
IP Licensing

Handbook

Bristows

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IP Licensing Handbook

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Introduction

The tea bag was invented by Sandy Fowler. However, he did not patent his invention and it is reported that he sold his idea to a tea merchant for a mere £150. Had he patented the tea bag and licensed his invention for a royalty of only 1%, he would have earned millions.

All types of businesses as well as individuals can, and do, use licensing as a means to exploit all kinds of intellectual property (IP) rights, whether trade secrets, know how, patent applications and patents, copyright, designs or trade marks, and turn them into profit. IBM for example earned over \$1,309 million in licensing and royalty based fees in 2016 alone¹.

Although not a substitute for professional advice, this handbook contains practical guidance and is intended to provide an outline of the main issues that should be considered before entering into a licence agreement under English law. Licence agreements tend to be complex; this handbook simply explains the key terms. At the back there is a glossary of the main terms in relation to licensing and a licensing checklist to follow when entering into a licence agreement.

What is a licence?

A licence is simply a permission given by the owner of the relevant intellectual property rights (licensor) to a user (licensee) to do something which the owner could otherwise prevent. At all times, the licensor remains the owner of the licensed intellectual property. One licence can cover a variety of rights. For example, a licence relating to a particular product could cover patent rights, design rights, related know-how and a trade mark. If you would like to find out more about intellectual property rights, information on patents, trademarks, copyright and registered designs is available on the British Library Business and IP Centre website and on the Intellectual Property Office website. Reference may also be made to “A Business Manager’s Guide to Intellectual Property Protection” published by Bristows.

Why should I license out my IP?

If you are an owner of intellectual property, licensing could allow you to minimise capital investment and risk. You could tap into a licensee’s productive capacity and expertise in a local market and even penetrate new markets where local knowledge or local manufacture is essential. You could gain access to complementary rights through a cross licence. Finally, where a particular product is not a priority for you, a licence could allow you to obtain value from intellectual property that you would not otherwise exploit.

What are the drawbacks of licensing my IP?

If you are an owner of intellectual property and the resulting product is ultimately successful, your returns are likely to be smaller than if you commercialised the technology yourself. You will lose some control over your intellectual property; you may restrict your own ability to exploit it and limit your own market. If you give away know-how, you could be seeding future competition. It is thus very important that the licence agreement is carefully drafted to avoid prejudicing any exploitation you may wish to undertake yourself in the future, particularly if the licence arrangements do not go to plan.

¹ IBM Annual Report 2016

How do I go about licensing my IP?

You will need to identify exactly what you wish to license out and what your goals are. This will help you to carry out market research to identify potential partners who may be interested in licensing your intellectual property. It is not only important to identify organisations whose requirements your technology or idea would best fit, but also which person at that company to approach. When approaching or negotiating with any prospective licensee, it is always important to remain professional.

It is important to make sure that any prospective licensee is a company or organisation of substance. Therefore, it is prudent to discover as much information as possible about potential partners, in particular if they are based overseas. In the UK there are specialist agencies which can provide certain information and a basic credit rating. You can also obtain information from the UK public register, Companies House (www.companieshouse.gov.uk).

If you need to disclose any confidential information or details of technology, make sure that your prospective partner enters into a confidentiality agreement (also called a non-disclosure agreement or NDA) before you disclose your information, to avoid any issues in respect of the protection of your confidential information and trade secrets. Equally, if you have not yet filed a patent application, your right to a patent will be lost if you disclose your invention, other than under an obligation of confidentiality.

Big companies may not agree to sign an NDA in the first instance and it may be that you have an initial meeting. At that meeting you should not disclose any confidential information. If you do need to explain how your invention works to a potential licensor and he or she does not want to sign an NDA, hold off from doing so until you filed your patent application, and even then meetings with potential licensees should be approached with care.

What happens during negotiations?

If you find a suitable partner, your agendas will differ and you will both need to agree terms on which you are willing to enter into a licensing arrangement. It is important to remember that a licence agreement needs to reflect what is usually a long-term relationship between the parties. Whilst licence agreements can be one-sided, and indeed the first draft prepared by either party will most likely be very one-sided, the best licensing relationships are those which impose reasonable rights and obligations on both the licensor and licensee. However, an element of compromises is usually required from both sides!

An old adage in a licensing handbook reads as follows: “*to license in haste is to repent at leisure*”. It is advisable for both parties to take the time and effort to work out their relationship in detail within the context of a licence agreement. The licence negotiations can in fact be a useful means of bringing to light any differences between the parties which may affect their ability to work together on a licensing arrangement. All the important aspects of the relationship should be worked out in detail.

To help speed negotiations along one idea may be to offer to enter into a short option evaluation with a prospective licensee. If the prospective licensee wishes to carry on negotiations after that period you could then try to negotiate a non-refundable option fee to extend the agreement. The fee could be offset against future royalties if a licence agreement is subsequently entered into.

Sometimes the parties may find it helpful to enter into a “heads of agreement” or a “letter of intent” during the negotiations, to outline the agreed intended scope or key issues of the licence. This can be a helpful aid to negotiations. However, such documents should be used with care. They should summarise the main commercial terms on which a licence may be based. Most letters of intent and heads of agreement are not intended to be legally binding and should explicitly state within the body of the document that it is intended as an aid to negotiations only and that it does not impose binding obligations on either party.

Different parties approach negotiating in different ways but the parties will probably be most successful if they can develop a good working relationship during their negotiations. This can be difficult when you are disagreeing on many points. Using your solicitor as an excuse for resistance to particular provisions can be quite useful to help maintain a positive relationship with the other party.

It is important to fully consider and include all key areas and issues that you wish the final licence agreement to govern. The law in the UK will not imply many additional legal terms into the licence. This handbook provides an outline of the key areas that should be considered.

How is an IP licence concluded?

An IP licence is a contract. As with any contract, it could be constituted verbally, in the course of correspondence, or even by the actions of the parties. However, most commonly, following extensive negotiation, a written agreement is entered into by the parties. In the case of trade marks, a licence will not be effective unless it is in writing and signed by the licensor.

Until the final licence agreement is signed, all consecutive drafts of a licence agreement should be marked “subject to contract” to make clear that they are just that. Once the licence agreement is fully agreed, it is necessary to ensure that the agreement is properly executed under the law chosen to govern the contract. You will need to ensure that those who sign on behalf of the contracting parties have the requisite authority to do so; it is perfectly acceptable to ask for such confirmation in writing.

Do I need to register my licence?

In the UK, licence agreements do not generally need to be approved by any governmental agency, but licences of particular intellectual property rights can be registered. This is of particular importance to the licensee as the public register will provide notice to any third party who may acquire the licensed rights from the licensor – such a third party would not be able to claim that he or she was not aware of the licence. Where a trade mark licence or an exclusive patent licence is not registered within 6 months of it being executed, the licensee will be unable to recover costs for any infringement proceedings it may bring in respect of infringing acts that took place before registration, unless it can satisfy the court that it was not practicable to register the licence in that period and that the licence was registered as soon as practicable thereafter. The position regarding approvals and registration may be different in different countries and local legal advice should always be taken.

How is a licence agreement structured?

The content of a typical licence agreement can be split as follows:

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

Some of these clauses may raise antitrust / competition law concerns. These issues are discussed below – see the section on *Antitrust / Competition Law*.

Parties

The parties must be legal entities. A trading division of a company is for example not a legal entity in its own right and therefore it is not able to contract.

It is perfectly possible to enter into a licence as an individual but it is usually advisable to consider incorporating a company in order to have the benefits of limited liability. However, tax advice should always be sought and you will have to consider whether in such circumstances the ownership of the IP remains with you as an individual or is transferred into the company you incorporate.

If licensing to a larger organisation, you should consider which company should be party to the licence agreement. The contracting party should always be a company of substance – a subsidiary with no assets would be of little use for enforcing overdue payments or breaches of the licence.

Make sure you describe the parties correctly. If the other party is a company, it is good practice to refer to the registration number of the contracting company. Whilst the name of a company can change, its registration number will not.

Since licensing is a long-term relationship, the identity of the licensee will be particularly important to the licensor. Many licences are therefore stated to be “non-assignable” (i.e. non-transferable) or at least assignable to a new licensee only with the consent of the licensor. There may, however, be an exception so that the licensee may assign the licence to a member of its group of companies if indeed it is a member of a group.

Definitions

It is important to get the definitions right. First of all they are used to define which rights are being licensed. In a know-how and patent licence, the terms “Know-How” and “Patents” would be individually defined, often by reference to a schedule at the end of the agreement. Together

they would be referred to as the “Licensed Rights”.

You should also define with some care the “Licensed Products”, i.e. what it is the licensee should be entitled to make and sell under the licence. Any other restrictions on the scope of the licence are also likely to be expressed by reference to a defined term such as “Field”, “Territory” or both and so these definitions must also be drafted with care.

As far as the definition of “Territory” is concerned, if the territory is to be a continent, such as Europe, then specific countries to be covered in that continent should be clearly defined to avoid any dispute. There is often no substitute for a list of countries which comprise the licensed territory to be set out in the schedule to the licence. It is very important particularly in the context of the BREXIT decision in the UK that all countries to be included in the licence territory are included.

If the payments to the licensor under the agreement are to be based on the “Net Sales Value” (i.e. amounts billed in respect of the supply of goods less particular items of expenditure) and/or by reference to “Net Receipts” of the licensee (such as royalties received by the licensee from its sub-licensees), then these terms should be defined clearly. In particular, the parties must agree which costs can and cannot be deducted from payments to be made. Examples include taxes, transportation, insurance costs and returns.

Grant of Rights

This provision is very important as it determines the scope of the licence. The provision will determine:

- (i) which IP is being licensed;
- (ii) whether the licence is exclusive, sole or non-exclusive; and
- (iii) the extent of the licence - the licensor may limit the scope of the licence to:
 - (a) particular activities, such as manufacture or supply;
 - (b) a particular territory; and/or
 - (c) a specific field of use.

As an example, a grant clause could read *“Licensor hereby grants to Licensee an exclusive licence under the Licensed Rights to develop and manufacture, import, market, use, sell, supply and otherwise exploit the Licensed Products in the Territory.”*

The grant of rights provision should also specify whether the licensee is entitled to sub-license to another party and on what conditions.

There is often some misunderstanding about the difference between a “sole” licence and an “exclusive” licence. Under a “sole” licence the licensor retains the right to deal with and sell the

products which are covered by the licensed rights but it is not permitted to appoint any further licensees. Under an “exclusive” licence even the licensor is excluded from the market and only the exclusive licensee has the authority to deal in the licensed products in the territory for which the licence is granted. An exclusive licence is likely to attract a higher price from the licensee than a non-exclusive licence.

Regard has to be had when limiting the territory to avoid infringing antitrust / competition law.

Payments (Consideration)

Different payment structures

There are many possible payment structures. The licensor could receive an upfront fee, milestone payments on attainment of particular goals, which are usually referred to as “milestones”, receive a royalty or a combination. Royalties can be fixed or calculated as a percentage of licensee’s receipts. There should also be a mechanism in place to allow the licensor to verify that he is being paid the correct amount.

Especially where the licensed intellectual property has been successful in the market place it may be possible for the licensor to seek some form of upfront or down payment to be paid on execution of the licence. This may or may not represent an advance payment against royalties to be paid in relation to the sales of the licensed products. In this way the licensor may for example be able to recoup some of its research and development costs.

Royalties

A royalty, the most common method of payment, is usually calculated by way of a percentage of the “Net Sales Value” of the licensed products or by way of a fixed price for each Licensed Product sold. If it is a fixed price it should be related to an inflation measure such as the Retail Price Index or equivalent so that prices are adjusted accordingly year on year. If not, in real terms the value of the royalty payments may diminish.

It is important to provide for situations where any products are supplied to customers other than on normal arms-length commercial terms exclusively for money. For example, the licensee may wish to distribute some product for free for purposes of demonstration or for samples. The parties will need to agree whether the licensor should be entitled to a royalty in respect of such products.

The licensed products may also form part of a larger product which is sold, in which case it may be necessary to calculate the royalty by reference to a percentage of the selling price of the product incorporating the licensed products.

A licensee may also find that it needs further third party technology to bring out a successful product and may end-up selling a product that combines two or more parties’ intellectual property rights. Again, the parties need to agree how royalties should be calculated in such an event.

How much could I get?

There is no fixed and fast rule for any industry as to the royalties that are payable although there are certain publications which report on such matters and provide information on royalty rates

obtained in different technology sectors. For example, the Licensing Executives Society (U.S.A and Canada) has published a survey report on biopharmaceutical royalty rates and deal terms for 2016. The press release for the report is available from the Society's website (<http://lesusacanada.org/>) and provides royalty rates for pharmaceuticals relative to their stage of development².

Minimum payments

Particularly in the context of an exclusive licence, there is always the question of whether the licensor should obtain minimum royalty payments. Any exclusive licence rules the licensor out of the market place and it is therefore vital to obtain a reasonable and guaranteed minimum return from the licence. Otherwise, the market will be tied up and the licensor may not be receiving any benefit. Some flexibility as to the fixing of minimum royalty payments is required, particularly where the market is untried but it should be possible to reach some formula as to the minimum royalty payments which the licensor would expect in any year of the licence. These can either be a genuine pre-estimate of the sales which will be made or can be regarded as the minimum payment that the licensor would expect to keep the licence alive.

By way of illustration, situations should be avoided where an exclusive licence is given for a period of say five years with no minimum royalty provisions. In a fast moving area of technology if the licensor is not receiving sufficient payments and has to wait five years for the termination of the licence before appointing another licensee, this could be disastrous.

An option to terminate the licence or to make the licence non-exclusive can be included in the licence if agreed minimum payments are not received by the licensor. A licence can be made non-exclusive either for the whole territory or the territories for which minimum payments have not been made if the minimum payments are calculated by reference to individual licensed territories.

Payment Terms

Accounting provisions go hand in hand with royalty payments and should not be forgotten. Whether or not the licensor intends to exercise the right it is important for the licensor to insist on proper record keeping and payment dates and methods. Are payments to be made monthly or quarterly for example? It is also important to make reference to whether or not value added tax or other sales taxes have been included or excluded from the sum expressed to be paid. If it is not specifically mentioned then the law in the UK will deem payments to include VAT.

Transfers or licences of intellectual property rights are generally treated as made overseas (and therefore outside the scope of UK VAT) if made to someone outside of the EU, or to a business in another state of the EU. In that case no UK VAT will be chargeable. Where the supply is made to a VAT-registered business in another EU member state, it is likely that details of the supply will need to be reported by a UK licensor to HMRC on an EC Sales List.

It is important to mention the currency in which the royalties are to be paid. Which party is going to take the risk of fluctuations in the currency market?

It is good practice to require the licensee to keep records which will be open for inspection by the licensor on giving notice either by itself or by its accountant. It is common to agree that the

² Reported royalty rates for other industries can be found in *Royalty Rates for Licensing Intellectual Property*, a book by Russell L. Parr (2007), and in '*Profitability and Royalty Rates Across Industries: Some Preliminary Evidence*', a report by KPMG (<https://assets.kpmg.com/content/dam/kpmg/pdf/2015/09/gvi-profitability.pdf>).

licensor will bear the cost of any inspection unless there is an error of more than 5% in any royalty statement provided by the licensee in which case the licensee shall pay to the licensor the cost of making the relevant inspection.

Alternatively, the licensee may prefer a provision whereby an auditor's certificate will be provided to the licensor at the end of each year. This however may not be acceptable to the licensor in situations where there is a real concern that the correct payments are not being made and waiting for an annual certificate would not be satisfactory.

The implications of withholding taxes should not be forgotten. By law it is sometimes the case that the licensee is bound to withhold certain taxes from payment, including royalties. Tax advice should be sought for the best method of structuring your licence.

Other Obligations on the Licensee

There should be general obligations on the licensee regarding exploitation of the technology. For example, there should be obligations on the licensee to ensure that the products are manufactured to a good standard. After all, if it is known that the product is manufactured under licence, it will not only be the licensee's, but also the licensor's, reputation that may be affected if the licensed products are manufactured to a poor technical standard. The licensor may wish to insist on the right to inspect the licensee's plant or at the very least be provided with sample products from time to time. Provision should be made for the steps the licensee has to take should products not be up to the expected standards.

Irrespective of any minimum payment obligations, it is useful to place some obligation on the licensee to use its best endeavours or at least his reasonable endeavours to market the product on the basis that it will increase sales for the benefit of both parties.

Healthcare or pharmaceutical products will require governmental or other approvals or consents prior to placing on the market. The licensor can insist that the licensee should obtain all necessary approvals and appropriate obligations required for the licensed products and such obligations can be set out in the licence.

Obligations on the Licensor

The licensee's most important consideration will be to ensure the provision by the licensor of sufficient documentation and information relative to the licensed technology to allow the licensed products to be made. There will usually be a timescale for this information to be provided and it may be that the licensee is expected to pay consultancy fees in addition to the royalty payments if a substantial input is required to bring the licensee up to speed with the technology.

Confidentiality

Know-how and trade secrets are not protected by a recognised intellectual property right and so the maintenance of confidentiality in relation to know-how and trade secrets is absolutely fundamental at every stage in the relationship starting with pre-contract negotiations. If licensed know-how or trade secrets come into the public domain this may rob the licensee and the licensor of the benefit of the licensed technology. If the technology is publicly available then the licensee will not be prepared to continue paying royalties for its use and indeed antitrust / competition law may prevent the licensor from insisting on this.

Confidentiality provisions should always be comprehensively drafted. It may be that there is

particularly sensitive information to be disclosed. For example in a software licence, the licensor may be required to disclose the source code of the software and it can be provided that additional provisions will apply to the disclosure of particular material. This might be a “source code protocol” which would detail the circumstances in which the source code could be used and also the environment in which it should be kept during the contract term.

It should also always be clear that the confidentiality obligations extend beyond the lifetime of the licence. If a know-how licence terminates prematurely then the licensor will no doubt wish to appoint another licensee and if the first licensee is not bound by confidentiality provisions and is able to disclose information in the market place then there may be problems in achieving any further royalty payments or licence fees from the technology.

Registered Rights

If the licensed products are subject of a registered intellectual property right such as a patent or registered design, the licensor will wish to ensure that as far as possible the appropriate markings are placed on the products by the licensee to ensure that it is clear to third parties that they are subject to protected rights. If such markings do not appear it may affect the quantum of damages payable in any infringement action.

Making appropriate provision for the maintenance of patents and designs during the licence term including the responsibility for renewal fees and ‘fighting off’ infringers in the licensed territory is often a cause for dispute. It is often the case that in exchange for an exclusive licence, the licensor may expect the licensee to bear such costs and responsibilities in the licensed territory and to take action against infringers there.

Improvements

Improvements to licensed technology can substantially prolong the life of intellectual property and they must be considered in the licence. The parties must agree on their rights to access any improvements.

The licensee will wish to ensure that so far as possible any improvements made by the licensor to the licensed intellectual property will be passed on to the licensee. It is common for the licensee to seek an additional licence at the time of execution of the licence for any improvements which are made, although there is often discussion as to whether further payment should be made for any improvement. The licensor should be sure to resist an actual obligation to make improvements to licensed technology. It is more common to provide that if and when such improvements are made they will be passed on to the licensee. It can often be difficult to decide at what stage an improvement relates to new licensed products which should be the subject of a new licence, or at least subject to separate negotiation. The licensor may wish to obtain access to any improvements made by the licensee during the term of the licence by way of a non-exclusive licence, for example. It should be noted that antitrust / competition law limits the right of licensors to require licensees to license improvements back to them on an exclusive basis.

Warranties and Indemnities

Warranties and indemnities are commonly found in licence agreements.

What is a warranty?

A warranty is a type of guarantee. If one party gives a particular warranty in a contract and the warranty is later found to be false, the other party will be able to claim damages.

What is an indemnity?

An indemnity is a right to be reimbursed completely for a particular loss. Parties will wish to have the right to recover under an indemnity any losses they incur due to third party claims that they feel should not be borne by them. This is because a party is entitled to recover greater sums under an indemnity than under normal principles of English law. The recovering party will for example not be required to keep its loss to a minimum.

It is usual to include additional provisions that will reduce the scope of any indemnity. The party seeking an indemnity would normally be required to notify the indemnifying party of any claim within a particular time and to allow the indemnifying party to conduct the claim. The indemnity would also be conditional on the party being indemnified not prejudicing the claim in any way and providing all the necessary assistance.

What should I insist on as a licensor?

A licensor will generally want to limit its liability for products manufactured by the licensee and can ask the licensee for an indemnity to cover any claims arising from the sale of the licensed products. Under such an indemnity, the licensee will be required to reimburse the licensor for any liability that arises from the licensee selling the products, for example if a consumer were to sue the licensor. The licensor would also be likely to want to back up an indemnity with an obligation on the licensee to effect and maintain adequate insurance. An indemnity is only a right to be paid - if the indemnifying party does not have the money, an indemnity will not be of much use.

Where the licensor limits the scope of the licence to for example, a particular field, he or she could insist on an indemnity against third party claims in respect of the licensee's use of the licensed rights outside of the permitted field.

What will licensees ask for?

The licensee will expect warranties from the licensor in relation to the licensed rights, particularly that the licensor is the legal and beneficial owner of the intellectual property that is to be licensed or has the right to grant the licence to the licensee if it is a sub-licence. Licensees may ask for an indemnity against any claims by a third party that they own the licensed rights. In the case of a copyright licence, the licensee may also ask for a warranty that the author has waived his or her moral rights (such as the right to be identified as the author) to the work.

There are a number of other warranties which are commonly sought, for example one to the effect that there is no other agreement in place which would prevent the licensor from granting the rights to the licensee under the licence and, if the licensee is not accepting responsibility,

one that any necessary approval for the sale of the licensed technology in the licensed territory has been obtained.

The licensee may additionally request some warranty to the effect that to the best of the knowledge and belief of the licensor the intellectual property licensed is valid and subsisting. However, any warranty as to validity of intellectual property rights should be resisted unless the right in question has been challenged and found to be valid.

The licensee may also request a warranty that there is no infringement of that intellectual property by any third party or indeed that the licensor has not received any notice and is not party to any action in which any third party is claiming that the licensed technology infringes any third party rights. In a copyright licence, it is not unreasonable for the licensee to require an indemnity against any third party claims that the licensed rights infringe any third party rights. Such an indemnity should be resisted by a licensor in a patent licence. Whereas a copyright work will only infringe if it has been copied, it can be very difficult to establish with absolute certainty that activities covered by one patent would not infringe another patent.

Look out

It can be useful to set a financial cap on the licensor's liability. If the parties agree to any indemnities, the licence must make clear whether such cap applies to the indemnities. The parties to a licence can also agree to exclude liability for certain types of losses such as loss of profits or business.

Any clause that limits or excludes liability must make clear that it does not operate to exclude or limit liability for death or personal injury caused by negligence or fraud or any other liability which cannot be excluded or limited under the applicable law. Otherwise the clause may not be enforceable.

Term

The agreement must be clear as to how long the licence will last. As far as the term of the licence is concerned this is often a matter for some difference of opinion. The licensor, particularly if the licensee is unknown to him, may be reluctant to grant a long term agreement at least without the ability to review its terms after a couple of years or so. The licensee on the other hand may be in a position of having to make a substantial investment in plant and equipment prior to taking on the licence and will therefore wish to ensure that the licence is for a sufficiently long period to justify this investment, especially if the licensee has to raise funds or borrow from its bank on the back of the licence agreement. If the licence term is comparatively short then the licensee would wish whenever possible to negotiate an option to extend the licence after the initial term. It is important to remember that the licence cannot exist beyond the term of the licensed rights.

Termination

In the absence of any contractual provision negotiated by the parties, under English and Scots law there is no compensation payable to licensees in termination of a licensing arrangement unless the contract has been wrongly terminated and damages are sought.

Agree when parties can terminate

The agreement must be clear as to under which circumstances the parties can terminate. The provision needs to cover for example what should happen if the licensee fails to pay the royalties

or if either party should become insolvent.

Having to discuss termination provisions for a licence agreement can be a difficult task for both parties, particularly if a relationship has just begun and things are going well. It is the last clause in the agreement for which the licensor and the licensee have any appetite for discussion and yet unfortunately when things go wrong it is best for termination provisions to be fully set out in the contract.

Specific termination events may include non-payment of royalties and material breach of contract, insolvency or change of control (particularly if the ownership of the licensee is passing to a competitor of the licensor).

If failure to make minimum royalty payments or failure to meet quality standards for the product is to amount to a termination event then this should be clearly expressed so that there is no ambiguity or confusion in the minds of either party as to whether or not the contract can be terminated in such circumstances.

Agree what will happen on termination

Consumer electronics is another key area of our expertise. We have advised on some of the UK's most high profile disputes in the mobile phone arena as well as dealing with joint ventures and collaborations between manufacturers and suppliers.

In this dynamic and innovation-led market, our ability to understand the technology in question can be a significant advantage, as is our familiarity with distribution channels and networks, the regulatory framework and advertising and branding issues.

Other clauses

The last few clauses of the agreement which many people do not even bother to read are the so called "boiler plate clauses". These cover such matters as force majeure, notices and variations of the agreement.

The force majeure clause acts to protect the parties from the liability of breaching the agreement when an uncontrollable event occurs. It can be an important clause and there may be events which the licensor and the licensee would disagree as to whether they are covered by force majeure. For example, the licensor may wish to insist that any non-provision of the licensee's electricity or other power supply by reason of non-payment of bills by the licensee will not be considered to be a force majeure event.

It is good practice to provide in the contract that it can only be varied in writing with the consent of both parties and that any failure of one party to exercise its rights will not be deemed to preclude that party from exercising that right if the same event happens again. It is also worthwhile to provide that, if one clause of the agreement is deemed to be unenforceable, then the rest of the licence will stand unaffected.

The parties should also agree how they wish to resolve any disputes. Particular disputes could, for example, be referred to an expert for determination. Alternatively, in the first instance the parties may wish to provide for mediation in the event of a dispute. The parties could also agree to submit their disputes to arbitration instead of going to court. Arbitration is a private and confidential procedure in which one or more chosen arbitrators make a decision. Subject to

parties' agreement, such a decision is final and binding on the parties and enforceable. Arbitration can be a very long and expensive process, although this is not always the case. Whilst in some countries arbitration may be a preferred option to the Courts, it can make sense for disputes to be decided by the Courts after providing for mediation or an informal dispute resolution mechanism in the first instance. If that fails, then disputes can go to the Courts.

As to governing law for the licence, if the parties are in different jurisdictions, it is good practice to provide for the governing law expressly and thus avoid any dispute as to the law which will apply and to ensure that the parties know which law is relevant to the contract. This is very important. Where law is chosen to govern the licence which is not known to the licensor or licensee, as the case may be, legal advice should be sought from a lawyer in the relevant jurisdiction as to the implications of this for the licence. Different legal systems can have quite an impact on licence agreements – for example terms may be implied into the licence by local laws.

Schedules

The schedules may contain the details of minimum royalty or milestone payments. They may itemise the patents or other registered rights that are being licensed and the countries in which they have been registered. There may also be a short form of licence, which could be used for registration purposes. This is particularly good practice with a patent or trade mark licence, and it is often in the parties' interests to have this short form licence recorded with the relevant Intellectual Property Office rather than submit the whole licence for registration. This is because some elements of the full licence may be confidential and the register is a public record.

Prohibited clauses

Some provisions are prohibited and cannot be included in a licence agreement. This may arise from antitrust / competition law, public policy or general restraint of trade rules. While the law generally recognises that people should be able to contract with one another on whatever terms they wish, there are certain situations where this is not possible. For example, as explained below, price fixing is illegal.

Impact of the UPC

The launch of Europe's new unitary patent and Unified Patent Court is fast approaching. The new system will likely come into force in 2017, with a provisional phase which will allow registration of 'opt-outs', so attention needs to be paid to these issues at the earliest opportunity. Both patent licensees and licensors need to ensure that they are prepared – both as regards the relevant patent portfolio and, importantly, in relation to licence arrangements.

There are substantial implications for licences, collaborations and co-ownership agreements under the new system.

Important points to note about the proposed new regime:

- Only proprietors or European patents will be entitled to 'opt out' of the new system (and not licensees, exclusive or otherwise) during the first 7 years (and opt back in).

- Decisions will need to be made by the patentee and/or licensee as to what happens to existing licensed European patent applications on grant and patents applied for once the new system comes into effect.
- The new system has specific rules on the law which will apply to co-owned unitary patents which could impact the rights of co-owners of unitary patents.

More detailed information (which is regularly updated) can be found at: www.bristowsupc.com and <http://www.bristowsupc.com/latest-news/is-your-patent-portfolio-upc-ready/>.

Further information on licensing

Bristows recently contributed to the UK section to 'Getting the Deal through' an international publication on licensing which provides a comprehensive guide to licensing in many jurisdictions worldwide³. Our chapter can be found at: <http://www.bristows.com/news-and-publications/articles/getting-the-deal-through-licensing-2017/>. Please see this section for further detailed information on licensing in the UK.

Antitrust/Competition Law

Antitrust / competition law prohibits agreements that restrict competition. In most jurisdictions, licensing of IP rights is generally considered pro-competitive. However, depending on the circumstances, some provisions in your proposed agreement may be problematic, including those which:

- (i) fix the prices for products sold by licensees to third parties, either directly or indirectly, including for products incorporating the licensed technology;
- (ii) limit how much a party may produce and/or sell;
- (iii) limit the territories, fields-of-use, or customers to which a party may sell;
- (iv) restrict a party's ability to exploit its own technology or conduct R&D;
- (v) restrict a licensee from licensing, selling, distributing, or using competing technologies;
- (vi) oblige a licensee to assign or exclusively license back to the licensor any improvements to, or new applications of, the technology;
- (vii) prevent challenges to the validity of the IP right, or which enable the licensor to terminate the agreement in the event of a challenge;
- (viii) oblige a licensee to purchase another IP right, good or service as a condition of the licence; and/or
- (ix) require a licensee to pay royalties on an IP right which has been revoked or expired.

³ Guide published by Law Business Research Ltd. Getting the Deal Through: Licensing 2017. For further information please visit <https://gettingthedealthrough.com/area/19/licensing/>

These types of provision will not always breach antitrust/competition law. Consideration is needed of (i) the jurisdictions where the licence will have economic effects (i.e. not only the jurisdiction of the contract); (ii) the application of antitrust/competition law in these jurisdictions; and (iii) in many cases, the degree to which the provision gives rise to negative effects on competition. This is more likely to be the case when at least one of the parties has or obtains some degree of market power (i.e. a strong position on a relevant market).

It is important that antitrust / competition law is always borne in mind when involved in licensing negotiations. This is a complex area of law and legal advice should be sought, especially if you feel one of the terms of the agreement is contentious.

Further guidance on the application of antitrust / competition law to licences in each of the major jurisdictions can be found in IP guidelines such as:

- *'Technology Transfer Block Exemption'*, and accompanying guidelines in Europe;
- *'draft Guidelines on Prohibition of Abuses of Intellectual Property Rights'* in China;
- *'Antitrust Guidelines for the Licensing of Intellectual Property'* in the United States;
 - *'Intellectual Property Enforcement Guidelines'* in Canada;
 - *'Guideline regarding the Unfair Exercise of Intellectual Property Rights'* in Korea; and
 - *'Guidelines for the use of Intellectual Property'* in Japan.

Conclusion

Negotiating a licence can result in a very successful commercial relationship for both parties if all relevant points are aired and a satisfactory agreement is reached for both parties. However, one must remember that when an agreement is ultimately reached it may often be a compromise. There will be provisions that either party would have preferred not to have had to agree to. It is important that each party understands the implications and is comfortable with any risk it takes based on the bargain it receives in return.

Given the importance of the licence agreement to both parties, it is worth spending the time and effort and even the cost of professional advice required to ensure that you are properly protected and that you understand the implications of the agreement. Some licences last for a very long time and it is important to ensure that all relevant issues are dealt with in the agreement as far as possible to avoid any dispute in the future.

If taking professional advice, make sure your solicitor or other adviser has relevant experience in drawing up licence agreements. A good licence agreement requires a mixture of good negotiating skills, good drafting skills and a working knowledge of both contract and intellectual property law. A good licence agreement can be an invaluable asset for both the licensor and the licensee particularly where a business is built on a licensing model.

Ultimately, once signed, both parties will hope that a strong and productive business relationship

develops which will mean that the licence terms will not need to be regularly referred to. Trust always has to be the basis and remain the most important ingredient in any business relationship. If you have doubts about your relationship with a licensee, a signed contract alone in the absence of a good relationship will not be a guarantee of success.

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Glossary

Beneficial Owner

A beneficial owner owns the benefit of property regardless of who is the legal owner.

Consideration

Consideration is what the licensee offers the licensor in return for the licence. Royalties and any other payments made under the licence typically form the consideration, although consideration could be given in other ways, for example, by way of allotment of shares.

Copyright

This right protects against copying and distributing a variety of works (such as literary, artistic and dramatic). It protects the actual work rather than the idea behind it. In the UK copyright does not require registration but arises automatically on creation of a work.

Design Right

Both a registered and unregistered right to the design of a product.

Disclosure

In relation to intellectual property this is the act of providing confidential information to a party.

Exclusive Licence

A licence that allows only the licensee to dispose of the licensed products in the licensed territory (excluding the licensor).

Force Majeure

An extraordinary event out of the control of the parties that exempts a party from liability for breaching his obligations under the agreement (e.g. war and natural disasters).

Heads of Agreement/ Letter of Intent

A document (often non-binding) which outlines the key issues and procedures in relation to a proposed agreement between parties.

Improvements

Beneficial modifications by either the licensor or licensee to the technology surrounding the intellectual property rights granted to the licensee - great care needs to be taken to define what will be included or not included as an improvement in a licence.

Indemnity

An agreement that one party will compensate another party entirely for a particular potential loss (such as the costs of future litigation).

Information in the Public Domain

Information that is deemed to be public knowledge and free for any party to use.

Infringement

Breach of a right held by the owner of an intellectual property right.

Know-how

Confidentially held technical information.

Licensed Products

The products that the licensee is entitled to manufacture under the licence agreement.

Licensed Territory

The geographical area in which the rights granted by the licence apply.

Licensee

The party receiving the licence of intellectual property.

Licensor

The party granting the licence of intellectual property.

Net Sales Value

Amounts invoiced to (or received from) third parties in respect of sales subject to agreed deductions (e.g. transport costs, packaging etc).

Net Receipts

After tax profits made by licensees such as royalties received from its sub-licensees.

Non-assignable

If a licence is non-assignable, the licensee cannot transfer the licence to another party.

Non-exclusive Licence

A licence that allows the licensor to grant further licences to new licensees in the original licensee's territory.

Notice

The process and method required for communications between the licensor and licensee.

Patent

A statutory right to prevent anyone from exploiting an invention granted to an inventor by the state for a limited period of time in return for the publication of a detailed description of his invention.

Product Liability

Liability of manufacturers and sellers of products to consumers for injuries or damage caused by those products.

Registered Right

An intellectual property right that is protected by statute and published on a public register - these rights are recognised by the state and give automatic acknowledgement of the owner's rights over the intellectual property (e.g. patents).

Royalty

A regular payment for the use of licensed technology, typically determined by reference to a fixed percentage of sales or profits.

RPI

The Retail Price Index – a measure of inflation in the UK.

Sole Licence

A licence that allows only the licensor and licensee to dispose of the licensed products in the licensed territory.

Sub-Licence

A further licence of some or all of the rights under the original licence granted by the licensee to a third party (e.g. granting a licence to sell the licensed products to another party in the licensed territory).

Subsidiary Company

Company A is a subsidiary of Company B if it is owned or controlled by Company B.

Termination

The process of ending the licence agreement - a licence agreement will set out when and how the licensor and licensee may terminate the agreement and in particular what is to happen if one party breaches the agreement. If the agreement is not terminated earlier, a licence agreement will expire after its agreed term.

Trade Mark

A sign or “badge of origin” for the goods or services of a business that prevents another party from using that mark. In the UK, trademarks may be registered or unregistered. There is greater protection for registered rights.

Unregistered Right

An intellectual property right (such as copyright) created automatically by operation of law but which is not found on a public register. Parties must police these rights themselves and may need to prove that they are entitled to such rights through internal record keeping and/or litigation.

Warranties

A guarantee made by one party to another party in a contract. Damages can be claimed if these warranties are found to be false.

Checklist

If you are considering licensing, it might be helpful to consider the list of issues below. Please note that this list is not exhaustive.

Parties

- Licensor/Licensee
- Make sure they are legal entities

Scope

- Patents, copyright, trade marks, designs and/or know-how
- Non-exclusive, sole or exclusive? With a sole licence, the licensor reserves the right to compete against the licensee. With an exclusive licence, the licensor agrees that he or she will not compete.
- Develop, manufacture, assemble, market or sell
- Field
- One or more countries or worldwide

Duration

- Initial term
- Extensions
- Notice Period

Payment

- Upfront payment
- Milestone payments
- Royalty
- Consultancy fees

Other Payment/Tax Considerations

When will payment be made (e.g. quarterly)?

- VAT
- Currency
- Withholding tax

Targets

- Essential for sole and exclusive licensees
- Appropriate targets can be minimum sales by volume or minimum royalties payable

- Sanctions for failure to attain minimum royalties – termination or ability to remove exclusivity at Licensor's option?
- Timing of projects e.g. quality

Licensee's obligations

- Best or reasonable endeavours to market and sell in the territory
- Maintain quality standards as regards manufacture

Improvements

- Licensor's improvements – who owns them?
- Licensee's improvements – who owns them?
- Right's to use each other's improvements?

Warranties/Indemnities

- The licensor will seek to limit its liability for products manufactured by the licensee.
- The licensee will seek guarantees that the technology does what is expected of it, is owned by the licensor and is to be indemnified for any loss that may be incurred by the licensee as a result of its use of the technology.

Protection

- Infringement – who is responsible for taking and paying for action against infringers?
- Product liability – who is to bear liability?

Insurance/Fees

- Is product liability insurance to be obtained? If so, who is to pay?
- Responsibility for payment of patent and/or trade mark fees during the term of the licence

Termination

- Breach – what circumstances constitute breach by either party giving rise to a right of termination?
 - Non-payment/delivery – is time to be of the essence? If so, non-payment will give the licensor a right to terminate.
 - Should the licensor have the right to terminate the licence if the licensee becomes insolvent?
- What happens to the rights and obligations of either party on termination?
- Which rights and obligations will survive termination?

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