

INTERNATIONAL INTELLECTUAL PROPERTY LICENSING

BASIC INTRODUCTION & CHECKLIST

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- A. General – Overview & Introduction to Intellectual Property Licensing Across International Borders**
1. Licensing of patent rights, trade secrets, know how, copyrighted software or other technology, and trademark rights (collectively referred to hereafter as "Technology") to overseas party for exploitation (manufacture, use and sale) abroad is often a next step (after exporting) to expand international operations – whether by companies around the world into the U.S. market, or by U.S. companies abroad.
 2. **License defined:** A conveyance of a right under a patent, trademark or copyright which confers less than the grantor's entire bundle of rights is a license rather than a sale or assignment. A license may grant rights to use, manufacture and sell. The licensee does not acquire legal title to the intellectual property, only a temporary right to use it, and only to the extent provided in the License Agreement. A purchaser/ assignee of the rights takes subject to all prior outstanding licenses (unless license is terminated pursuant to terms of license agreement or by negotiation prior to sale).
 3. **Some Advantages:**
 - a. A relatively inexpensive and quick way to tap foreign markets: Can license to others the right to manufacture and sell your products abroad without the need to make a large direct equity investment abroad
 - b. Fewer financial and legal risks than owning and operating a foreign manufacturing facility or participating in an overseas joint venture
 - c. Licensing the Technology to enable a local company to manufacture and sell in that market (in exchange for a royalty) may be way to get around foreign import restrictions on products which could make export to those countries too costly or impractical .
 - d. Potentially an inexpensive way to test market abroad
 - e. Potentially a way to obtain help in funding R & D and to acquire foreign technology (through cross-licensing agreements or grant-back provisions, granting Licensor rights in the improved technology developed by the Licensee)
 - f. Franchising = a primary way of expanding and exporting service businesses through licensing of Technology, know-how and processes and procedures of

doing business developed by the Franchisor, together with the provision of training, administrative support and advertising, in exchange for royalties from the Franchisees. Note: Franchise arrangements are heavily regulated in the U.S. by the individual states.

4. Some Disadvantages:

- a. You may create a potential competitor overseas, who has knowledge of your Technology. Note: A U.S. Licensor can often prevent unauthorized exports to the U.S. by foreign licensees by filing unfair import practices complaints under Section 337 of the Tariff Act of 1930 with the U.S. International Trade Commission and by recording U.S. Trademarks and Copyrights with the U.S. Customs Service.
- b. Intellectual Property concerns:
 - (1) Need to police use of Technology by your foreign licensee in order to preserve your rights, yet may be difficult
 - (2) Piracy and counterfeiting rampant in certain countries
 - (3) Enforcement lax in certain countries
- c. Quality control concerns: Difficult to assure foreign manufacturing will meet your high quality standards. Can result in damage to your reputation, trademark and goodwill.
- d. Usually produces lower profits than exporting and selling the goods you have produced

5. Types of license agreements

- a. Exclusive vs. non-exclusive
- b. Not assignable, unless agreement specifically so provides
- c. Licenses by implication: E.g. license by estoppel implied from acts of licensor in permitting use without objection

6. Important to investigate prospective foreign licensees carefully before entering into agreement

7. Important to consult qualified attorney experienced in international transactions, before you agree to license your Technology abroad. The experienced international attorney will consult with local counsel (with whom he or she may have a working relationship) in the licensee's country, to become informed of and assure compliance with requirements of the national and state or local laws of that country.

E.g. Some countries require pre-registration and government approval of license agreements, limit or require certain terms in license agreements, regulate and specially tax royalties, or prohibit royalty payments exceeding a certain rate. Note: The E.U., in particular, has issued detailed regulations governing patent and know-how licensing.

Check also E.g. any bi-lateral treaties in effect between the licensor's country and the prospective Licensee's country; the foreign country's product liability laws, exchange controls, antitrust and tax laws, laws affecting or prohibiting re-patriation of royalties and dividends

8. **Enforcement; breach; importance of injunctive relief**
9. **Antitrust concerns. Consult counsel.**
10. **Tax concerns. Consult counsel.**
11. **For U.S. Licensors: U.S. Export License required from Department of Commerce?** Especially important to check in cases of advanced technology.

B. Basic Checklist of Terms to be Included in a License Agreement (Note: This checklist is not exhaustive. There may be other terms to be included, depending on your particular technology and factual situation. You must consult a competent attorney with experience in intellectual property licensing.)

1. Identify parties
2. State the parties' intent (may be important in the event of potential anti-trust problems)
3. Specify subject matter of license
 - a. Identify the intellectual property and Technology covered specifically
 - b. Identify each product, process, associated products or services or derivative work or expression covered by the license
4. Limitations, if any, on licensee to make, use, sell or publish. Note: Important to check with qualified international attorney who should consult with local attorney in licensee's country as to whether certain limitations may be anti-trust or misuse violations. Examples of some possible limitations on licensee:
 - a. Patent license: field of use restrictions
 - b. Trademark license: restrictions on sublicensing, who may be customers, methods of sales or advertising; restrictions on manner of use and display of trademark in accordance with Licensor's trademark use guidelines.
 - c. Copyright license: restrictions on mediums available to licensee
 - d. Geographic limitations (Note: Check legality under law in licensee's country - regardless of choice of law provided in the agreement):
 - (1) limited to specified territory or location
 - (2) assigned an area of primary responsibility
 - (3) required to pay "pass-over" fee for sales in area of other licensees of same licensor
 - e. Price restrictions (Note: Be careful of antitrust concerns; consult counsel. Price fixing is illegal.)
 - f. Quantity restrictions (Same)
5. Option of Licensee to expand or terminate license
 - a. Right of first refusal
 - b. Provide method of exercising option, purchase price, payment method
 - c. Licensee's right to terminate license if Technology becomes obsolete, subject to payment of a lump sum or continued, reduced royalties to licensor?

6. Exclusive vs. Non-Exclusive License
 - a. Exclusivity with respect to specified products?
 - b. With respect to specified geographic areas or for a limited time period?
 - c. Subject to pre-existing non-exclusive licenses?
 - d. Termination of exclusivity by Licensor -- E.g. if Licensee fails to make minimum Royalty payments, or if Licensee fails to use best efforts to promote product made from Technology aggressively
 - e. Option for Licensee to convert Exclusive to Non-Exclusive license (at a reduced royalty) in the event Technology becomes obsolete or less competitive?

7. Duration of Agreement
 - a. Effective date
 - b. Term:
 - (1) Specified term of years
 - (2) Life of Licensor's rights? (Take care not to be deemed to have Assigned/ sold all rights)
 - (3) Until terminated by mutual agreement or by one party for breach of the other per terms of the Agreement

8. Special Provisions in the event license is being granted under a Patent application (prior to issuance of the patent) or prior to registration of a trademark or copyright

9. Confidentiality and non-disclosure

10. Non-compete provisions?

11. Infringement Suits
 - a. Obligations of the parties; duty to cooperate
 - b. Cessation or escrow of royalty payments
 - c. Responsibility for, or sharing of, costs of suit
 - d. Adjustment of Royalties per outcome of suit
 - e. Option of Licensee to terminate upon adverse decision

12. Warranties by Licensor
 - a. Implied warranties (right to grant license; validity of Agreement; promise to refrain from infringing exclusivity, if granted)
 - b. Express warranties E.g:
 - (1) Utility of Patent or process
 - (2) Licensed Technology does not infringe Technology of third parties? (Places high burden on Licensor; try to limit by knowledge qualifier and otherwise, or avoid giving)

13. Obligations of Licensee
 - a. Performance standards:
 - (1) Best efforts to exploit subject matter of license
 - (2) Quota or minimum?
 - (3) Obligation to advertise and promote; Stated monetary expenditure required

- b. Grant-back of proprietary rights to Licensor in any Improvements
- c. Continued R & D under Patent or Technology
 - (1) Retain assistance of Licensor as independent contractor/ consultant or employee of Licensee?
 - (2) Right of First Refusal to acquire rights to future developments?
 - (3) Cover future developments under license?
- d. Supply Agreement, under which Licensee agrees to purchase -- E.g. raw materials for manufacture under the license -- from the Licensor. Caution: Beware of antitrust concerns. Consult counsel.
- e. Licensee required to maintain standards of quality of goods or services
 - (1) Standards set by licensor; Quality control requirements; Subject to periodic change by Licensor
 - (2) Licensor has right to inspect premises of factory or site where services are performed
 - (3) Licensee to submit periodic samples of manufactured product to Licensor for examination and testing
 - (4) Licensor has right to terminate Agreement for failure to correct deficiencies
- f. Licensee of Trademark, trade name or service mark required to use and display the mark as specified by Licensor, in accordance with Licensor's Guidelines

14 Royalties/ Payments from Licensee to Licensor

- a. Type of Royalty or payment E.g.:
 - (1) Lump sum; fixed amount; initial lump sum payments followed by periodic royalties (E.g. based on sales)
 - (2) Periodic payments or "running royalty" based on Percentage of sales or costs or production of Licensee
 - (3) Minimum (or maximum) royalties for each year? Upon failure to pay minimum, License Agreement may be terminated by Licensor, or an Exclusive license may convert to a Non-exclusive license
 - (4) Provide for increase or decrease of royalties under stated conditions (E.g. obsolescence or decline in competitiveness of Technology; additional developments included in license; market conditions)
- b. Manner of payment
 - (1) Due dates
 - (2) Depository or Escrow
 - (3) Record keeping, and right of Licensor to inspect
- c. "Most favored nation" clause for non-exclusive license (i.e. no less favorable than terms granted to other licensees of licensor)?
- d. Royalties to continue in modifications or new developments by Licensee, developed based on the Licensed Technology
- e. Cap on Licensee's profit margin (i.e. increase in Royalties)? Beware: Antitrust concerns. Consult counsel.
- f. Advertising costs to be borne by Licensee?
- g. Right of Licensee to recover royalties paid in the event covered Technology held by court to be invalid/ not owned by Licensor

15. Rights of Assignment or Sublicense
 - a. Effects of assignment by Licensor to a party other than Licensee
 - b. No transfer or sublicense by Licensee without specific consent of Licensor
 - c. Licensee's continuing duties to Licensor after sublicense

16. Termination
 - a. End of term per Agreement or expiration or invalidation of patent
 - b. By mutual agreement
 - c. For fraud or misrepresentation
 - d. For breach, failure to perform or abandonment of Trademark use by Licensee
 - e. Termination of copyright license by author exercising reversionary rights
 - f. Effects of Bankruptcy of Licensee. Note: license becomes part of debtor's estate and cannot be automatically terminated per the U.S. Bankruptcy Laws. Trustee can continue to use or lease and sell the license to another party.
 - g. Rights of Licensee on termination:
 - (1) Continued right to use (perhaps in modified form) for limited period?
 - (2) Right to use improvements developed by Licensee?
 - (3) Reduced royalties continue for specified period?
 - (4) Accounting
 - h. Return of Confidential Information and embodiments of Technology upon termination of license Agreement.



Constance R. Barnhart, Attorney at Law, is the Managing Member of Barnhart Law PLC. After 12½ years as a Partner in the law firm of Holland & Knight LLP and more than 30 years of practicing law with large law firms, she founded Barnhart Law PLC (www.BarnhartLawPLC.com) in March, 2009. At Barnhart Law PLC, Ms. Barnhart represents Scandinavian, European, and U.S. clients in U.S. and international business matters, including technology and intellectual property licensing, and corporate, commercial, financial, and contracts matters. In over 30 years of practice, she has handled as lead attorney many substantial mergers & acquisitions, and corporate, commercial, securities, and financial transactions, as well as technology and intellectual property-related matters for U.S. and international clients.

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