



IP ESSENTIALS

A Toolkit for Entrepreneurs,
Innovators, and Business Owners



LICENSING AGREEMENTS



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A patent license is an agreement between a first party who has rights in a patent (licensor) and another party (licensee), e.g. a person or a company that wants to use or benefit from the patent rights. A license provides some interest in the patent(s) from the licensor to the licensee.

Q *What is the difference between non-exclusive and exclusive licenses?*

A A non-exclusive license may not allow the patent owner to sub-license the patent to others, whereas, an exclusive license may require a single licensee to take on the obligation of policing the patent rights and, potentially, managing sub-licensees. But be careful! Although titled “exclusive license,” a license that fails to convey “all substantial rights” in a patent may require the participation of the licensor in any infringement disputes. All patent owners must agree to an exclusive license whereas only one patent owner needs to agree to grant a non-exclusive license.

Q *Which parties are liable to litigation under a license agreement?*

A License agreements should always clarify who has the right to sue for infringement of the rights being licensed. The right to sue for damages is typically granted under an exclusive license agreement. When the licensee is given the right to sue for infringement, it is also important to make sure that the licensor is obligated to assist in such lawsuits, which usually require the participation of inventors and original owners of the patent(s).

Q Who can assign rights under a license agreement?

A Licensors should carefully consider the conditions under which a licensee may assign their rights in the agreement. In the absence of any expressed provisions, license agreements are typically freely assignable by either party. But this default rule may be superseded by a properly worded assignment clause. Assignment clauses should cover such eventualities as a sale, a merger, or insolvency, as well as a deliberate assignment of the licensed rights.

Q Do I want to license the patent or the product?

A Another key consideration in any license agreement is the decision whether to license “patents” or specific products. Where specific patents are licensed, the licensee may still be vulnerable to other patents owned by the licensor. Where specific products are licensed, any relevant patents owned by the licensee are deemed to be included in the license. However, new or modified products may not fall under the scope of the license.

Q Do I need to have a written license agreement?

A Not all licenses require a written agreement. Some will be implied by law. For example, under the “first sale” doctrine, a patent license will be implied when a patent owner sells a product covered by the patent under circumstances that “plainly indicate that the grant of a license should be inferred.” This protects customers from unfair infringement lawsuits.

Q What should be included in a licensing agreement?

A The rights given by the agreement generally need to be such that the licensees are interested in the deal, but you do not give away permanent unrestricted control over your asset. There are some terms and factors to consider when drafting your agreement.

Q Can a license agreement be used as a defense?

A It is important to control the transfer or sub-licensing of any rights granted under a patent license agreement. The existence of a valid license agreement may be a complete defense to a claim of infringement and unwitting patent owners may sometimes grant rights to parent companies, subsidiaries, or affiliated companies unintentionally by failing to scrutinize

You can define the license scope by defining the following:

- *the possible use of the licensed invention (such as non-commercial use only),*
- *the term (such as for a period of one year),*
- *rights to modify the licensed invention,*
- *limitations on licensor’s liability, support services, non-disclosure of confidential information, indemnity for infringement, enforcement of remedies, or contract termination rights.*

assignment and sub-licensing clauses in their license agreements.

Q *What is licensee estoppel?*

A Sometimes licensors seek to preclude licensees from challenging the validity of the patent rights as a condition of licensing. In some circumstances this practice may no longer be permitted.

Q *What is “marking”?*

A Licensors should pay particular attention to patent “marking” requirements in patent license agreements. Under the law, patent owners are required to mark any products covered by the licensed patent(s) with the patent number(s). These marking requirements apply equally when a licensee makes a covered product pursuant to a license agreement; this often presents challenges when crafting a license agreement in the context of litigation settlement.

Q *How is a license agreement terminated?*

A Always be mindful of termination clauses in patent license agreements. Sometimes patent families can last longer than expected due to patent term adjustment, foreign rights, or continuation applications. Clear termination clauses (such as defining the termination date, termination conditions, territory, and exact rights to be terminated) can resolve any potential disputes at the outset of the agreement.

Q *Are there alternatives to litigation?*

A Patent disputes can be expensive, and when a patent license agreement breaks down, the resulting litigation may look a lot like a patent infringement dispute. Take the opportunity in your license agreements to find ways to reduce costs and fees for dispute resolution ahead of time. If possible, agree in advance to a forum. Consider including an attorneys’ fees provision. Finally, consider alternative dispute resolution options, such as binding arbitration, minitrial, or mediation.

This IP Essentials Topic is one of a series:

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