessions from a licensee in the form of a written amendment to the agreement that the licensee would not otherwise be obligated to provide, by insisting on absolute compliance in the existing agreement, regardless of the nature of "past practice." Such powers of persuasion that a licensor may be able to exert under an existing agreement may or may not be permissible. The analysis may come down to, among other things, what standard of reasonableness a licensor must exercise in the context of decision making under the agreement and whether or not the licensor's actions are within the bounds of what is permissible under the contract or, more broadly, in the exercise of the good faith and fair dealing standard that is implied within every contract.

It is far better to have absolute clarity in connection with a licensing agreement both in practice and under the express terms of the agreement itself. A licensor can protect itself from a licensee's claims that a course of conduct between the parties has effectively "amended" a particular provision in a license agreement if the licensor regularly "audits" its own internal operations to make sure that it is insisting that its licensees are in absolute compliance with the terms and conditions of an agreement.

Similarly, a licensee can protect itself from being held to the letter of an agreement if it, too, routinely reviews the agreement. While a court will generally accord a licensor great latitude to protect its brand, a licensee is not entirely defenseless in protecting itself from an overly insistent licensor when course of conduct, prior written amendments adapting the agreement to a particular manner of doing business, and/or licensor bad faith are at issue in addressing a specific situation.

As discussed above, virtually all negotiated, written licensing agreements grant significant rights to a licensor concerning its oversight of a licensee's entire manufacturing, selling, and distribution process as related to licensed products. On the other hand, a licensee usually has strict, written mandates that it must follow in connection with its entire licensed business. While the expedient nature of today's business world may cause both a licensor and a licensee to become less adherent to expressly stated oversight and compliance matters under a written license, the unwritten relaxation of those standards may operate to the long-term detriment of both parties should new players take over. Rather than getting caught up in legal arguments about "oral amendments" or "course of conduct" or what is "common to a particular trade relationship," both sides should annually adapt their written agreement to reflect what is happening in daily reality.

Brad D. Rose, Esq., the lead partner in Pryor Cashman's branding, licensing, and enforcement group, has clients that include individuals and entities in the entertainment industry, fashion designers, apparel and beauty companies as well as numerous licensors and licensees across a variety of industries and services. He's routinely recognized in national publications as one of the top trademark filing attorneys in the U.S. Patent and Trademark Office.