

# Licensing agreements for intellectual property

## Introduction

A licensing agreement can be used when you (the licensor) grant certain legal rights to another business (the licensee) to use your intellectual property (IP) under licence. If you license another business to use your IP, that business is allowed to sell products and services based on it. In return, they pay you royalties based on the income that your IP generates for them.

The agreement needs to set out the relationship between the licensor and the licensee clearly to avoid ambiguity.

This document illustrates the types of clauses you might find in an IP licensing agreement. It refers to clauses that you might find in all licences, regardless of the IP, and clauses that are more specific to particular types of IP.

Please note that you should always seek professional advice from an IP lawyer when drafting a licensing agreement.

## DATE

This normally refers to the date that the licensing agreement is signed by both parties. Sometimes it may refer to a specific date upon which the licence is to start, or it may link the start date to a specific event (eg, the date of delivery of certain technology to the licensee).

## PARTIES

The names and details of the licensor and licensee, eg:

[COMPANY NAME], a company incorporated in [UK] (registration number [number]) having its registered office at [address] (the 'Licensor'); and

[COMPANY NAME], a company incorporated in [UK] (registration number [number]) having its registered office at [address] (the 'Licensee').

## BACKGROUND

This sets out the background to the agreement and interests of the parties involved. While not formally part of the agreement, this can act as a useful record of the purpose of the transaction if there is any ambiguity in the agreement, eg:

['The Licensor owns the copyright in certain software, and the parties have agreed that the Licensor will license that software to the Licensee under the terms of this Agreement'.]

## DEFINITIONS

This defines specific terms used in the agreement, eg:

['Authorised Users' - individuals who at the time of their use of the Licensed Material are either: (a) current employees of the Licensee employed at a Site (whether on a permanent, temporary or contract basis); or (b) independent contractors of the Licensee engaged solely or primarily at a Site].

## IP TO BE LICENSED

This must specify (either at the start of the document or in a Schedule to the agreement) details of the IP (patent, trademark, software etc) rights being licensed through the licensing agreement. It must also define whether the licence being granted is:

- exclusive (the licensor may not use the IP and only the licensee can use it)
- sole (the licensor and the licensee may use the IP, but no other licences can be given)
- non-exclusive (the licensor may use the IP and may license others to use it too)

Eg: [The Licensor hereby grants to Licensee, in accordance with the terms and conditions of this Agreement, a non-exclusive, non-transferrable licence to use the work in the course of its business and to otherwise copy, make, use and sell the work, and for no other purpose.]

## USE TO BE MADE OF THE IP

The agreement must define the scope of the licence and what the licensee is permitted to do with the IP, without committing an infringement offence, eg:

[The Licensee may copy and sell the work in accordance with the terms set forth below, for general advertising materials and point of sale displays, advertising, and other promotional materials for the work.]

## TERM/LIFE OF LICENCE

When the licence starts and ends, eg:

[This Licence shall commence on the Effective Date and shall (subject at all times to earlier termination in accordance with the provisions of this Licence) remain in effect for the Licence Period. The Licence Period is for a duration of twelve months. At the end of the twelve month period it shall automatically expire unless the parties have agreed to renew it.]

## TRANSFER OF TECHNOLOGY

This means how and when know-how (information relating to the IP, eg drawings, designs or procedures), if applicable, will be transferred to the licensee.

## CONFIDENTIALITY

If information that is confidential to a party, including know-how, is being transferred there will be restrictions on what use can be made of it, who can have it, and any relevant terms, such as signing confidentiality agreements, that may apply. The licensor may require the licensee to enforce such confidentiality agreements.

## LOCATION/TERRITORY

The agreement must define where the IP can be used, eg: in the UK, Europe or worldwide.

## STANDARDS OF QUALITY

Where the reputation of the licensor depends on the quality of the products sold under licence, the licensee will have to produce goods to a particular standard of quality to prevent there being any damage to the reputation of the licensor's trademarks, eg:

[The Licensor shall have control over the quality of use of the Work and the quality of goods sold under the Work.]

## FEES

This details the payments to be made to the licensor by the licensee in return for the use of the IP. The licence needs to specify what they are and when they will be paid.

Fees can be either:

- a lump sum on or shortly after signing the licence
- periodic payments, perhaps quarterly or six monthly, including payments on account of royalty
- a royalty based on the number or the value of items made and/ or sold under the licence

eg: [The Licensee shall pay to Licensor a royalty of five per cent of gross receipts from sale of the goods or £20, whichever is greater, for each quarter.]

If a royalty is based on the sale price, the royalty rate will change as the price of the goods change with inflation, so no particular terms for dealing with inflation are required.

## EXCHANGE RATES

If royalties are not calculated in Pounds Sterling, a mechanism for calculating the exchange into Pounds Sterling is needed, eg by calculating the amount of royalty due in the local currency and then calculating how much in Pounds Sterling that money will buy on the due date for payment.

## LATE PAYMENT

There is often a provision for interest to accrue on late payments. It is calculated as a certain percentage rate above a well established rate of interest, eg:

[In the event any royalties are not paid as specified herein, then a compound interest of eighteen percent shall be due in addition to the royalties accrued for the period of default.]

## ACCOUNTS

It may be appropriate to detail how the licensee will keep its financial records so that the licensor can easily identify what monies are owed to them and check that the payments made by the licensee are correct.

## LAW AND JURISDICTION

This states which law applies, and to which courts any dispute may be taken, eg:

[This licence is subject to UK law and the UK courts will have exclusive jurisdiction in respect of any dispute arising out of or in connection with this Licence.]

## TERMINATION

This will set out how the agreement may be brought to an end, either by:

- the licensee or licensor upon written notice, for any reason
- the running of time
- breach of the agreement

## NOTICES

The method of giving notice to end the agreement should be set out, eg by post, by fax or by email. The date when the notice is deemed to be served should be laid down as it is from the date of service that time periods will run, eg:

[The address of each party hereto as set forth below shall be the appropriate address for the mailing of notices, checks and statements, if any, hereunder. All notices shall be sent certified or registered mail and shall not be deemed received or effective unless and until actually received. Either party may change their mailing address by written notice to the other.]

## SCHEDULES

Schedules are used when further detail needs to be added to the agreement. These are found at the end of the licensing agreement. Schedules can include:

- patent or trademark numbers
- technical details of software
- details of royalty payments

## SIGNATURES

IN WITNESS WHEREOF, the parties have caused this License Agreement to be executed the day and year set forth above.

[Name and Address of Licensor]

By:

Title:

[Name and Address of Licensee]

By:

Title: