



Anatomy of a License Agreement


Stephen Auvil

Sr. Vice President Technology Transfer & Commercialization
Maryland Technology Development Corporation (TEDCO)
sauvil@tedco.md



What Can You License?

- **Intellectual Property**
 - Patents/Patent Applications
 - Copyrights
 - Trademarks
 - Trade Secrets
- **Tangible Property (Materials)**
- **Know-how (Tangible)**



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Assignment vs. License

Assignment

- Transfer of all ownership
- Irrevocable
- Register with USPTO

License

- Rights to practice/use
- Can be limited – field, geography, etc.
- Revocable with breach of contract
- Not registered with the USPTO



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License vs. Option

License Agreement

A grant of intellectual property rights in exchange for consideration

Option Agreement

A grant of exclusivity to negotiate a license agreement in exchange for consideration

Option Agreement

- Limited amount of time (6 – 12 months)
- One time fee (\$2K - \$10K)
- On-going patent expenses
- Mechanism to exercise the option (in writing)
- Negotiation period (3 – 6 months)

Term Sheet


- Used to facilitate negotiations - usually the first step in the process
- Specifies:
 - Bounds of the license
 - Financial terms
 - Other terms of importance

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License Agreement Outline


- Preamble
- Definitions
- License Grant
- Fees, Royalties, & Payments
- Patent Prosecution & Infringement
- Obligations of the Parties
- Representations & Warranties
- Indemnification & Insurance
- Confidentiality & Publication
- Term & Termination
- Miscellaneous

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Preamble

- Background/'Whereas' Clauses
- General information about the license
- Invention reference number
- Standard language




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Key Definitions – Patent License

- “Patent Rights”
- “Licensed Product” & “Licensed Service”
- “Net Sales” & “Net Revenues”
- “Exclusive License”
- “Licensed Field”
- “Improvements”



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License Grant - Patent

- University hereby grants an **EXCLUSIVE LICENSE** to **make, have made, use and sell** **LICENSED PRODUCTS** under the **PATENT RIGHTS** within the **LICENSED FIELD**
- Right to grant sublicenses



Key Definitions – Software Lic.

- “Software”
- “Documentation”
- “Derivatives”
- “IP Rights”
- “Licensed Products”/“Licensed Service”
- “End User”/“End User License”



License Grant - Software

- University hereby grants to COMPANY an EXCLUSIVE LICENSE to **reproduce, have reproduced, make, have made, distribute, import, and sell** LICENSED PRODUCTS to END-USERS under an END-USER LICENSE and to DISTRIBUTORS solely for the purpose of re-sale to END-USERS, and to use SOFTWARE, DERIVATIVES, and DOCUMENTATION to provide LICENSED SERVICES, in the United States and worldwide under the IP RIGHTS.



License Grant - Software

- University hereby grants to COMPANY the right to make modifications to the SOFTWARE and DOCUMENTATION, including but not limited to the right to incorporate SOFTWARE into other software, to produce DERIVATIVES.
- Right to grant sublicenses.



Key Definitions – Trademark Lic.

- “Mark”
- “Quality Control Standards”
- “Program Materials”
- “Intellectual Property”
- “Program”



License Grant - Trademark

- University hereby grants COMPANY an EXCLUSIVE LICENSE to use the MARK consistent with the QUALITY CONTROL STANDARDS for the sole purpose of offering PROGRAMS and delivering PROGRAM MATERIALS.



Fees, Royalties, & Payments

- License Fee/Up-front Fee
- Royalties on LICENSED PRODUCTS – a percentage of NET SALES
- Annual fees (Creditable against royalties)
- Milestone payments
- Reimbursement of patent expenses
- Percentage of sublicense revenue

Fees, Royalties, & Payments

Rules of Thumb & other Considerations


- **Fees** – Annual royalties in a mature market
- **Royalties** – 25%-50% Profit (not Net Sales) on sale of a Licensed Product depending on investment required
- Usually a trade-off between up-front fees and royalties – pay now or pay later

Fees, Royalties, & Payments

Rules of Thumb & other Considerations



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Fees, Royalties, & Payments

Rules of Thumb & other Considerations

\$100


↑ Profit → \$25

\$75

↓ Cost

\$0

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Fees, Royalties, & Payments

Rules of Thumb & other Considerations

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↓ Cost

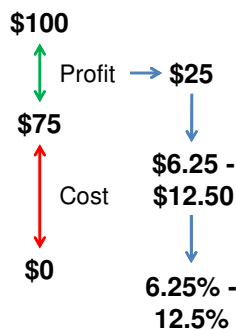
\$0

\$6.25 - \$12.50

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Fees, Royalties, & Payments

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Fees, Royalties, & Payments



- **Kit Clause**
 - $A/(A + B)$



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Fees, Royalties, & Payments



- **Kit Clause**
 - $A/(A + B)$

| | <u>Gene A*</u> | <u>Gene B</u> |
|-------|----------------|---------------|
| Price | \$5 | \$10 |

*Gene A is the Licensed Product




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Fees, Royalties, & Payments




- **Kit Clause**
 - $A/(A + B)$

$$\frac{\$5}{\$5 + \$10} = .33$$

| | <u>Gene A*</u> | <u>Gene B</u> |
|-------|----------------|---------------|
| Price | \$5 | \$10 |


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Fees, Royalties, & Payments



- Kit Clause
 - $A/(A + B)$

| | <u>Gene A*</u> | <u>Gene B</u> |
|-------|----------------|---------------|
| Price | \$5 | \$10 |

$$\frac{\$5}{\$5 + \$10} = .33$$

Royalty Base = Sales Price x .33

*Gene A is the Licensed Product



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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due



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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due

| | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|
| Royalty | 6% | 4% |



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Fees, Royalties, & Payments



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| | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|
| Royalty | 6% | 4% |

No Stacking:

Company's Royalty Payment:

6% + 4% = 10%



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Fees, Royalties, & Payments



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 - Reduce royalty by 50% of other royalties due – up to a max of 50% due

With Stacking:

| | <u>Gene A</u> | <u>Gene B</u> |
|----------------|---------------|---------------|
| Royalty | 6% | 4% |



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With Stacking:

| | <u>Gene A</u> | <u>Gene B</u> |
|----------------|---------------|---------------|
| Royalty | 6% | 4% |

With Stacking:

| | <u>Gene A</u> |
|----------------|---------------|
| Royalty | 6% |




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- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due


| | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|
| Royalty | 6% | 4% |

With Stacking:

Gene A

6%

- 2%




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| | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|
| Royalty | 6% | 4% |


With Stacking:

Gene A

6%

- 2%


4%



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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due


| | <u>Gene A</u> | <u>Gene B</u> | | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|--|---------------|---------------|
| Royalty | 6% | 4% | | 6% | 4% |
| | | | | - 2% | |
| | | | | 4% | |



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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due

| | <u>Gene A</u> | <u>Gene B</u> | | <u>Gene A</u> | <u>Gene B</u> |
|---------|---------------|---------------|--|---------------|---------------|
| Royalty | 6% | 4% | | 6% | 4% |
| | | | | - 2% | - 3% (2%) |
| | | | | 4% | |




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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due

| | <u>Gene A</u> | <u>Gene B</u> | | <u>Gene A</u> | <u>Gene B</u> |
|----------------|---------------|---------------|--|---------------|---------------|
| Royalty | 6% | 4% | | 6% | 4% |
| | | | | - 2% | - 3% (2%) |
| | | | | 4% | 2% |




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Fees, Royalties, & Payments



- Stacking Provision
 - Reduce royalty by 50% of other royalties due – up to a max of 50% due

| | <u>Gene A</u> | <u>Gene B</u> | | <u>Gene A</u> | <u>Gene B</u> |
|----------------------------|---------------|---------------|----|---------------|---------------|
| Royalty | 6% | 4% | | 6% | 4% |
| | | | | - 2% | - 3% (2%) |
| Company's Royalty Payment: | | | 4% | + | 2% |
| | | | | = | 6% |




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Fees, Royalties, & Payments

- Foreign Currency
 - Convert to \$US – when, what rate?



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Fees, Royalties, & Payments

Equity Issues

- Equity in lieu of Up-Front Fees (adjusted for risk)
- Anti-dilution provisions
- Information & visitation rights
- Other rights enjoyed by founders/investors
- Universities often do not take a seat on the board

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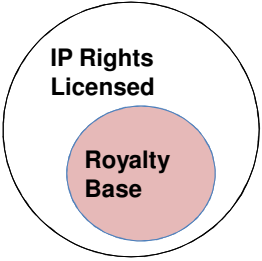
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Alignment – Scope of Fees/Rights

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Alignment – Scope of Fees/Rights



The diagram consists of two overlapping circles. The larger, outer circle is white with a black outline and contains the text "IP Rights Licensed". The smaller, inner circle is shaded light red with a blue outline and contains the text "Royalty Base". The two circles overlap in the center.

Favors Licensee

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Alignment – Scope of Fees/Rights

IP Rights Licensed
Royalty Base

Favors Licensee

Royalty Base
IP Rights Licensed

Favors Licensor

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Alignment – Scope of Fees/Rights

IP Rights Licensed
Royalty Base


Favors Licensee

Royalty Base
IP Rights Licensed

Favors Licensor

IP Rights Licensed
Royalty Base

Proper Alignment



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Patent Prosecution & Infringement

- University controls prosecution
- Licensee has the right to sue for infringement
- Infringement costs paid by the company
- Recovery distribution – (10% - 25% to University)



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Obligations of the Parties

- Reports – Product Development & Royalty
- Records for auditing & right to audit
- “Best efforts” to develop and commercialize Licensed Products
- Manufacture substantially in the U.S. (for sales in the U.S.)



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Milestones

- Part of 'Best Efforts'
- Various Types:
 - Time-based
 - Event-based
- Failure to Achieve Milestones – Remedies:
 - Termination
 - Conversion to non-exclusive
 - Pay a penalty



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Representations & Warranties

- Universities only represent that they have title to the Patent Rights
- No other representations are made by the university, including:
 - Infringement of 3rd party patents
 - Viability of technology




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Indemnification & Insurance

- Licensee accepts all liability for their use, and any sub-licensee's use of Licensed Products
- Licensee must indemnify the University
- Product and other liability insurance is required




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Confidentiality & Publication

- Reports, patent prosecution, & other information exchanged will be confidential
- University retains the right to publish its research related to the Patent Rights




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Term & Termination

- Term of the License – Life of the last to expire patent included within Patent Rights on a country by country basis
- Licensee is free to terminate the license at their option
- Termination fees might be required
- Termination by the University is available for breach



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Miscellaneous

- Use of Name
- Governing Law
- Force Majeure (Act of God)
- Assignment
- Signature in counterparts
- Others . . .

Other License Agreements

- Research Agreements
 - Material Transfer Agreements (MTAs)
 - Sponsored Research Agreements
- “hereby grants” versus “agrees to grant”
- The problem with these agreements

License Agreement Skeleton



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License Agreement Skeleton

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License Agreement Skeleton

Transfer of Rights

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License Agreement Skeleton

Transfer of Rights

↑ "Patent Rights"

This diagram shows a box labeled "Transfer of Rights" at the bottom center. An arrow points upwards from this box to the text "Patent Rights", which is written in red.

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License Agreement Skeleton

Prosecution

Transfer of Rights

↑ "Patent Rights"

This diagram shows a box labeled "Transfer of Rights" at the bottom center. Two arrows originate from this box: one points left to a box labeled "Prosecution", and another points up to the text "Patent Rights", which is written in red.

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License Agreement Skeleton

```
graph TD; A[Transfer of Rights] --> B["Patent Rights"]; B --> C[Prosecution]; B --> D[Infringement];
```

The diagram illustrates the flow of patent rights. A central box labeled "Transfer of Rights" has an arrow pointing up to a box labeled "Patent Rights". From "Patent Rights", two arrows point outwards: one to the left to a box labeled "Prosecution", and one to the upper left to a box labeled "Infringement".

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License Agreement Skeleton

```
graph TD; A[Transfer of Rights] --> B["Patent Rights"]; B --> C[Prosecution]; B --> D[Infringement]; B --> E[Make, Use, & Sell];
```

The diagram illustrates the flow of patent rights, including the right to make, use, and sell. A central box labeled "Transfer of Rights" has an arrow pointing up to a box labeled "Patent Rights". From "Patent Rights", three arrows point outwards: one to the left to a box labeled "Prosecution", one to the upper left to a box labeled "Infringement", and one to the upper right to a box labeled "Make, Use, & Sell".

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License Agreement Skeleton

```
graph TD; Infringement[Infringement]; Prosecution[Prosecution]; Sublicense[Sublicense]; Transfer[Transfer of Rights]; Make[Make, Use, & Sell]; Patent[Patent Rights]; Infringement --> Patent; Prosecution --> Patent; Sublicense --> Patent; Transfer --> Patent; Patent --> Make;
```

The diagram illustrates the relationships between various patent-related activities. At the center is a box labeled "Patent Rights" in red. Five arrows point towards this central box from boxes labeled "Infringement", "Prosecution", "Sublicense", and "Transfer of Rights". A single arrow points away from the "Patent Rights" box to a box labeled "Make, Use, & Sell".


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License Agreement Skeleton

```
graph TD; Infringement[Infringement]; Prosecution[Prosecution]; Sublicense[Sublicense]; Transfer[Transfer of Rights]; Make[Make, Use, & Sell]; Patent[Patent Rights]; Infringement --> Patent; Prosecution --> Patent; Sublicense --> Patent; Transfer --> Patent; Patent --> Make; License["Exclusive License  
Licensed Field"]; License --- Patent;
```

The diagram is identical to the one above, but includes an additional red label "Exclusive License" and "Licensed Field" positioned to the right of the "Patent Rights" box, indicating the scope of the license.

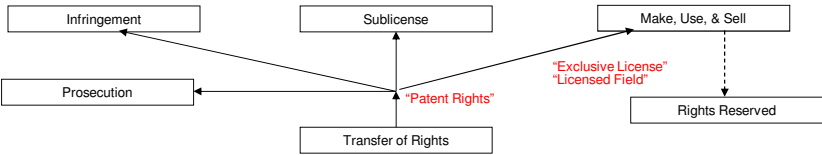


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License Agreement Skeleton




```

graph TD
    TR[Transfer of Rights] --> S[Sublicense]
    TR --> P[Prosecution]
    TR --> I[Infringement]
    TR --> M[Make, Use, & Sell]
    S --> M
    M -.-> RR[Rights Reserved]
    style RR stroke-dasharray: 5 5
    style M stroke:#f00,stroke-width:2px
    style S stroke:#f00,stroke-width:2px
    style P stroke:#f00,stroke-width:2px
    style I stroke:#f00,stroke-width:2px
    
```

"Patent Rights"

"Exclusive License"
"Licensed Field"

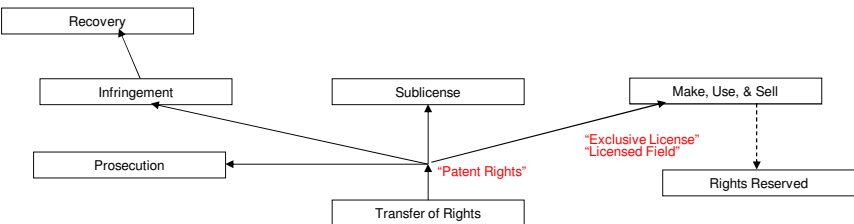


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License Agreement Skeleton




```

graph TD
    TR[Transfer of Rights] --> S[Sublicense]
    TR --> P[Prosecution]
    TR --> I[Infringement]
    TR --> M[Make, Use, & Sell]
    S --> M
    M -.-> RR[Rights Reserved]
    style RR stroke-dasharray: 5 5
    style M stroke:#f00,stroke-width:2px
    style S stroke:#f00,stroke-width:2px
    style P stroke:#f00,stroke-width:2px
    style I stroke:#f00,stroke-width:2px
    style R[Recovery] stroke:#f00,stroke-width:2px
    style I stroke:#f00,stroke-width:2px
    style P stroke:#f00,stroke-width:2px
    
```

"Patent Rights"

"Exclusive License"
"Licensed Field"

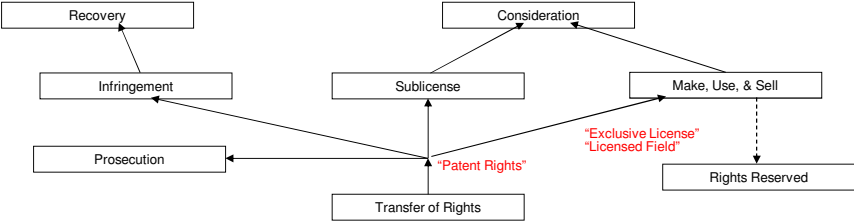


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License Agreement Skeleton



```

graph TD
    TR[Transfer of Rights] --> PR["Patent Rights"]
    PR --> S[Sublicense]
    PR --> M[Make, Use, & Sell]
    PR --> P[Prosecution]
    S --> C[Consideration]
    S --> I[Infringement]
    S --> R[Recovery]
    M --> C
    M -.-> RR[Rights Reserved]
    RR -.-> EL["Exclusive License  
Licensed Field"]
    
```

The diagram shows a central 'Transfer of Rights' box leading to 'Patent Rights'. From 'Patent Rights', arrows point to 'Sublicense', 'Make, Use, & Sell', and 'Prosecution'. 'Sublicense' leads to 'Consideration', 'Infringement', and 'Recovery'. 'Make, Use, & Sell' leads to 'Consideration' and has a dashed arrow to 'Rights Reserved', which is further labeled with 'Exclusive License' and 'Licensed Field'.

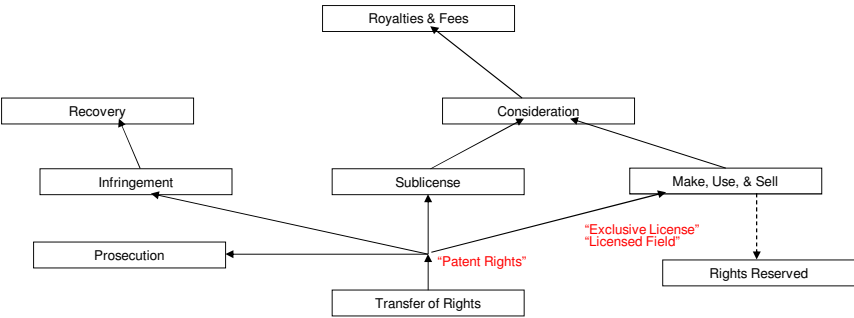


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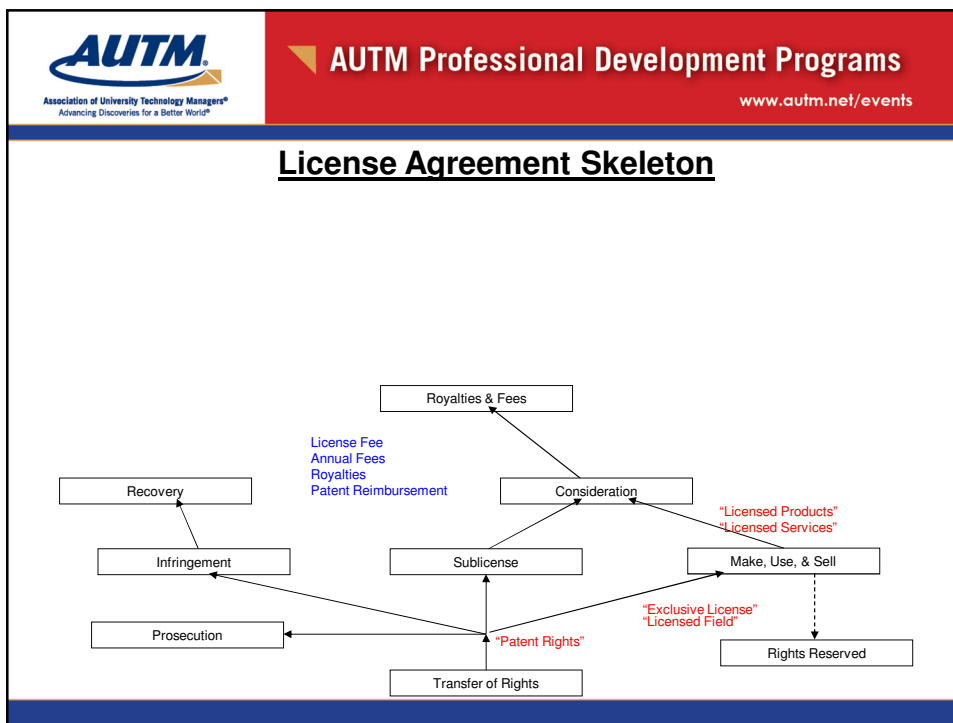
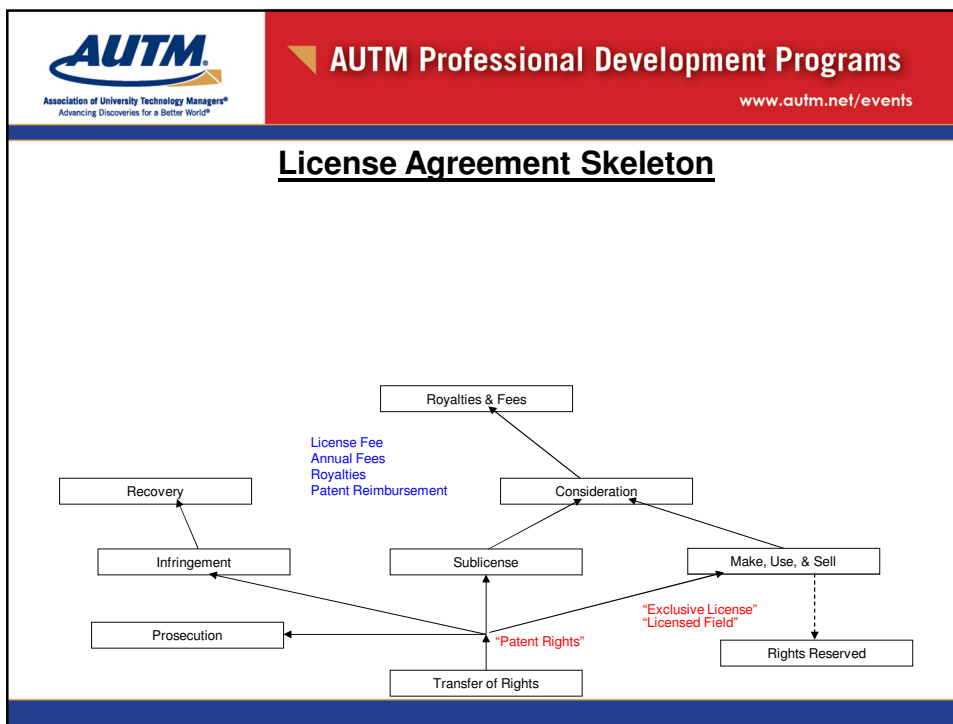
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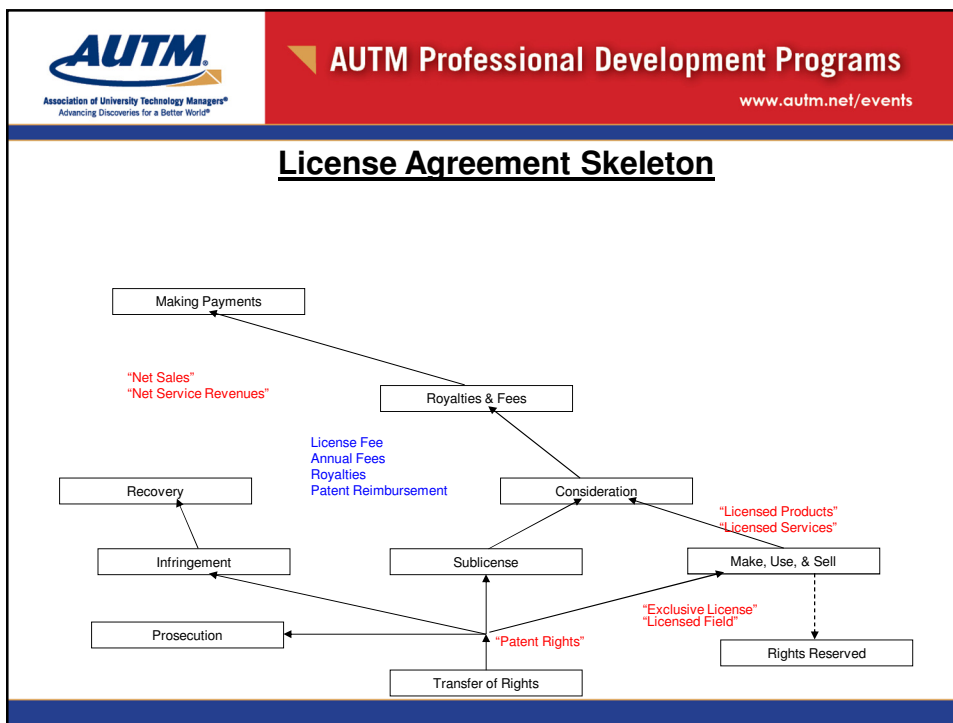
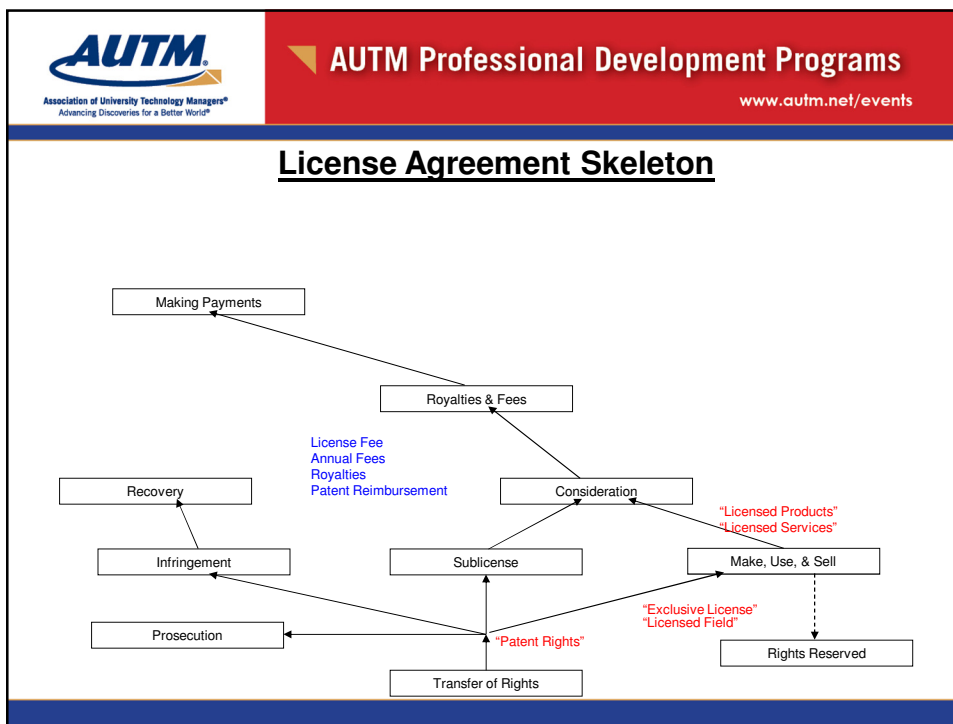


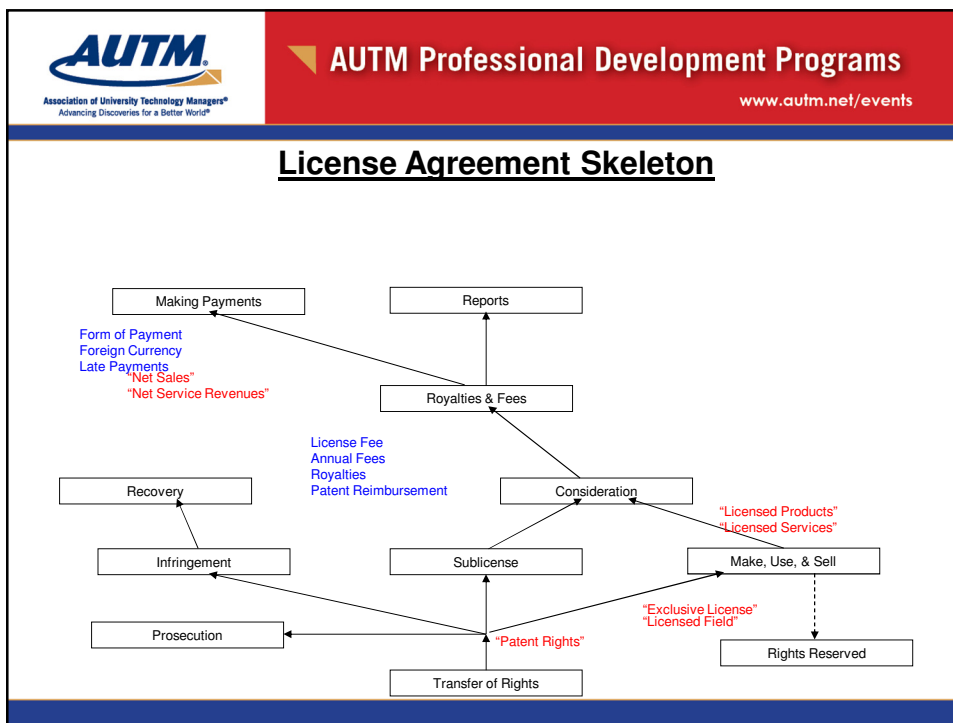
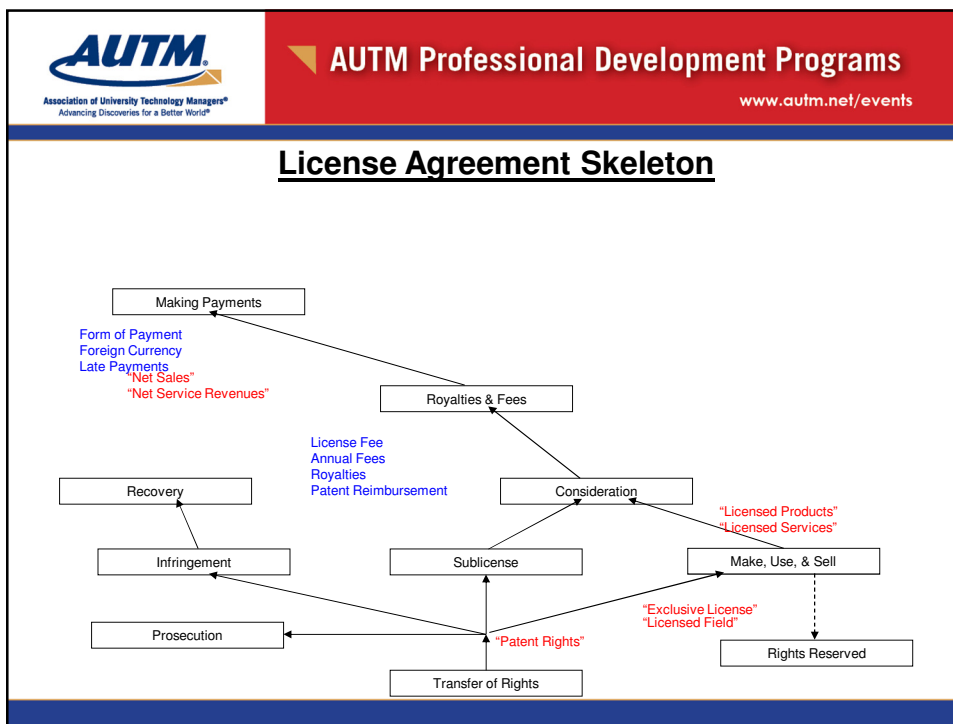
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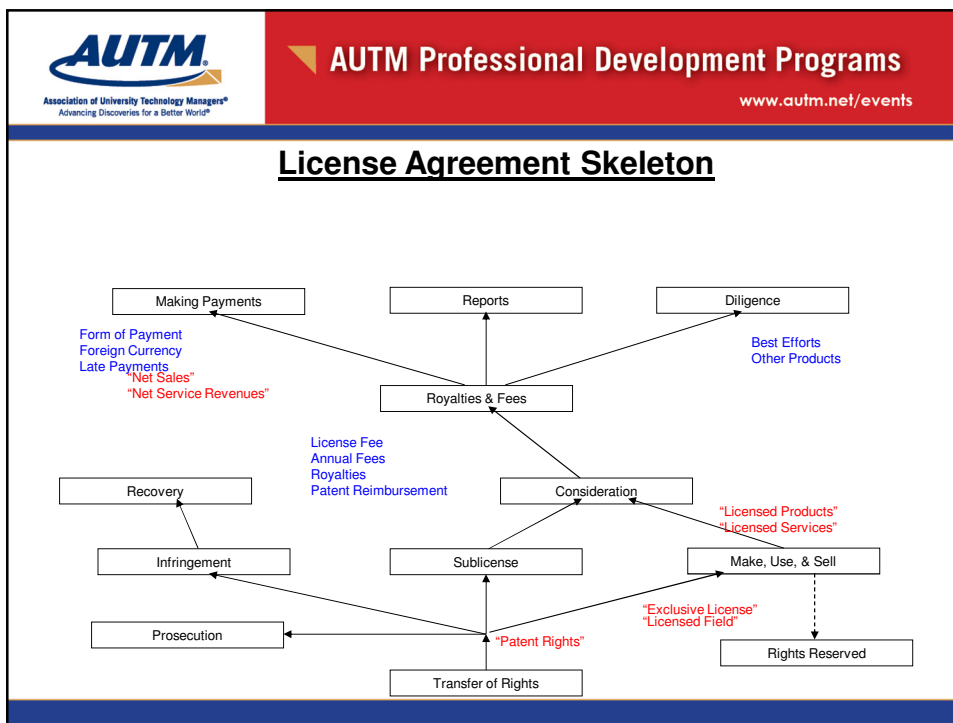
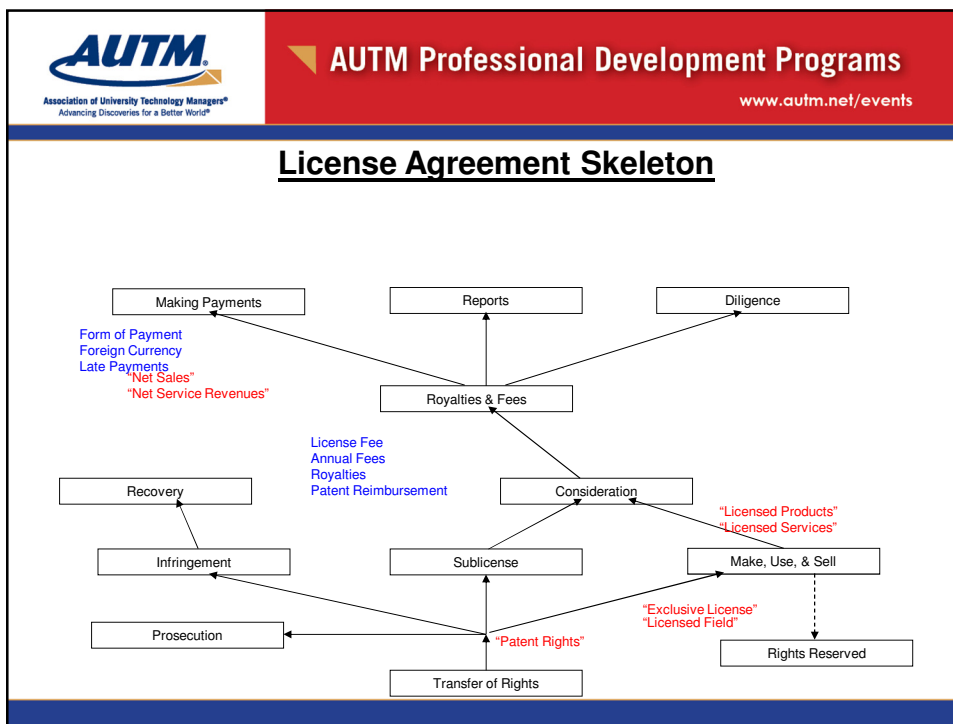
graph TD
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    PR --> S[Sublicense]
    PR --> M[Make, Use, & Sell]
    PR --> P[Prosecution]
    S --> C[Consideration]
    S --> I[Infringement]
    S --> R[Recovery]
    M --> C
    M -.-> RR[Rights Reserved]
    RR -.-> EL["Exclusive License  
Licensed Field"]
    C --> RF[Royalties & Fees]
    
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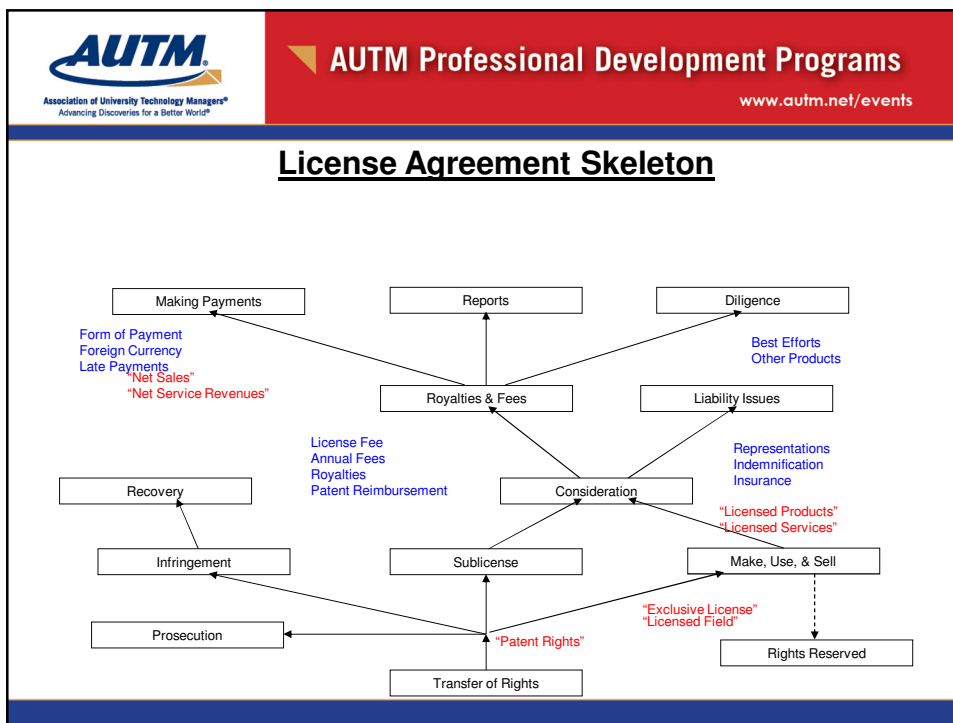
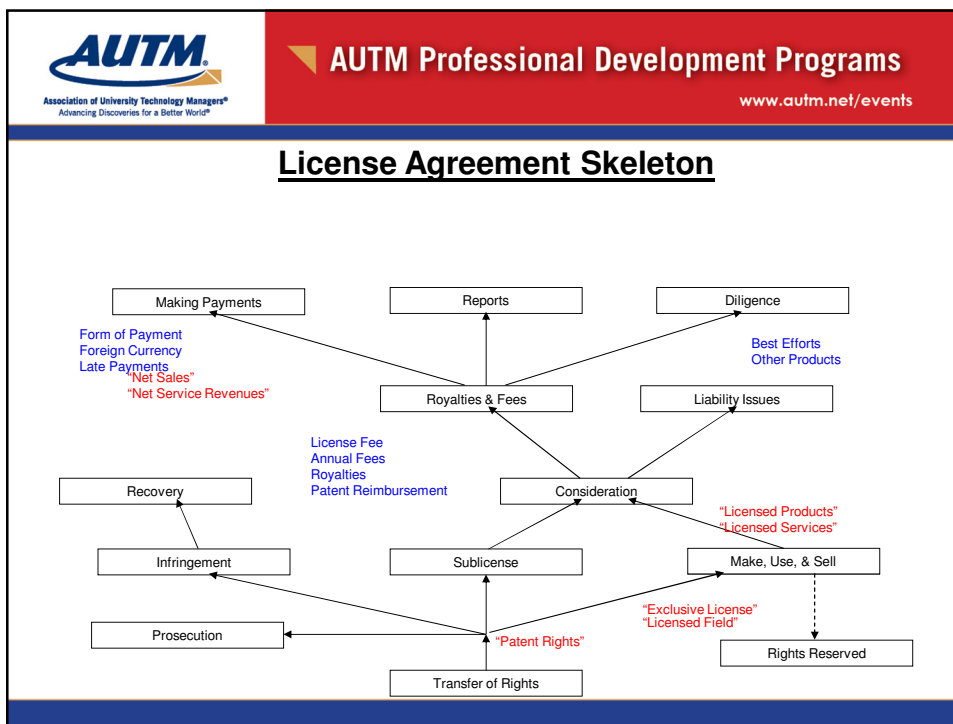
This diagram is identical to the one above but includes an additional 'Royalties & Fees' box at the top, which has an arrow pointing to the 'Consideration' box.

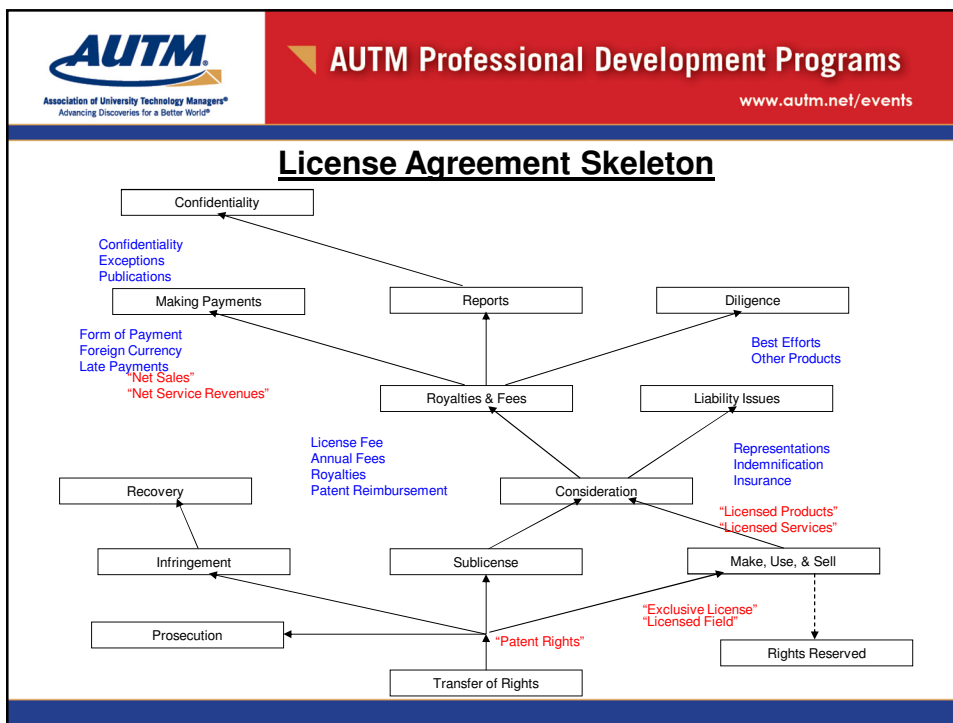
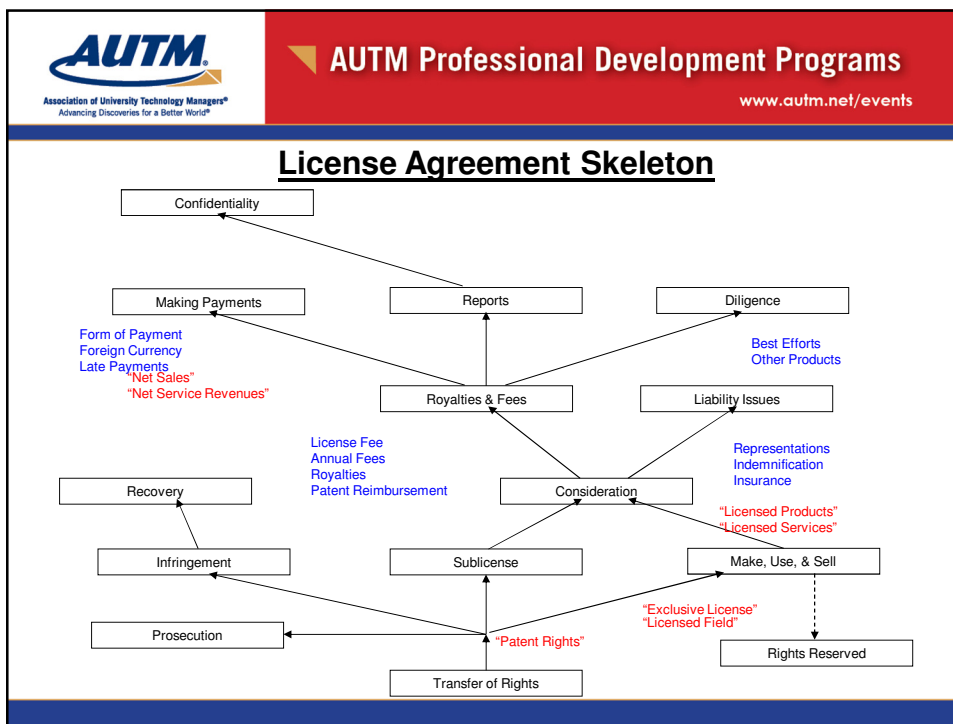


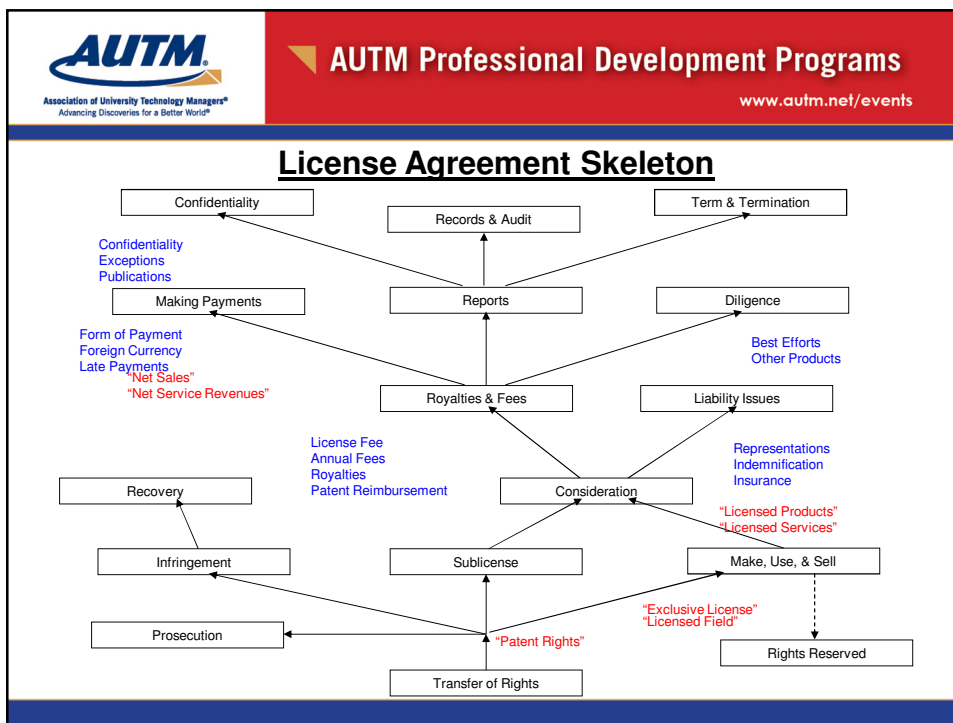
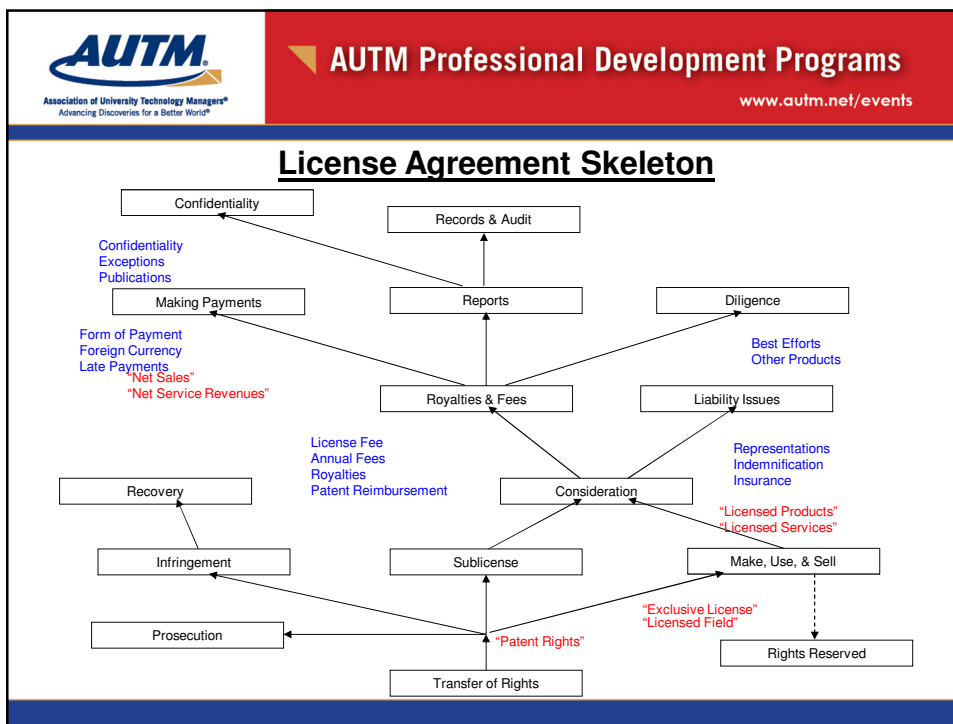


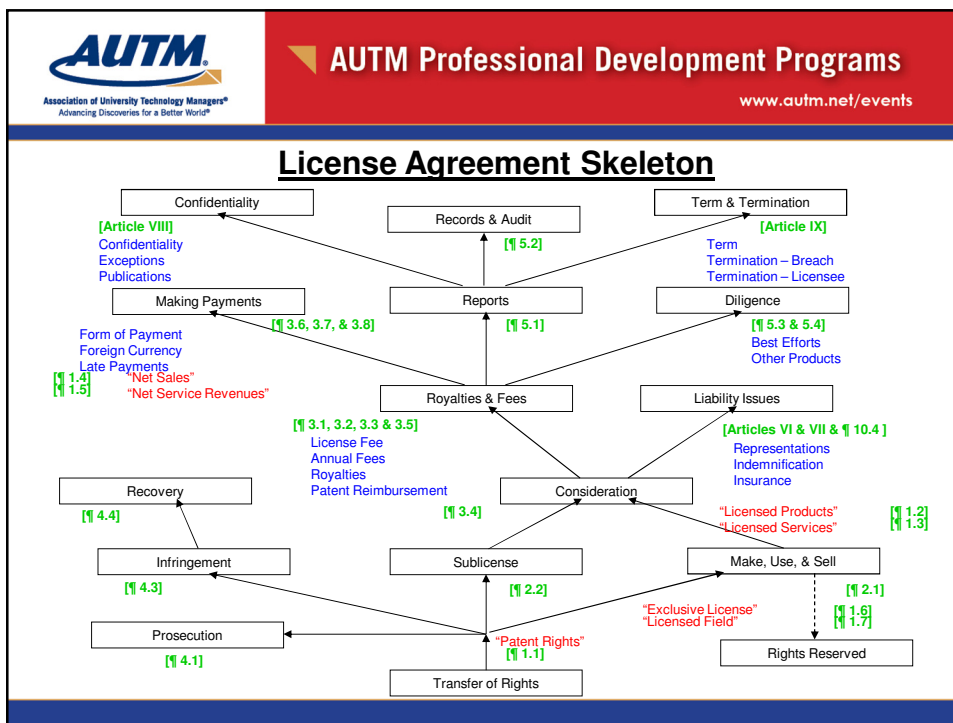
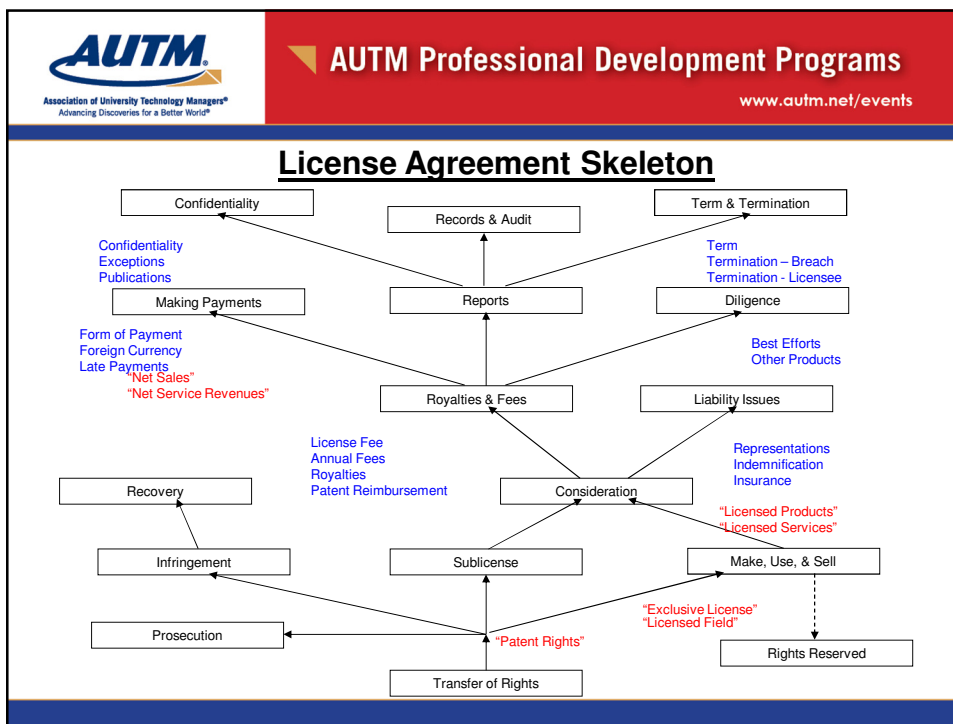












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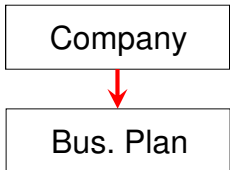
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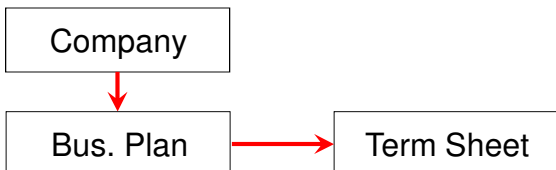


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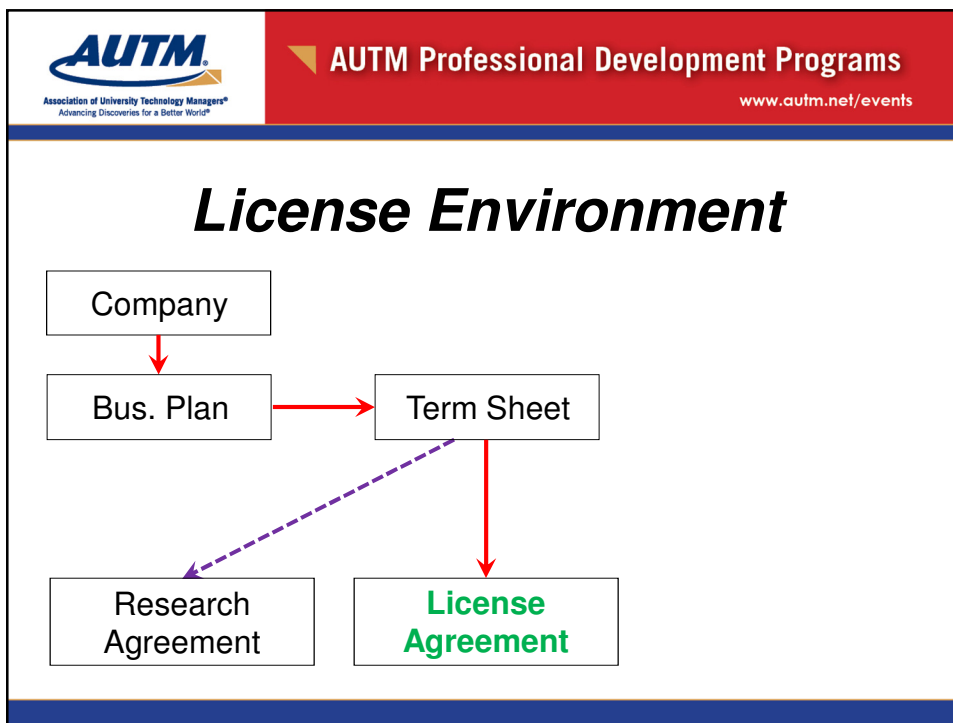
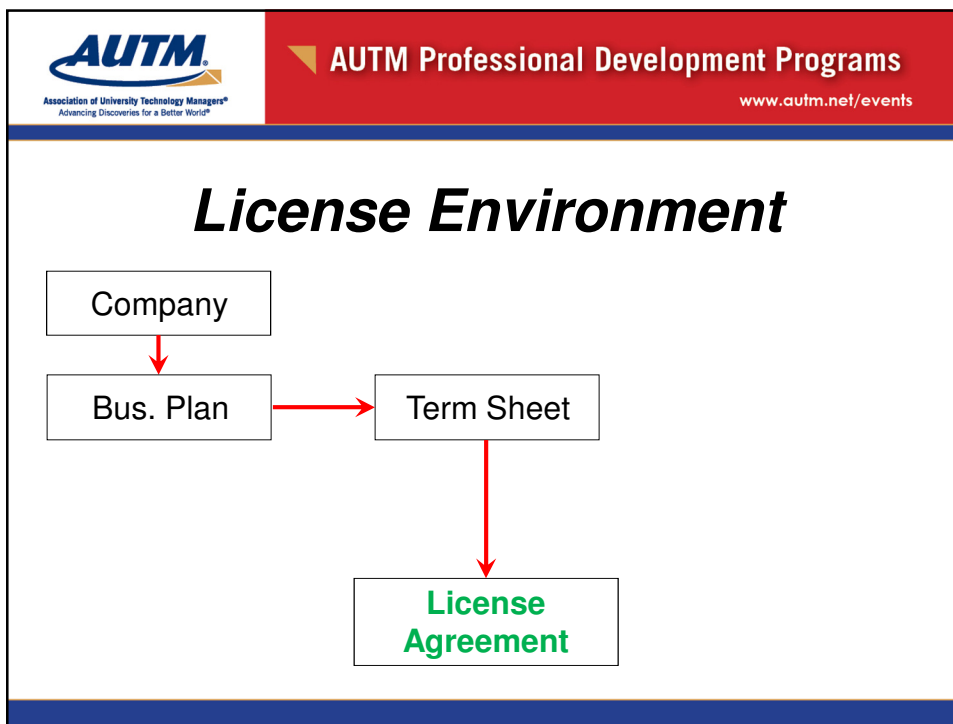
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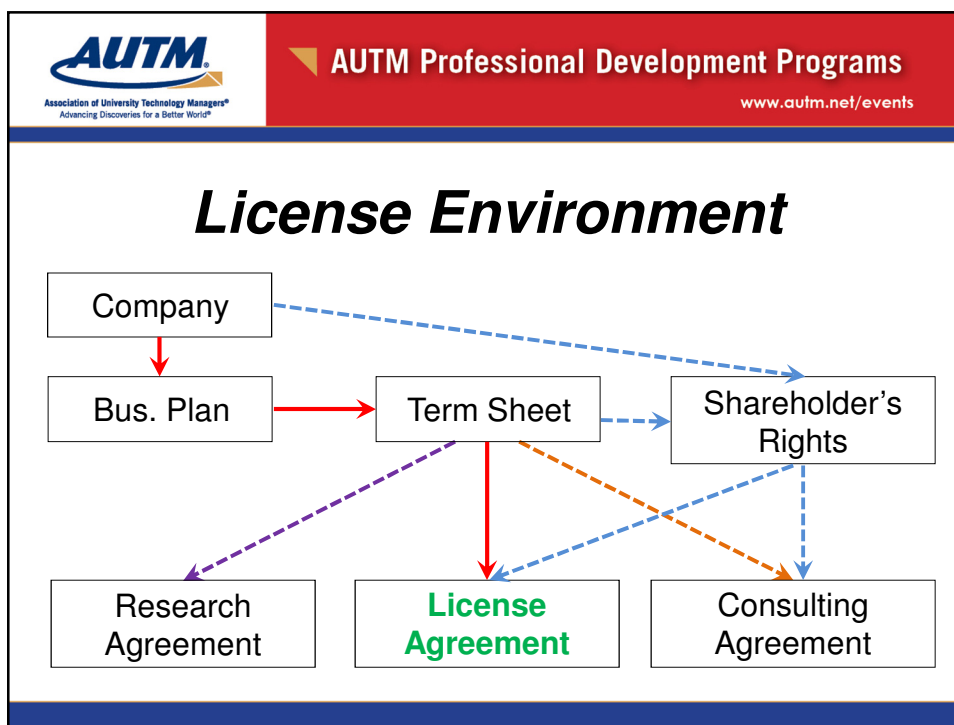
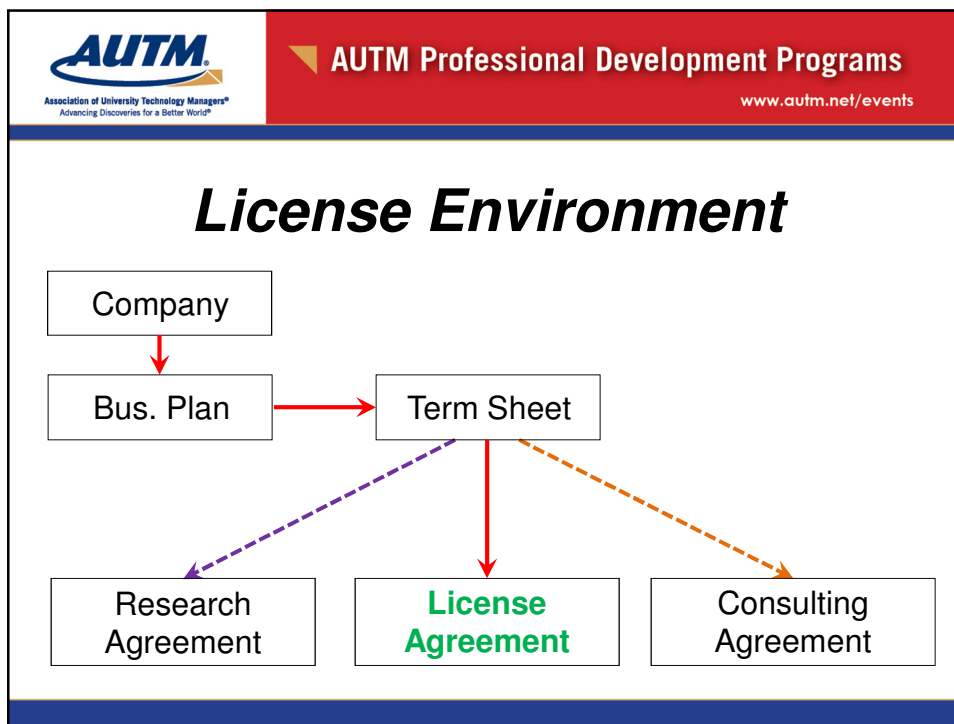
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- 1. Who is the Licensee?**
- 2. Effective date of the license?**
- 3. Look at what is being licensed**
 - Patent Rights
 - Other rights
 - Deliverables?



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- 4. Look at the scope of the grant**
 - Exclusive vs. Non-exclusive
 - Field of use
 - Government rights
- 5. Look at the form of consideration**
 - Royalties, fixed payments, etc.




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- 6. Look at the milestones and obligations**
 - Milestones
 - Deliverables/reports
- 7. What is the term of the agreement**
 - Look at the Patent Rights



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- 8. Construct a timeline of due dates**
 - Reports
 - Payments
 - Milestones
- 9. Enter into a docket system**
- 10. Conduct license maintenance**



Questions

