

WHEN GOOD LICENSE AGREEMENTS GO BAD: Common Drafting Issues That Give Rise to Disputes

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What is the Most Important Aspect of Any Litigation Involving a License Agreement?

The Terms of the Agreement as Reflected in the Language the Parties Used.

- **Not What They Intended But Did Not Express in Agreement.**
- **Not What They Discussed But Did Not Memorialize in Agreement.**
- **Parol Evidence Considered Only if Text is Ambiguous.**

License Agreement Enemy Number 1

Ambiguous Contract Language!

- **If Language is Ambiguous, a Trial is Much More Likely.**
- **If Language is Ambiguous, the Outcome of a Trial is Much More Unpredictable.**

Common Reasons for Ambiguity in License Agreements

- **Deal Was Rushed.**
- **Lawyers Did Not Understand Business Goals of Deal.**
- **Use of Standard Forms Not Suitable for Deal at Issue.**
- **Deal Consists of Multiple Documents with Inconsistent Provisions.**
- **Conscious Decision to Leave Language Ambiguous.**
- **Whoops!**

Common Types of Ambiguity in License Agreements

- **What Is Being Licensed – Logos? Colors? Variations? Derivative Works? Subsequent Patents? Improvements? Unpatented Technology?**
- **Defining the Licensed Products or Services with Specificity.**
- **Defining the Licensee – Affiliates? Sublicensees? Right to Use Contract Manufacturers?**
- **Defining the Approval Process, if Any.**
- **What is Standard of Quality?**

Common Types of Ambiguity in License Agreements

- **Defining the Trade Channels – “Specialty Stores,” “Mid-Tier Stores”? Type of Media for Copyrights.**
- **Who Owns Ancillary Intellectual Property?**
- **Defining the Territory.**
- **What are “Net Sales”?**
- **Defining the Renewal Right, if Any.**
- **Define Triggers for Termination Right.**
- **What is a Material Breach?**

Quality Control

- **Essential for a Trademark License.**
- **But What is the Standard – Objective or Subjective?**
- **Depends on Language Used in Contract and Subject Matter of Contract.**

Quality Control

- **Objective – Goods Must Adhere to Specified Standard of Quality, as Determined by Licensor in its “Reasonable Discretion.”**
- **Subjective – Goods Must be Satisfactory to Licensor, “in its Sole Discretion.”**

Quality Control

- **Type of Product Matters – Machinery vs. Art vs. Fashion Goods.**
- **If Ambiguous, Objective Standard Likely Governs.**

Best Efforts Provisions

- **Are These Enforceable? Yes, Provided There Is Some Objective Way to Measure Best Efforts.**
- **What Do Clauses Require? Pursuit of Object of Clause in Good Faith, to the Extent of Promisor's Own Capabilities.**
- **Avoid Ambiguity with Objective Milestones and Targets Instead of General Best Efforts Requirement.**

Best Efforts Provisions

- **Promisor Does Not Have to Sacrifice Its Business to Comply, or Do as Much as a Larger Company Could.**
- **But, Promisor Cannot Simply Shrug Its Shoulders and Say it Did Its Subjective Best, When It Passed Up Obvious Opportunities.**

Best Efforts Provisions

- **Where Does the Objective Standard Come From?**
 - Text of Agreement
 - Industry Custom and Practice
 - Expert Testimony
- **“Reasonable Best Efforts.”**

Other Possible Provisions and Issues

- **Non-Solicitation of Employees, Customers**
- **Bankruptcy**
- **Duty to Mitigate/Accelerated Guaranteed Minimums**
- **Liability Caps/Damages Exclusions**

Notice – And – Cure Provisions

- **Strict Compliance Generally Required.**
- **Kvetching E-mails and General Whining Are Not Usually Considered Notice.**
- **Notice Should Be Sent to Proper Recipient Using Specified Method of Delivery.**

Notice – And – Cure Provisions

- **Important in License Agreement to Require That Notice Specify Nature of Breach in Reasonable Detail.**
- **Notice Should Specify Both Nature of Breach and Provisions Alleged to Have Been Breached.**

Use of Licensed Property After Termination

- **But When I Made the Goods, They Were Authorized, So Why Can't I Sell Them After Termination or Expiration?**
- **Because the Law Says You Cannot, Unless Permitted in the License Agreement (Usually).**

Dispute Resolution Provisions

- **Arbitration Clauses – Can Be A Great Idea, Unless:**
 - **Clause Doesn't Specify Arbitration Service.**
 - **Clause Doesn't Specify Number of Arbitrators, or How They Will Be Picked.**
 - **What Rules Govern? And When?**
 - **What About Discovery?**

Dispute Resolution Provisions

- **How Long Will the Proceeding Take?**
- **Will There Be a Reasoned Award?**
- **What Types of Relief Can be Granted?**

CASE STUDY



***Mrs. Fields Brand, Inc. v. Interbake Foods, LLC,*
C.A. No. 12201-CB, 2017 Del. Ch. LEXIS 113 (Del.
Ch. June 26, 2017)**

- **Parties Signed a Trademark License Agreement With a Five-Year Term in 2012.**
- **Prior to 2012, Mrs. Fields Directly Sold Branded MRS. FIELDS Products to Retail Stores, Generating \$27-29 Million in Sales Annually.**
- **But, Mrs. Fields Decided to Pursue a Different Strategy and Sell Such Goods Under License.**

***Mrs. Fields Brand, Inc. v. Interbake Foods, LLC,*
C.A. No. 12201-CB, 2017 Del. Ch. LEXIS 113 (Del.
Ch. June 26, 2017) (Cont'd)**

- **Key License Agreement Provisions:**
 - **Early Termination Permitted if Annual Net Sales in Any Given Year Fell Below \$20 Million.**
 - **Mrs. Fields Agreed Not to Intentionally Do Anything to Destroy or Impair Existing Brand Image.**
 - **Mrs. Fields Had to Continue Advertising and Promoting Brand Generally at Past Level of Support.**

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- **Key License Agreement Provisions (Cont'd):**
 - **Interbake Could Terminate If Mrs. Fields Fundamentally Changed Brand, Made Interbake's Performance "Commercially Unviable," or if a "Material Adverse Event" Occurred.**
 - **\$2 Million in GMRs Due Annually in Each of Contract's Last Four Years.**

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- **Shortly After Execution, Interbake Voices Interest in Buying Mrs. Fields for \$30-32 Million.**
- **Even Though Mrs. Fields Has Its Own Problems**
 - **Cookie Confusion**
 - **Stagnant Brand**
 - **Quality Concerns**

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Internal Mrs. Fields Emails

“I want to revisit the Interbake situation/contract and I don’t want to sell the rights (unless it’s a huge number today). It’s clear to me that their product is not great and killing our brand. To crank up gifting and franchising and have their crap on the shelf doesn’t help.”

. . .

“I understand and do not disagree with your sentiments. In fact, many years ago while at Great American Cookies, this is exactly why I never went into packaged goods even though we were approached. I could never resolve the quality difference. With that said, we need to remember that ‘their crap’ they are selling was ‘our crap’ just two years ago and we sold it to them.”

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- **Eventually, Mrs. Fields Rejects Proposed Acquisition by Interbake, Even Though Offer Had Increased to \$50 Million, Causing Interbake to Plan to Terminate License in Favor of Other Opportunities.**
- **Interbake Explores Various Other Opportunities to Plug the Hole that Would Open in Its Business Due to Loss of MRS. FIELDS.**
- **After First Trying To Negotiate an Exit From the Relationship, Interbake Advises Mrs. Fields in April 2016 That it Will Terminate the License Agreement Because Sales in 2015 Were Below \$20 Million.**
- **Simultaneously, Interbake Was Proposing to Launch a New Licensing Partnership with Back to Nature.**
- **Mrs. Fields Sues and Seeks a TRO; Standstill Agreement Leaves License in Place Pending Trial; Back to Nature Deal Falls Apart.**

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First Issue: Does the \$20 Million in Annual Sales Requirement Allow for Termination by Either Party?

Section 15(c)(iii) of the License Agreement provides for early termination should “Net Sales” fall below \$20 Million in any given “Contract Year.”

(c) This Agreement may be terminated as follows: ...

(iii) Within fifteen (15) days following the receipt of the annual report pursuant to Section 7(b), if LICENSEE fails to reach Net Sales of Twenty Million (\$20,000,000) Dollars per Contract Year, during the Initial Term and Renewal Term, as the case may be.

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Court Says No – Provision Only Allows for Termination by Mrs. Fields, Such That Interbake’s Termination Was Invalid.

Four Reasons for Decision:

- 1. Structure of Agreement – Allowing Interbake to Terminate Due to Failure to Achieve Annual Sales of \$20 Million Would Eviscerate Requirement of Paying Annual Guaranteed Minimum Royalties of \$2 Million.**

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2. Language of Other Provision of Contract:

“Following the termination by **MRS. FIELDS** pursuant to **Section 15(c)(iii)**, the expiration of this Agreement or the earlier termination by LICENSEE as set forth herein, LICENSEE shall have no further financial obligations of any kind hereunder other than the payment of Running Royalties which accrued prior to the expiration or termination....”

3. Negotiation History – Mrs. Fields Requested This Provision.

4. Parol Evidence – Internal Interbake Memos Said Mrs. Fields Could Invoke This Termination Provision.

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Second Issue: Could Interbake Also Terminate Due to a Materially Adverse Event or Because Mrs. Fields Had Made Interbake's Performance "Commercially Unviable"?

Section 15(c)(ix) of the License Agreement states, in relevant part:

If MRS. FIELDS (i) has made a representation or warranty in this Agreement that was not correct in any material respect at the time it was given; . . .

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or (iii) materially damages the value of the Licensed Names and Marks or the goodwill associated therewith, that directly renders the performance of this Agreement by LICENSEE commercially unviable (including but not limited to, a change that materially changes the market for the Royalty Bearing Products and/or materially changes the cost structure of the Royalty Bearing Products) (each a “Material Program Change”), then this Agreement may be terminated upon thirty (30) days written notice to MRS. FIELDS, without prejudice to any and all other rights and remedies LICENSEE may have hereunder or by law provided.

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Court Says No Again

- **No Material Adverse Event When Problems With Cookie Quality, and with the MRS. FIELDS Brand, Were Known or Discoverable Prior to Execution of License.**
- **Plus, If Brand Was in Such Poor Shape, Why Was Interbake Trying to Buy it During Most of Parties' Relationship?**
- **Termination Notice Did Not Mention This as a Ground for Termination.**

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- **As for Claim That Mrs. Fields Had Failed to Support the Brand, Such that Interbake's Performance Was Commercially Unviable, Court Found Evidence Lacking.**

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Other Grounds For Termination Rejected

- **Purported Rescission of Approval by Mrs. Fields of a Third-Party Pre-Packaged Cookie Jar Was Neither a Breach Nor Material.**
- **Claims Concerning Other Allegedly Poor Marketing Efforts by Mrs. Fields Failed for Lack of Proof.**

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Mrs. Fields' Claims Also Rejected

- **Efforts to Pursue Projects with Third Parties Were Permissible and Did Not Breach Confidentiality Obligations or Use of MRS FIELDS Information.**
- **No Breach of Audit Provision.**
- **No Breach of Obligation That Interbake Market MRS. FIELDS Cookies as “Premium Product”; Claim Dismissed as “Incoherent Mishmash.”**
- **Use of MRS. FIELDS Trademark in Deck Used to Pitch Interbake to Potential Partners Not a Breach.**



**THANKS FOR
ATTENDING!**