Tacit Extension of an IP License Agreement: Does the Licensor's Exclusivity Obligation Survive the Expiry and the Tacit Extension of the License Agreement?

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Following the expiry of their license agreements, the licensor and the licensee continued their contractual relationship without a formal agreement in place between them. The courts found that this gave rise to a tacit agreement comprising, in the case at hand, only the objectively essential elements of the expired license agreements. The licensor's previous exclusivity obligation, however, was not among them.

Judgment of the Federal Supreme Court of 22 April 2025
Case Reference : 4A_666/2024

Facts

A. (the "**Licensee"**), an Italian-registered LLC, is one of the world's leading manufacturers of socks, stockings and other high-tech functional clothing.

B. (the **"Licensor"**) is a Swiss company active in the marketing and licensing of trademarks and patents.

The Licensor and the Licensee (collectively "**the Parties**") maintained a business relationship from 1997 to 2019 that evolved during this period as follows:

- 1997 to 2011: the Parties operated under several license agreements, which expired in 2010 and 2011, respectively (the "**First License Agreements**").
- 2012 to 2013: From January 1, 2012, the Parties continued to cooperate without a formal agreement in place, on a temporary basis (the **"Tacit Contract Period"**).
- 2013 to2019: The Parties signed two new license agreements (the **"2013 License Agreements"**). These were extended by an addendum in 2017, and were set to expire in 2019.

In 2016, the Licensee initiated proceedings before the Zurich Commercial Court (the "**Cantonal Court**"), **alleging that the Licensor had breached their agreements by issuing licenses to third parties**. The Licensee sought an injunction prohibiting such third-party licensing, requesting the disclosure of information and claiming damages for multiple breaches of contract (specifically breaches related to the Licensor's alleged exclusivity obligation).

The Licensor counterclaimed, seeking payment of outstanding royalties, and the enforcement of contractual audit rights.

In its detailed 280-page judgment[1], the Cantonal Court partially upheld both the claim and the counterclaim:

- It awarded the Licensee partial damages (EUR 358,539), finding that the Licensee had established breaches of contract by the Licensor on only three grounds. The reason the Cantonal Court rejected the remaining breaches was twofold. First, during the Tacit Contract Period (2012-2013), the Cantonal Court found that the Parties were not bound by any exclusivity obligation. The Licensor had therefore not breached the Parties' agreement by issuing licenses to third parties during that period. Second, under the 2013 License Agreements, the Licensor was entitled to maintain pre-existing licenses that were already in force at the time the 2013 License Agreements were concluded.

- The Cantonal Court also ordered the Licensee to pay outstanding royalties to the Licensor (EUR 2,037,692).

The Licensee appealed to the Federal Supreme Court, arguing, amongst other things, that the Cantonal Court had wrongfully dismissed (most of) its damages claims relating to the Licensor's alleged breaches of its exclusivity obligation.

Issue

The central issue was **whether the Licensor had breached its contractual obligations** by issuing or maintaining licenses with third parties. To resolve this issue, the Federal Supreme Court had to address two questions:

- For the Tacit Contract Period (2012 to 2013): Whether, despite the expiry of the First License Agreements, the

Parties remained bound by a continuing licensing relationship, and if so, whether that relationship imposed an exclusivity obligation on the Licensor; and

- From 2013 onwards: whether the 2013 License Agreements imposed a retroactive exclusivity obligation on the Licensor, precluding it from maintaining pre-existing licenses granted to third parties.

Decision

1) Continuation of a license agreement during the Tacit Contract Period

In the cantonal proceedings, both Parties admitted that their business relationship had continued despite the expiry of the First License Agreements (in 2010 and 2011). Accordingly, the Cantonal Court found that a license agreement existed by implication during the Tacit Contract Period (2012 to 2013). In other words, the Parties were bound by a **tacit or implied agreement** during that period.

To determine the content of this tacit agreement, the Cantonal Court applied the subjective method of contract interpretation (i.e. it sought to establish the Parties' real and common intent under Art. 18 SCO), based on the Parties' conduct and correspondence. In light of these exchanges, the Cantonal Court found that **the Licensee could not reasonably infer that the contractual terms governing the First License Agreements (and in particular the exclusivity obligation granted by the Licensor to the Licensee) would continue to apply during the Tacit Contract Period**.

Accordingly, based on its interpretation of the Parties' intent, the Cantonal Court concluded that **only the objectively essential elements (*essentialia negotii*) of the First License Agreements continued to apply during the Tacit Contract Period**: namely the content of the license (i.e. the identification of the licensed IP rights) and its territorial scope. It held that a licensor's exclusivity obligation was not an objectively essential element of a license agreement, and that no exclusivity obligation applied to the Licensor during the Tacit Contract Period.

On appeal, the Licensee claimed:

- That the Cantonal Court should have recognized a general principle whereby, where a tacit agreement exists following the expiry of a prior contract, the obligations under that prior contract – including exclusivity – should continue to apply. In the alternative, if no such general principle existed, the Licensee argued that the provisions of the SCO governing regulated contracts (specifically lease and usufructuary lease agreements) [i.e. 266 para. 2 SCO and Art. 295 para. 2 SCO] should apply by analogy to license agreements. On this basis, it maintained that the Licensor remained bound by the same terms as those governing the First License Agreements, including the exclusivity obligation granted by the Licensor to the Licensee.

- That the Cantonal Court had misapplied Art. 1 SCO by failing to treat exclusivity as an essential element of the license agreement. According to the Licensee, the nature of the license – exclusive license vs. non-exclusive (or "simple") license – is an objectively essential element of a license agreement. Alternatively, it argued that exclusivity was, at a minimum, a subjectively essential element in the case at hand.

In its judgment, the Federal Supreme Court addressed both arguments:

- First (in para. 5.4 of the judgment), it **rejected the existence of any general principle or presumption that all the contractual obligations of an expired license agreement continue to apply "as is" during a subsequent period of tacit agreement**. Instead, the content of the subsequent tacit agreement must be established by interpreting the parties' intent. In this case, the subjective interpretation carried out by the Cantonal Court led to the conclusion that the Licensor was not bound by any exclusivity obligation during the Tacit Contract Period. Because the Parties' contractual intent could be established through contractual interpretation, there was no contractual gap requiring the application of statutory provisions.

Consequently, the Cantonal Court's factual finding – that no exclusivity obligation applied during the Tacit Contract Period – was binding on the Federal Supreme Court.

- Second (in para. 5.5 of the judgment), the Federal Supreme Court made important observations concerning the definition of license agreements under Swiss law. Although they are referred to in various statutory provisions, license agreements are neither defined nor regulated by statutory provisions. As a result, a license agreement is a *sui generis* innominate [or unregulated] contract. Under a license agreement, the licensor undertakes to

> grant the licensee the right to use an intangible asset or intellectual property right belonging to it; in return, the licensee generally owes a fee. A license may be either simple (non-exclusive) or exclusive. A simple license allows the licensor to grant further licenses for the same licensed IP right(s) and territory, and to continue using the rights itself. An exclusive license, by contrast, prevents the licensor from granting the same IP rights to third parties; it may retain use of the IP rights itself (i.e. sole license/*Alleinlizenz*) or be fully excluded from such use.

A key feature of a license agreement is the granting of a right to use an intangible asset for industrial and commercial purposes.[2] **Exclusivity, however, is not an essential element of a license agreement** under Swiss law and must consequently be expressly agreed between the parties or at least must be inferred through interpretation of their intent.

In case of doubt, **the default presumption is that a license is non-exclusive**. The burden is on the licensee to prove that it was granted exclusivity by the licensor.

On this basis, the Federal Supreme Court upheld the Cantonal Court's conclusion that exclusivity is not an objectively essential element of a license agreement. Moreover, it dismissed the Licensee's argument that exclusivity was subjectively essential in the case at hand (i.e. that it was subjectively essential for the Licensee to obtain the exclusive use of the licensed IP right), on the ground that this assertion was insufficiently reasoned and unsubstantiated by the factual record of the case.

2) Existence of an exclusivity obligation under the 2013 License Agreements

The 2013 License Agreements contained the following clause, as translated into English:[3]

> "Subject to the following paragraphs, the Licensor shall not grant any additional distribution and/or production licenses for the Contract Products within the Contract Territory during the term of this Agreement."

The Cantonal Court interpreted the above-mentioned provision using objective interpretation, as it found no clear mutual intent of the Parties regarding exclusivity. It concluded that, under the 2013 License Agreements, the Licensor was prohibited from granting *new* licenses to third parties within the agreed territory during the term of the 2013 License Agreements. However, the Licensor was not obliged to terminate existing third-party licenses that were already in effect at the time the 2013 License Agreements were concluded. Reasonable parties acting in good faith were therefore entitled to assume that any licenses granted by the Licensor *before* the 2013 License Agreements had entered into force could be validly maintained. As such, the exclusivity obligation under the 2013 License Agreements had no retroactive effect.

In its judgment, the Federal Supreme Court upheld these findings.

Key Takeaways

There is **no general principle under Swiss law** that the terms of an expired license agreement – specifically the licensor's exclusivity obligation – continue to apply "as is" in case of a subsequent tacit contract between the parties. In other words, the tacit continuation of a contract does not necessarily entail the continuation of all terms of the former agreement. Instead, the content of the tacit agreement must be determined by interpreting the parties' intent (including their conduct and correspondence).

In the case at hand, the interpretation of the parties' intent led to the conclusion that **only the objectively essential elements (*essentialia negotii*) of the expired license agreement continued to apply** – meaning **the content of the license (i.e. the licensed rights) and its territorial scope**. Exclusivity is not an objectively essential element of a license agreement and was consequently not automatically carried over from the former (expired) license agreements. For the exclusivity obligation to continue to apply, it must be expressly agreed by the parties, or otherwise be established through an interpretation of their intent.

The licensee bears the burden of proof to establish that it was granted exclusivity. Otherwise, **the presumption is in favor of a simple (non-exclusive) license**.

It is important for a licensee wishing to benefit from an exclusive license to ensure that the exclusivity clause is drafted in **clear and unambiguous terms**. It is also advisable to verify that **no overlapping licenses** have already been granted to third parties covering the same content and territory and, ideally, to obtain appropriate **warranties** to that effect.

Finally, to avoid ambiguity as to the continuity of contractual obligations, parties should include clear **provisions governing the renewal or extension** of their license agreement, thereby reducing the uncertainty that may arise in the absence of an express contractual solution. This risk is not confined to license agreements, but may also arise in connection with other long-term commercial contracts.

Comment

The decision of the Federal Supreme Court calls for six observations, outlined below.

Generally speaking, some of the findings of this case seem relevant not only for license agreements but also for other long-term commercial contracts, such as distribution agreements, in which disputes regularly arise concerning the existence and scope of exclusivity obligations.[4]

> **1) Absence of general rules under Swiss law governing the tacit renewal of a license agreement (and other innominate long-term commercial contracts)**

Given that a license agreement is generally not subject to any formal requirement, it may be concluded – and therefore also extended – either expressly or tacitly (Art. 1 para. 2 SCO).[5] Accordingly, the parties may validly continue their collaboration beyond the expiry of their formal contract. In practice, however, this may give rise to uncertainty as to the terms and obligations that the parties intended to carry forward.

While the SCO has no statutory framework governing license agreements, it does contain several provisions governing the renewal of other (regulated) contracts.

For instance, the provisions applicable to lease and employment agreements, as well as simple partnerships (Art. 266 para. 2 SCO, Art. 334 para. 2 SCO, Art. 546 para. 3 SCO) provide that where a contract continues tacitly after its expiry, it is deemed to have been renewed for an indefinite period. Other legal provisions provide for a renewal from year to year (Art. 295 para. 2 SCO, applicable to usufructuary leases) or for a maximum period of one year (Art. 418p para. 2 and 3 SCO, applicable to commercial agency agreements). Furthermore, Art. 295 para. 2 SCO, applicable to usufructuary leases, expressly provides that the renewal occurs "under the same terms" ("*aux mêmes conditions*", "*zu den gleichen Bedingungen*") as those governing the prior contract.

The question consequently arises whether some of these provisions – and the legal presumptions that they entail – may also apply to license agreements.

In its decision, the Federal Supreme Court found that there is **no general principle nor legal presumption** applicable to license agreements under which the tacit renewal of the contract is governed by the same terms and conditions as the expired contract.

Instead, the Federal Supreme Court found that the content of the tacit agreement must first and foremost be **determined through interpretation**.

> **2) No need (and no possibility) to fill a contractual gap by applying statutory provisions, if the parties' intent can be established**

The Cantonal Court was able to establish the Parties' intent through subjective interpretation, based in particular on their correspondence during the Tacit Contract Period. This led the Court to hold that the parties had not agreed to exclusivity during the Tacit Contract Period. **Because the Court was able to establish the parties' intent through interpretation, there was no contractual gap (*lacuna*) requiring the application of a statutory provision**, such as Art. 295 para. 2 SCO (para. 5.4 of the judgment).

However, the Federal Supreme Court did not expressly rule on whether the application of the above provisions could apply to a license agreement where the parties' intent *cannot* be established.

Generally speaking, certain statutory provisions governing regulated contracts may apply to license agreements under certain conditions. Indeed, in its decision, the Cantonal Court approved the analogous application of Art. 259d SCO (applicable to lease agreements) thereby allowing a licensee to seek a reduction in royalties where a defect hinders or restricts the use of the licensed IP.[6] For other breaches of contract, however, the licensee will normally be limited to the remedies provided for in the general part of the SCO.[7] More generally, the analogous application of a special provision of the SCO to an unregulated contract requires a certain degree of caution.[8] Such an analogy generally presupposes that

the situation at issue is sufficiently similar to the situation governed by the regulated contract in question.[9]

All in all, this case highlights the importance of **contractual solutions**, particularly for unregulated contracts such as license agreements. To avoid ambiguity, parties should include clear contractual provisions on the renewal of their agreement: not only with respect to its content (i.e. licensed rights, scope and exclusivity), but also on the duration and termination of the renewed agreement. Relying on a tacit agreement exposes the parties to considerable legal uncertainty, as demonstrated by this dispute.

3) Factors considered relevant by the Federal Supreme Court in interpreting the parties' intent

As noted above, the Cantonal Court was able to establish the parties' intent through subjective interpretation, by reviewing the Parties' conduct and correspondence during the Tacit Contract Period. In its decision, it considered the following factors:

- The Parties had clearly agreed that the previous contracts had **expired** and that any continued cooperation was **merely temporary**. This correspondence appears to have been key in the Cantonal Court's assessment.
- During the Tacit Contract Period, the Licensor had expressly reserved the right to **unilaterally amend** the terms of their cooperation and to **immediately terminate** any existing cooperation without cause. The Licensee did not object to these reservations, other than by insisting that the same terms should prevail to protect its financial investments in the licensed markets.
- Exclusivity did not appear to be a mandatory condition for the parties to continue their cooperation. In fact, according to the Cantonal Court, the granting of exclusivity would have gone against the very purpose of temporary cooperation, which, in the case at hand, was intended to be provisional and was subject to immediate unilateral termination without cause by the Licensor.
- The **conduct** of the parties provided little assistance in establishing the Parties' intent. In particular, the Cantonal Court did not consider the fact that the Licensee continued to pay the same royalties during the Tacit Contract Period to be relevant. In Cantonal Court's view, this was insufficient evidence that the same terms continued to apply during the provisional period of cooperation.
- In light of these factors, the Cantonal Court found that the Licensee could not reasonably infer that the same contractual terms – and particularly that the exclusivity obligation imposed on the Licensor under the First License Agreements – would continue to apply during the Tacit Contract Period.

The above findings may be questioned. In particular, the amount of royalties paid by the Licensee during the Tacit Contract Period could arguably have been relevant in determining whether the license remained exclusive. Indeed, an exclusive license generally confers a competitive advantage on the licensee that may warrant higher royalties.[10] Against this background, the Licensee's continued payment, after the expiry of the license agreements, of the same royalties that had previously been agreed for an exclusive license could arguably suggest that the parties intended the exclusivity obligation to continue during the Tacit Contract Period.

4) The objectively essential terms of a license agreement

As noted above, the Cantonal Court's interpretation of the Parties' intent led it to conclude that, during the Tacit Contract Period, the Parties were bound only by the objectively essential terms (*essentialia negotii*) of the First License Agreements. The Federal Supreme Court upheld this finding.

As a reminder, the objectively essential terms of a contract are those that constitute its very core and that must be agreed upon in order for the contract to be valid, within the meaning of Art. 1 and Art. 2 SCO. For contracts regulated by statute (i.e. regulated contracts/*contrats nommés*/*Nominatverträge*)[11], these are generally the elements mentioned in the legal definition of the contract.

For an innominate (or unregulated contract), such as a license agreement, identifying the objectively essential terms can prove more difficult because there is no statutory definition or framework governing the contract.

According to the Federal Supreme Court, a license agreement essentially entails the licensor granting the licensee the right to use an intangible asset for commercial or business use. Accordingly, the objectively essential terms that must be agreed upon for a license agreement to be valid include **the content of the license (i.e. the licensed rights) and its territorial scope**.

The licensor's **exclusivity obligation**, on the other hand, was not deemed an objectively essential element of a license

agreement. Indeed, according to the Cantonal Court, whether a license is granted on an exclusive basis may affect its value (and price), but does not define the essential content of the license as such. Accordingly, contrary to the Licensee's argument on appeal, exclusivity does not form part of the minimum requirements for the validity of a contract. More generally, the very fact that license agreements may either be exclusive or non-exclusive, depending on the parties' intent, demonstrates that exclusivity cannot be an objectively essential element of a license agreement. If exclusivity were objectively essential, it would characterize *all* license agreements, meaning that non-exclusive licenses could no longer be characterized as license agreements.

However, as noted by the Federal Supreme Court (para. 5.5 of the judgment), the exclusivity of the license could constitute **a *subjectively* essential term**, if one (or both) of the parties regard it as a *sine qua non* condition of their willingness to enter into the agreement. In that case, the importance attached to exclusivity would have to be made clear to the other party. To prevail on this point, therefore, the Licensee should have signaled to the Licensor that the exclusivity obligation was essential to their continued cooperation.

In any event, the party bringing this allegation forward bears the burden of proof. In the present case, the Licensee failed to discharge that burden.

5) Compatibility of pre-existing licenses with the subsequent grant of an exclusive license

As noted above, the Federal Supreme Court (para. 5.6 of the judgment) held, based on an objective (good faith) interpretation of the 2013 License Agreements, that the Licensor had the right to enter into license agreements with third parties prior to the conclusion of the 2013 License Agreements. While the Licensor lost this right once these agreements entered into effect, it remained entitled to maintain third-party licenses that had already been granted.

In the case at hand, one may question why these pre-existing licenses granted to third parties were not disclosed during the negotiation of the 2013 License Agreements. From the licensee's perspective, this can massively impact the scope and value of the exclusivity obligation, for which the licensee would be willing to pay higher royalties.

For this reason, it is advisable to verify that no overlapping licenses have already been granted to third parties covering the same content and territory and, ideally, to obtain appropriate warranties.[12] It is also important for a licensee wishing to benefit from an exclusive license to ensure that the exclusivity clause is drafted in clear terms, and expressly agreed upon in case of continued cooperation following the expiry of the agreement.

6) Different scenarios may govern the continuation or renewal of a contractual relationship after its expiry

Finally, it should be emphasized that the case at hand concerned a specific scenario in which the Parties continued their contractual relationship beyond the expiry of a formal contract, on a tacit or implied basis, and without expressly agreeing on the terms of their continued cooperation.

This particular scenario must be distinguished from other situations in which the findings of the present decision may not be fully applicable. Indeed, there can be different ways in which parties continue a contractual relationship after its term. For instance, the parties can expressly agree on the principle of a renewal; agree that one (or both) of them has an option to extend the contract or to (re)negotiate[13]; expressly renew their contract while slightly adapting its content; or fundamentally amend the content of the contract to the point where this equates to the conclusion of a new agreement altogether.[14]

As demonstrated by the present decision of the Federal Supreme Court, the legal implications in each of these scenarios must be assessed on a case-by-case basis and in light of the circumstances of the case.

In any event, this case shows that parties should exercise care and adopt clear contractual solutions to avoid the legal uncertainty that may arise when their contractual relationship continues tacitly after the expiry of their formal agreement.

Other sources presenting the case

Fabienne Bretscher/Nadine Charrière/Julia Schieber, Lizenzverträge in der Praxis, Rechtliche und praktische Aspekte im Lichte aktueller Rechtsprechung, sic ! [*Revue du droit de la propriété intellectuelle, de l'information et de la concurrence* | *Zeitschrift für Immaterialgüter-, Informations- und Wettbewerbsrecht*] 2026 p. 144 et seq.

Thomas Widmer/Ilana Halpérin, Case summary and analysis – Federal Supreme Court 4A_666/2024 of 22 April 2025, Lalive

Insights, 8 August 2025, available at https://www.lalive.law/case-summary-and-analysis-federal-supreme-court-4a_666-2024-of-22-april-2025/ (10.09.2026)

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[1] Zurich Cantonal Court Decision HG160198-O, 6 November 2024.

[2] The wording used by the Federal Supreme Court is as follows: "*Wesentliches Merkmal des Lizenzvertrags ist die Überlassung eines Immaterialgutes zum gewerblichen und kaufmännischen Gebrauch.*" (para. 5.5 of the judgment).

[3] The relevant contract provision reads as follows in its original German version: "*Vorbehaltlich nachfolgender Absätze wird die Lizenzgeberin während der Dauer dieses Vertrages im Vertragsgebiet keine weiteren Ver- triebs- und/oder Produktionslizenzen für Vertragsprodukte erteilen.*"

[4] See e.g. judgment of the Federal Supreme Court 4A_241/2017, 31 August 2018 (termination of an exclusive distribution agreement for breach of exclusivity by the supplier). See also Boris Catzeflis, "Liquidated Damages Awarded for Breach of an Exclusivity Obligation under an Exclusive Supply Agreement", published on: Swiss Contract Law, January 9, 2026, https://swisscontract.law/49/.

[5] Bretscher/Charrière/Schieber, Lizenzverträge in der Praxis, Rechtliche und praktische Aspekte im Lichte aktueller Rechtsprechung, sic ! 2026, p. 151.

[6] Zurich Cantonal Court Decision HG160198-O, 6 November 2024, para. 6.3.4.1. Although it denied the Licensee's claim to a reduction in royalties in this case, the decision to apply Art. 259d SCO by analogy to license agreements comes as a welcome clarification on the issue.

[7] Müller, Contrats de droit suisse, Bern 2021, paras. 4053 et seq.

[8] See for e.g. judgment of the Federal Supreme Court 92 II 299, 1 November 1966, para. 3a).

[9] On the methodology for filling contractual gaps in innominate contracts, see namely CR CO I-Thévenoz/de Werra, Intro. art. 184-529, paras. 29 et seq.; Ballmer, *Innominatvertragsrecht*, Zurich 2024, p. 93 et seq.

[10] Bretscher/Charrière/Schieber, *op. cit.*, p. 145.

[11] See for e.g. judgment of the Federal Supreme Court 4C.246/2003, 30 January 2004, para. 5.1.

[12] Bretscher/Charrière/Schieber, *op. cit.*, p. 146.

[13] For option clauses in the framework of lease agreements, see for e.g. judgment of the Federal Supreme Court 4A_269/2015, 2 November 2015; judgment of the Federal Supreme Court 4A_111/2009, 4 June 2009.

[14] Durante, Le renouvellement des contrats de durée, Geneva/Zurich 2016, paras. 635 et seq.

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