

Creating Tomorrow's Commercial Lawyers Toolkits

Disclaimer: This toolkit describes the law in general terms. It is not intended to provide legal advice on specific situations and should not be relied upon as a source of legal advice.

Licensing Intellectual Property

This toolkit will briefly cover the major aspects of Intellectual Property (IP) Licensing and answer the FAQs about the purposes and significance of IP Licensing to your start-up; the types of licence; what risks you should be aware of; and the key clauses that need to be incorporated in an IP Licensing agreement.

What is an IP Licence?

Intellectual Property (IP) is intangible property that is the result of innovation or creativity, which encompasses, amongst other things, patents, trade marks and copyright. An IP licence is a formal way for the IP owner (the licensor) to consent to another person (the licensee) using their IP under certain terms. This agreement may be compared to the idea of renting, rather than buying, a property.

It is likely that you became a party to at least one IP licence when purchasing or updating software, downloading music, or even accessing your online emails. In these scenarios, as the licensee, you do not own the software code, the music, or the email platform (the IP), but the licensor allows you to use them in a prescribed way under the licence agreement.

Why Licence?

For a lot of start-ups, IP is their main asset and its capitalisation is key to the success of the company. IP licensing enables the IP owner to grant permission to others to use its IP and gain a revenue stream, while maintaining control over the scope of its use. It does so by setting out limitations such as geographical territory, field of use, duration, etc. Any use in contravention to the licence would give the owner a contractual right against the licensee and enable the owner to bring a claim for damages or injunctive relief. One of the benefits of licensing your IP is that, instead of selling it outright for a one-off fee, you can charge multiple parties for multiple uses of the IP over time (see below for types of licensing agreements), whilst remaining the owner.

For example:

The licensor may license its product in a territory where the licensor does not operate, so a licensee could help **increase sales** of such a product in different territories.

The IP can be licensed for **cross field commercialisation**, which means that IP developed and marketed in a particular industrial field can be licensed in a completely different field, thereby increasing the spectrum of its usage and revenue to the licensor.

Licensing is an effective tool to **minimise the risk of litigation** between different IP owners. This is particularly relevant in the computer industry. A cross licence between competing companies gives them space to develop products and differentiate between them in a defined environment.

Royalties paid under a licence **increase the costs paid by competitors** who do not own the necessary IP.

Invention and innovation require **investment in R&D** and considerable resources. Licensing the necessary IP to third party R&D providers may provide an effective solution that not only saves time and effort but may also lead to profit maximisation.

Please consider these steps when consulting the sections below:

1. Identify what type(s) of IP you are going to licence and the appropriate type of licencing agreement.
2. Carry out due diligence: consider the potential business risks and how you are going to control your IP that is being used by the licensee.
3. Negotiate the terms and conditions of your contract by including the appropriate clauses in your licensing agreement.
4. It is helpful to consider what will happen if a dispute arises, or what circumstances would cause the agreement to end.

TYPES OF LICENCES:

1. Exclusive

An exclusive licence entitles a licensee to the exclusive use of the IP, usually in a defined marketplace, including to the exclusion of the licensor itself.

2. Sole use

A sole licence is a type of exclusive licence where the licensor retains the right to deal with and sell the products which are covered by the licensed rights, but is not permitted to appoint any further licensees in the defined marketplace.

3. Non-exclusive

A non-exclusive licence is used with regards to IP that is made available to several licensees within the same marketplace.

Your business will likely need different types of licences according to the needs and objectives of your business and the licensees envisaged. You can find more information on what terms to focus on below.

Type of IP and due diligence

It is necessary to have a thorough understanding of the product you wish to licence and the risks associated in authorising other parties to use your IP. The best approach is to consider the agreement in the eyes of the licensee: how they intend to use the product and what access they require to your confidential know-how to do so.

Most products do not simply involve one type of IP, but several. From the outset, you should have a clear idea about what aspects of the product you wish to authorise licensees to use in exchange for payment. For example, if the product you are licensing is a piece of software, you will not only need to consider the code in light of patent and copyright, but also the branding and associated trade marks. For more information on identifying your IP please refer to the resources at the end of this toolkit.

Licences are drafted in accordance with the particular IP right that is being licensed. Depending on whether a trade mark, a patent or copyright in software code is being licensed for instance, the terms of the agreement should be adapted to the particular characteristics of the legal right at stake.

Common clauses

It is recommended that you have a written document to outline the provisions of your licensing agreement. The most common clauses that licences usually include are the following:

- Parties

- Definitions
- Grant of rights
- Payments (consideration) and payment terms
- Obligations of licensor and licensee
- Confidentiality
- Warranties and indemnities
- Term and termination

Parties

- It is important to know who and if the legal entity (whether a company or an individual) can enter into a contract. You should ensure that the licensor is the owner of the IP being licensed, or at least has all the rights it claims it has.

Defintions of key terms

- At the very beginning, parties should state in a clear and precise manner, the meaning that they are assigning to the key terms to be used under the agreement. In particular, they should ensure that a comprehensive and accurate definition of intellectual property rights is included.

Grant

- This is a core provision that underlines the scope of the licence. Parties must consider (i) what IP is being licensed; (ii) the type of licence; and (iii) the extent of the licence, e.g. field of use, geographical territory or specific activities.

Payment	<ul style="list-style-type: none"> • There are a several structures available (upfront, milestones, royalty or a combination of payment terms). The most common method is a royalty; a sum paid by the licensee to the licensor per use or resale of the product. Parties should agree upon the mechanism which will enable the correct amount to be calculated (for example, net or gross sales). Key considerations: the existence of an initial payment or minimum royalty, records showing quantity, description and value of the goods sold.
Obligations	<ul style="list-style-type: none"> • The licence should include obligations regarding how the licensee will use the IP, including selling, manufacturing, and importing/exporting. If the licensee is manufacturing the technology subject to IP protection, it is suggested that the licensor also include obligations ensuring that any related items are manufactured to a determined quality standard. • The most important obligation for the licensee will be for a clause requiring the licensor to provide sufficient documentation and information to the licensee regarding how the technology is manufactured.
Confidentiality	<ul style="list-style-type: none"> • In the event that confidential information, such as know-how and trade secrets which are not protected by IP, are required to be disclosed (i.e. manufacturing purposes) the license should also have detailed a confidentiality provision. Part of the contract price of the licence, is that the licensee is paying to have access to the requisite confidential information which they would not pay for if the information was public. The licence should make clear to whom and the method of disclosing confidential information. It is recommended that the licence require the information be kept confidential beyond the term of the licence.
Warranties and Indemnities	<ul style="list-style-type: none"> • The licence can ensure the licensor has the right to licence the IP, by requiring a warranty (a promise) to this effect in the agreement. The licensor should seek to include a proviso that this warranty is true to the best of their knowledge (however, be aware that this may be heavily negotiated by the licensee). The licensee may require the licensor to indemnify (reimburse) them in the case that this is deemed untrue.
Notification	<ul style="list-style-type: none"> • Parties should agree the method and deadline for notification of any communications (for instance, giving notice of third party infringement), updates or revisions to the original IP (for example, any improvements to the product) and/or future uses not specifically identified within the agreement.
Termination/ Breach of Contract	<ul style="list-style-type: none"> • Parties should state under which circumstances the agreement should terminate, what notice period is required, if any, and what the consequences of termination and/or breach of the licence agreement are for the parties.

Please note it is recommended that all prior drafts of the agreement should be marked "subject to contract" to make it clear that they are not the final licensing agreement.



References:

Books:

- Helena Howe, *Concepts of Property in Intellectual Property Law*, Cambridge University Press, 2013.
- Paul Torremans, *Holyoak and Torremans intellectual property law*, 7th Ed.
- Tanya Aplin and Jennifer Davis, *Intellectual property law: text, cases, and materials*, 2nd Ed., Oxford University Press, 2013.

Online Resources:-

<http://www.qlegal.qmul.ac.uk/docs/123221.pdf>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/385819/licensing_gchecklist.pdf

http://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Licence_agreements_0.pdf

<http://www.vertexips.com/information/articles/licensing.html>

http://www.wipo.int/sme/en/ip_business/licensing/licensing.htm

<http://www.ipo.gov.uk/ipenforce-ip.htm>

<http://www.ipo.gov.uk/ipenforce-licence.htm>

<http://www.ipo.gov.uk/licensingbooklet.pdf>

http://www.wipo.int/sme/en/ip_business/licensing/licensing.htm

<http://www.bristows.co.uk/assets/documents/IP%20Licensing%20Handbook.pdf>

<http://www.jurisdiction.com/lic101.pdf>

<https://www.cooleygo.com/>

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