

The Value of IP Licensing

Amundsen Davis Intellectual Property Alert

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Intellectual Property (“IP”) – including patents, trade secrets, know-how, proprietary data, copyrights and trademarks – is a valuable asset that can be monetized for its owner’s benefit.

In a typical IP license, the IP owner (“Licensor”) grants a third party (“Licensee”) the right to use the IP in exchange for payment. Licensing allows the Licensor to retain ownership, while granting the Licensee limited rights to use the IP. The license should also provide for termination in the event of a Licensee breach. Licensees are granted defined rights to use the IP, subject to the negotiated terms.

Agreement terms vary, but a well-drafted license should address license scope, term, royalty payments, rights and obligations of the Licensor and Licensee with respect to the IP and any enhancements, exclusivity, territory, assignability, Licensee duty to maintain records and reporting requirements, infringement and enforcement, liability and indemnity, among other terms.

Scope of License: There are two main forms of license agreements. An exclusive license grants the Licensee the sole and exclusive right to use the IP. A non-exclusive license allows the Licensor to grant other licenses to third parties but may grant the Licensee exclusive rights to use the IP in a specific geographic area or for a specific type of use. The agreement should also address whether or not the Licensee is authorized to sublicense or assign the IP.

Royalties and Other Consideration: Payment terms are typically linked to scope and use. Payment of an initial license fee together with ongoing royalties based on metrics (such as sales) are typical. Minimum royalties may also be required, which may ramp up over time.

Rights and Obligations of the Parties; Enhancements: The Licensor should represent and warrant its ownership of the IP and indemnify the Licensee against competing ownership claims. The Licensee should be required to use best efforts to use the IP. The agreement should also address the right to use and ownership of any derivative works, related or improved IP.

Reports: The Licensee should be required to confirm compliance and allow the Licensor to monitor the Licensee’s use of the IP. Particularly in the context of trademark licenses, oversight of Licensee’s use by the Licensor is required to protect the good will and therefore, value of the licensed trademarks.

RELATED SERVICES

Intellectual Property

Infringement: The license agreement should address responsibility for protecting the IP from unauthorized use by third parties and should protect the Licensee if the validity of the IP is challenged by a third party.

Liability and Indemnity: The Licensor should ensure it has adequate remedies if the Licensee's use of the IP exceeds the scope or if the Licensee breaches the agreement. These remedies may include damages, injunctive relief and/or termination of the license. The Licensee should also be required to indemnify and defend the Licensor against Licensee's unauthorized use of the IP or any defective products produced by the Licensee.

The specific terms of a license agreement will vary depending upon the nature of the IP and the parties' negotiations. Both Licensor and Licensee have important and legitimate reasons for seeking the protections of a license agreement and should seek the advice of counsel experienced in intellectual property licensing to ensure their interests and business objectives are adequately protected.

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