PATENT LICENSE AGREEMENTS

A. Checklist of considerations:
1. A license agreement—being a contract is like a fiduciary relationship (disclosure & good faith) as it reaches into the future and requires trust of the other party to be a custodian of your property for a length of time—contrast with a typical contract which is called an "executory contract" wherein there is contemporaneous exchange of value, i.e. money for a car—such that the executory contract is of less importance—as once the car purchase is done (you have the car and it is paid for)—then the main thing that matters is the car warranty (if one exists).

2. A license agreement is a state law governed contract—usually, sometimes it can be governed by federal law if the case involves underlying federal subject matter, i.e. patent, trademark, copyright, etc, as part of the dispute.

3. Licensor—is the owner of the intellectual property / Licensee—is the user of the intellectual property—essentially "rents" the property for their use under a set of conditions.

4. Due diligence—investigate your potential licensee; How have they treated other licensors? How much license agreement litigation have they been involved in?

5. A licensee can easily be a competitor of yours, but you want them to be a partner.

6. Negotiation—give reason for wanting to amend a clause.

7. Have preset limits on what you will accept or reject on terms.
B. The license agreement itself
1. Custom crafted-unique to the parties negotiated terms.

2. Term definitions section-important to be clear as other people years after the license agreement was created may have to interpret it.

3. Best efforts or good faith-can be minimum guaranteed royalties / or royalties must be paid within a certain time period / or certain amounts spent on R & D or marketing / something showing effort to produce and sell your product-especially for an exclusive agreement.

4. Grant of license-Exclusive and for what; markets / territories / countries / particular customers / fields of use / etc.

5. Who is responsible for product improvements- who pays for product improvements-who benefits from improvements.


7. Clauses and terms are construed against the drafter in litigation.

8. Assignment-allowed or not and under what conditions & assignee financial terms.

9. March in rights-Govt. priority from Govt. funding of project.

10. Most favored nation-old and new licensees on parity of terms.

11. Licensor reservation of rights-own use, etc.

12. Confidentiality-Licensor discloses trade secrets, business plans, etc. that are sensitive information to licensee-these must be protected.

13. Compliance with laws, regulations, international issues-who is responsible.

14. Term / termination / renewals-licensor does not want to be stuck with a poorly performing licensee-at least not for too long.

15. Corporate mergers / sales-want control-Licensor does not want another competitor buying their licensee and getting the license agreement for their own use.

16. Life of intellectual property sets life of license-patent 20 years-copyright 70-120 years, trademark no limit, trade secret no limit.

17. Failure to pay royalty-termination / penalty.
18. Limits of licensee ability to make and sell competing products.


22. Licensee reporting & audit.

23. Maintenance of intellectual property-who is responsible.

24. Marking.

25. Infringement-who is responsible.


27. Prohibiting licensee from challenging directly or through others (such as a prior art bounty) licensor intellectual property / prohibit reverse engineering-anti cannibalism clause.

28. Use of licensor name(s).


31. Finder's fee liability.

32. Employee solicitation.

33. Notice provisions.

34. Legal relationship as between licensor / licensee.

35. Rights reservation-to disclaim anything not expressly stated in the agreement.

36. Reasonable consent to modification of terms.

38. Patent rights exhaustion related to approved sales-double royalties clause-especially important on licensed subject matter being a portion of a finished product.

40. Attorneys fees paid by loser in licensor / licensee litigation.

41. Licensee disclosure to licensor of various plans and activities related to the licensed subject matter.

42. Good / service as a subscription - not sale - no patent exhaustion issues.

43. Conditions placed upon licensee outside of subject matter licensed-like a franchise.