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## **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 (your 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.

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## 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.
6. Training and cooperation-who does what.
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.
19. Bankruptcy-what happens.
20. Royalties-paid in cash / stock / time period / milestones / volume changes / longevity changes / if foreign-transfer and conversion / intellectual property strength / exclusivity / territory / competition / licensee investment required.
21. Taxes-who pays what.
22. Licensee reporting & audit.
23. Maintenance of intellectual property-who is responsible.
24. Marking.
25. Infringement-who is responsible.
26. Indemnification / representations / warranties.
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).
29. Product quality control / media exposure / customer service / product redesign control-who pays.
30. How to handle disputes-mediation / arbitration / court-jurisdiction & venue.
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.

39. Cross licensing negotiations-declaratory judgments-reasonable apprehension of lawsuit.
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.