between separate companies or within one enterprise or group. They can be with or without foreign and tax implications.

As Recital 10 of the Community Trade Mark Regulation further states, the possibility to transfer a trade mark exists "subject to the overriding need to prevent the public being misled as a result of the transfer". As a consequence, it can be demanded in some cases that the transferor of a trade mark keeps the possibility for quality control or confers with the mark certain goods or know-how (which would often be deemed to be part of the brand) in order to assure a certain level of quality of the branded goods or services.

2.3.2.2 Licencing

In the last two decades, trade mark and brand licencing has grown to a multibillion-euro business involving a wide range of industries, from fashion, the traditional licencing stronghold, to food and financial services.[267]

An IP licence is the right to use the respective intellectual property. It can be exclusive, i.e. granted to a single licensee only,[268] or non-exclusive. Exclusivity can refer to specific parameters only, e.g. as geographic, temporal or distribution exclusivity.[269] As the licensee compensates the licensor by payment of royalties in various forms (lump sum,[270] milestone payments, running royalties,[271] or a combination thereof), the value of the licence object, e.g. a brand, needs to be determined. Royalty rates are computed on the basis thereof.

266 The German Trade Mark Act has contained similar provisions since 1992, see § 27 (1) and § 29 (1) MarkenG (Gesetz über den Schutz von Marken und sonstigen Kennzeichen (Markengesetz – MarkenG) vom 25. Oktober 1994 (BGBl. I S. 3082 (1995, 156)). According to § 31 MarkenG, the right to a trade mark (i.e. the right to registration of the trade mark after application if all prerequisites are satisfied) can be used as credit collateral. For further reading, cf. *Klawitter/Hombrecher*, WM 2004, 1213, 1217.

267 *Progoff/Palladino*, Tips for successful trade mark licensing, p. 1.

268 Two types of exclusive licence need to be distinguished: the exclusive licence in the strict sense, in the course of which not even the licensor but solely the licensee is allowed to use the respective IP and the licensor merely retains formal title to the respective IP right, and the so-called 'sole licence', by means of which the licensor retains his use rights and licences out to merely one licensee, cf. *Goddar*, Deal-making, Understanding the Contractual Terms and Conditions for Licensing "out", p. 1.

269 More on the legal arrangement of licencing deals below at 5.13.1.

270 This is hardly found in brand licencing at all but in technology licencing, usually in cases where an exclusive licence is granted for the remaining term of a patent.

271 These are charged on a regular basis, for instance as actual percentage of sale revenue, a fixed monthly/quarterly payment or a sum per unit produced.

Brand licencing can enhance brand value both directly (through increased sales volume and price premia) and indirectly (via increased brand awareness, which, in turn, can contribute to increased repurchase rates). It brings about various strategic and legal issues, pitfalls and opportunities.

With regard to brands, there are – next to relatively simple agreements regarding the trade mark only – a number of specific kinds of licencing agreements in use, depending on the underlying strategy. These include brand extensions, line extensions,[272] promotional and hybrid licencing. Brand extensions are agreements whereby the brand is licenced for use on products or services similar to those of the brand owner. BMW automotive performance and design accessories are an example. Line extensions deal with products or services not similar to the brand owner's. Respective licencing agreements cover articles like Disney character dolls, Puma keychains, Burger King hats and so forth. Promotional licencing aims at advertising certain products in environments the producer would otherwise not have access to. For example, fast-food chains conclude such agreements with the movie industry on a regular basis. Hybrid licences combine the licencing of a technology, e.g. a patent, with the licencing of a brand. As mentioned above, licencing, instead of development of a new brand or product, is in many situations the means of choice since it, in general, consumes less resources such as time and money and is less fraught with risk.[273]

Franchises represent another circumstance where trade marks, along with a bundle of other rights and know-how, are licenced and thus necessarily valued. They are a special kind of licence with the peculiarity that a franchising agreement, in order to reach its objective of enabling the franchisee to act vis-à-vis the target audience as if he were the franchisor, provides for both comprehensive licences (including know-how) and a certain degree of goods transfer.[274]

272 As to brand and line extensions, cf. above at 2.1.2.2.2 with fn. 182.
273 Cf. 2.2.1.
274 More on franchising below in fn. 812.

2.3.2.3 Bankruptcy

In an insolvency situation, one of the insolvency administrator's[275] duties is the exploitation of the estate.[276] This can be done by means such as divestiture or licencing. In this connection, the IP right trade mark and the trade mark licence need to be distinguished.

Under German law, trade marks are part of the insolvency estate, as they are independently transferable property rights.[277] For the same reason, licence rights can also be part of the insolvency estate.[278] Each exploitation of a trade mark and/or a trade mark or brand licence, such as divestiture, needs a price tag for the respective object and therefore necessarily presupposes valuation.[279]

In order to achieve a result most favourable for the creditors, the insolvency administrator needs to understand and implement the highly unique contextual nature of trade marks and brands. Such assets may find their value diminished considerably if transferred to a business which does not or cannot sustain brand identity and image. Hence, the administrator will in many cases have to face the factual problem that there is no suitable acquirer for the brand.[280] On the other hand, understanding the trade mark or brand's unique value and strategic potential (which can be facilitated by comprehensive (e)valuation) can open up more possibilities than initially envisaged.

2.3.3 Brand Finance

Although the use of intangible assets in finance is rather novel compared to use of tangible assets, utilisation of intellectual property rights such as patents

275 Contrary to German law, the UK, for example, knows a number of different denominations for what an 'Insolvenzverwalter' is in Germany. Depending on the type of procedure, one can distinguish administrators, liquidators, supervisors or receivers.

276 § 159 InsO (Insolvenzordnung – German Insolvency Code).

277 BGH, judgment of 9 June 2004, Case I ZR 31/02, – *Dorf MÜNSTERLAND II*; *Fezer*, Markenrecht, § 29 no.s 5 and 25; *Steinbeck*, NZG 1999, 133, 139.

278 *Fezer*, Markenrecht, § 29 no. 27.

279 A recent example for the exploitation of a trade mark in a bankruptcy context was the sale of *Michael Jackson*'s German 'MJ' monogram trade mark for € 85,000 by means of an auction (cf. http://www.markenblog.de/?p=1351 – last accessed April 30, 2006). The amount will be used to settle monetary claims of *TePax*, an electronics company, vis-à-vis *Michael Jackson* and his German company *MJ Net.Entertainment AG*.

280 This is the issue of nontradability of intangibles, cf. *supra* at 2.1.1.3.4.

has become a widely discussed matter in recent years. This development has not spared trade marks and brands. First IP-backed securitisations and collateralisations took place as early as in the 1990s.[281]

2.3.3.1 Collateralisation for Financial Needs

As trade marks, that is in Europe, are freely transferable assets, they can be used as credit collateral, at least in theory. The same applies to trade mark licencing rights and the position obtained through application for registration. In case the trade mark is registered thereinafter, the security right continues with regard to the registered right.[282]

In order to assess the extent to which a trade mark can secure a certain claim, it needs to be valued. This should be carried out as comprehensively as possible in order to obtain a holistic understanding of risks and opportunities associated with the respective trade mark.

The difficulties specific to using trade marks as collateral are not very much on the legal but rather on the factual side. The fact that trade mark rights can only unfold their maximum benefit and potential in combination with the other brand elements as well as other supporting tangible and intangible assets and as owned by a business which is willing and able to act accordingly considerably aggravates the bank's possibility to sell or otherwise exploit it promptly and for an adequate sum in case of default.[283]

2.3.3.2 Credit Rating

Another important issue with respect to loans is that banks have to look more closely than ever at credit users' risk, as required by the new so-called 'Basel II' rules issued by the *Basel Committee on Banking Supervision* in June 2004. These rules have revised standards governing the capital adequacy of internationally active banks.[284]

281 It is said that the first IP-backed securitisation was carried out in 1997, when musician *David Bowie* raised US $ 55 million by securitising certain rights to future royalty payments arising from his music catalogue, cf. *Medansky/Dalinka*, Considering intellectual property securitisation. However, innovative IP-based financing began, at least in the US, as early as 1992, when *Dow Chemical* received a loan based on IP, cf. *Hillery*, Securitization of Intellectual Property: Recent Trends from the United States, p. 5.

282 *Klawitter/Hombrecher*, WM 2004, 1213, 1217/1218.

283 Q.v. 2.1.1.3.4 – nontradability.