Anatomy of a License Agreement

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Author's note: Most of the examples in this chapter are taken from Stanford University's standard license agreements. Stanford takes no responsibility for this language and any use of the language is done at the user's own risk.

Introduction

A license agreement is a contract between parties to allow one party the right to something that is owned or controlled by another party. The owning/controlling party usually receives some sort of consideration for granting this right.

Before delving into the substance of the agreement itself, a note on the use of plain language. If you keep the language clear, concise, and as simple as possible, anyone reading the agreement will understand your intentions. Clear, concise, and simple language is important in order that:

a) when starting the relationship with the other party, you both have the same understanding of the contract and to what you've each agreed;
b) if you or your licensing counterpart leave your respective entities, anyone else can pick up the agreement and will have the same interpretation as the two of you did; and
c) if the agreement becomes part of a legal action, any third party will interpret the agreement in the way you intended, including a judge or jury of your peers.

If you are not sure if something is clear, it likely isn't. Run the language by your colleagues (without providing any interpretations!) before signing as at least one test to make sure you are understood.

The Beginning

In the opening words of a license agreement, you meet the parties entering into the agreement. Like being formally introduced to someone for the first time, you are told the who, where, and what about the party—its full legal name, address, place of business, and type of entity. The licensee is the party attaining rights under the agreement, and the licensor is the party granting the rights.

Following the introductions, some background (often called *recitals*) may be provided on the entities. What is the topic of the agreement? Are there others involved of whom to be aware? Why are the parties working together? The background frames the agreement and provides support for the subsequent sections. However, some entities may choose not to include a background section since it is purely informational and not usually a substantial part of the agreement.

Definitions

Definitions is often the next section of a license agreement because it defines words that you will use throughout the agreement. It is important to define any word or phrase that could be open to interpretation or to create a definition for any phrase you will use repeatedly in the agreement. Definitions also ensure that both parties have the same intent when using a particular word or phrase. Even the word *exclusive* is important to define, as exclusive may have certain caveats—particularly in the university technology transfer world in which inventions are sponsored by the government (nonexclusive license to the government required under Bayh-Dole) and retained rights are of increasing importance (See Point 1 of the “Nine Points to Consider in Licensing,” on the AUTM Web site at http://www.autm.net/AM/Template.cfm?Section=Nine_Points_to_Consider).
Example words and phrases to define in your license agreement follow:

Exclusive/Nonexclusive

If including any exclusivity in the agreement, you should define the term *exclusive*. How exclusive is the relationship between the parties? By stating there is exclusivity, what does that allow or prohibit each party from doing?

An example definition:

> *"Exclusive" means that, subject to Articles X and Y, Licensor will not grant further licenses under the Licensed Patents in the Licensed Field of Use in the Licensed Territory.*

In this example, exclusivity is defined by the university agreeing it will not grant any more licenses to the patent falling under the agreement (licensed patent) in the area the company will use the patent (licensed field of use), with the exception of two instances named in the articles X and Y (in Stanford's case, these articles are (a) the licensee retains for itself and all other academic research institutions and (b) any rights the government may have to the technology per Bayh-Dole).

If granting a nonexclusive license, the licensor can license the licensed patent to other parties.

Licensed Field of Use

The licensed field of use states the area in which the licensor is allowing the licensee to use the licensed patent. For example, if the licensed patent covers a compound that may be useful in the treatment of certain central nervous system diseases, but the licensor only wants to develop the compound to treat Alzheimer's, the licensed field of use would be "therapeutics for Alzheimer's disease."

When possible, carefully define the field of use and provide diligence for each part of the licensed field of use, especially in exclusive licenses. (More on diligence is in another section of this article.) If the licensed field of use is not carefully defined, the licensor may find it has unintentionally granted rights beyond the scope of what it intended. This is particularly important when granting multiple licenses on a single technology.

Licensed Patent

The licensed patent rights are often the core of what is granted to the licensee by the licensor. The licensed patent definition should encompass all of the patents that fall under the agreement.

A sample definition for the licensed patent is:

> *"Licensed Patent" means Licensor's U.S. Patent Application, Serial Number ____________, filed _________________________, any foreign patent application corresponding thereto, and any divisional, continuation, or reexamination application, and each patent that issues or reissues from any of these patent applications. Any claim of an unexpired Licensed Patent is presumed to be valid unless it has been held to be invalid by a final judgment of a court of competent jurisdiction from which no appeal can be or is taken. "Licensed Patent" excludes any continuation-in-part (CIP) patent application or patent.*

A list of the known licensed patents may be included in this definition or in an appendix of the license agreement. However, not all licensed patents may be known at the time of licensing, especially in cases where only a provisional patent application has been filed at the time of licensing.

Different institutions have different philosophies on granting rights to continuation-in-parts (CIPs) and improvement inventions. Be careful to assess what those CIPs or improvements may be—has the value already been accounted for under the license? Does the licensor even have the right to be able to grant rights to such improvements (for example, what if the improvement is sponsored by a third party)?

Licensed Product

The licensed product is the eventual product made using the technology licensed under the agreement. The definitions of licensed patent, technology, or whatever is being licensed under the agreement are needed under this licensed product definition since the use of the licensed intellectual property or other matter defines whether the eventual product is something that falls under the license agreement.

A sample definition:

> *"Licensed Product" means a product or part of a product in the Licensed Field of Use:*
>
> *(A) the making, using, importing, or selling of which, absent this license, infringes, induces infringement, or contributes to infringement of a Licensed Patent; or*
>
> *(B) which is made with, uses or incorporates any Technology.*

Licensed Territory

The licensed territory is where the licensee can use the rights granted under the license agreement. The majority of license agreements from institutions define the licensed territory as worldwide, but some license agreements restrict where the licensee may practice the licensed patent and/or sell licensed product. A licensor could also grant to a party exclusive rights for certain territories and nonexclusive rights in others.

Net Sales

If, as part of the consideration for granting the license agreement, the licensor is receiving payments based on sales of the licensee's licensed products, a definition is needed for those sales. The definition of sales can range from a simple statement to something more complex. For example, it could simply be the gross sales of the licensed product by the licensee (or any sublicensees). Or it could be the gross sales minus an agreed-upon percentage (e.g., 5 percent). However, the majority of license agreements have more complex net sales definitions, allowing for the deduction of certain items from the gross sales before any calculation is made on the payment to licensor.

A sample net sales definition:

> *"Net Sales" means all gross revenue derived through Licensee or sublicensees from Licensed Product. Net Sales excludes the following items (but only as they pertain to the making, using, importing, or selling of Licensed Products; are included in gross revenue; and are separately billed):*
>
> *(A) import, export, excise and sales taxes, and custom duties;*
>
> *(B) costs of insurance, packing, and transportation from the place of manufacture to the customer's premises or point of installation;*
>
> *(C) costs of installation at the place of use; and*
>
> *(D) credit for returns, allowances, or trades.*

Grant

The grant is the main purpose of the agreement, outlining exactly what the licensor is allowing under the agreement.

Grant of Rights to Licensee

The grant section explains what the licensor (the party granting the rights) is allowing the licensee (the party receiving the rights) to do. Note that patents are a negative right, therefore a nonexclusive license really is the licensor granting the licensee permission to infringe the licensed patent in the development and sale of a licensed product.

A sample grant clause is:

> *Licensor grants Licensee a license under the Licensed Patent in the Licensed Field of Use to make, have made, use, import, offer to sell, sell, and have sold Licensed Product in the Licensed Territory.*

The licensees often want to include all of these ways to use licensed patent (make, have made, use, import, offer to sell, sell, and have sold licensed product) because licensees may not actually make or sell the product themselves, but instead contract this work out to third parties.

Exclusivity and Term of the Agreement

All right, so the licensor has told the licensee that it is getting a grant of certain patent rights. But is the licensor restricting itself at all from granting other licenses? If so, how? And for how long will the license last?

For example, if the licensor wants to grant only the license to the licensee in a certain field of use and only for 10 years from date of first commercial sale, the next section of the agreement would state:

> *Said license is Exclusive, including the right to sublicense under Article 4, in the Licensed Field of Use beginning on the Effective Date and ending on the 10th anniversary of the first date of commercial sale of a Licensed Product.*

The license could either terminate thereafter or could be nonexclusive. This may depend on the type of technology and the life left on the licensed patent.

Be sure to include a section in the license agreement under which the licensee must tell the licensor when the first commercial sale occurs (see the “Diligence and Reporting” section). Not only may it be important for the term of the license, but if the invention is sponsored by the government, the government requires institutions to obtain this information.

Retained Rights and Government Rights/Provisions

As mentioned previously in this article, retained rights have increased in importance to academic institutions, especially in light of the *Duke v. Madey* decision. Therefore, most institutions now recommend some version of retaining rights to technologies such that academic researchers are free to do academic research without fear of a lawsuit for infringing a patent. For more on *Duke v. Madey*, see Volume 1 of the AUTM Technolgy Tranfer Manual)

The "Nine Points to Consider in Licensing" contains three sample retained rights clauses in the Appendix, Part 1. It is available on the AUTM Web site at http://www.autm.net/AM/Template.cfm?Section=Nine_Points_to_Consider.

The federal government also often has certain rights to inventions based on its sponsorship of those inventions. Stanford includes the following clause in exclusive licenses to notify the licensee of those rights and references this clause in its definition of exclusive:

> *This Agreement is subject to Title 35 Sections 200-204 of the United States Code. Among other things, these provisions provide the United States Government with nonexclusive rights in the Licensed Patent. They also impose the obligation that Licensed Product sold or produced in the United States be "manufactured substantially in the United States." Licensee will ensure all obligations of these provisions are met.*

In nonexclusive licenses, the third sentence regarding substantial manufacture is not needed since the licensee still has the right to grant other licenses in the U.S. All other provisions in the above paragraph are included, though. (To review the provisions of Bayh-Dole, visit the Cornell University Web site at http://www4.law.cornell.edu/uscode/35/200.html. Press "next" in the upper right-hand corner to review sections 201-204.)

As a brief overview (and not all-inclusive), the Bayh-Dole act stipulates the following:

1) Nonprofit organizations and small businesses are allowed to own the inventions created with the use of federal funds, but in order to do so they must abide by other provisions of the Bayh-Dole Act.

2) The funded entity must disclose the invention to the government within a reasonable time.
3) The funded entity must elect to retain title of the invention within a certain period of time.
4) The government has a nonexclusive right to use the invention for its own purposes.
5) If the funded entity does not decide to pursue the invention, it needs to notify the government in a timely manner in order that the government may pursue the rights, if it chooses to do so.
6) If the funded entity is a nonprofit, then:
    a) it cannot assign rights to the invention without prior approval from the federal agency;
    b) it must share royalties with the inventors;
    c) after payments of expenses and royalties to inventors, the balance must be used for the "support of scientific research or education;" and
    d) a preference should be shown for licensing to small businesses.
7) The government has march-in rights for federally funded inventions, meaning that if the technology is exclusively licensed and the federal agency that funded the invention finds that the licensed entity is not meeting certain requirements or needs, the government can use the rights in the technology to meet the requirements or needs.
8) For any exclusive licensing, the licensee must agree "that any products embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States" unless the licensee receives a waiver from the U.S. government.

Financials

In consideration of granting the license, the licensee will pay certain amounts to the licensor. The financials of a license agreement are a balancing act. Whereas one licensor may be willing to pay more on the license product, another licensor may prefer to pay more upfront and less on the product made in the future. Below are several typical types of licensing payments, but certainly not an exhaustive list. For example, some licenses may only require a one-time payment or simply an annual renewal fee. Be sure to appropriately customize the types of payment to the type of license being granted.

Upfront Payment (aka Issue Fee)

An upfront payment (or issue fee) is made in consideration of the grant of the license. Typically upfront payments are not creditable towards any other payments and are not refundable once made.

An upfront can reflect:

- a part of the value of the technology that is being licensed, including the resources already devoted to producing the licensed technology
- a consideration for the time and effort to enter into the license
- a diligence payment for the upcoming work to be done on the technology
- payments already made by licensor for licensed patent's expenses

An upfront payment can be in the form of cash and/or stock. Upfront payments can also potentially be spread out over time, especially in the case of startup companies that are low on cash in the beginning.

Annual Minimum/Annual Maintenance Payment

An annual maintenance payment reflects:

- the licensee's diligence in continuing to pursue the technology
- a minimum amount the licensee will pay to licensor for that year to keep the license

Annual payments are often creditable toward earned royalties. They can either be cumulatively creditable or only creditable for the year in which the payment was made. In order to ensure both parties understand how the credit operates, an example may be used in the license agreement. Following is sample language for the example in the case of an annual minimum that is only creditable for one year, taken from Stanford's boilerplate agreement:

For example:

> *(A)* *if Licensee pays Stanford a $10 maintenance payment for year Y, and according to Section 7.4 $15 in earned royalties are due Stanford for Net Sales in year Y, Licensee will only need to pay Stanford an additional $5 for that year's earned royalties.*

(B) *if Licensee pays Stanford a $10 maintenance payment for year Y, and according to Section 7.4 $3 in earned royalties are due Stanford for Net Sales in year Y, Licensee will not need to pay Stanford any earned royalty payment for that year. Licensee will not be able to offset the remaining $7 against a future year's earned royalties.*

Earned Royalties

When a licensee sells products or services based on the technology licensed from the licensor (licensed products) the company often pays an earned royalty on the product to the licensor. The most common form of this earned royalty is a percent of net sales (defined above). However, it can also be a fixed amount per unit sold (e.g., $1 per widget sold) or a fixed amount depending on the total sales (e.g., $10 if sales are below $100, $25 if sales are between $100 and $1,000, and $100 if sales are over $1,000).

If a percentage of net sales is used as the earned royalty, the percentage may also vary depending on the total net sales, the type of licensed product (e.g., is it a diagnostic or a therapeutic), what earned royalty payments the licensee must make to third parties (which often means a stacking clause is included in the license agreement), and/or if the licensed product is sold in combination with other products that are not licensed products. This last type of alteration to the earned royalties is defined under a combination products clause.

A sample of such a clause follows:

It is recognized that Licensed Product(s) may be sold in combination with other therapeutically active substances (hereinafter referred to as "Combination Product[s]"). "Therapeutically active" shall mean biologically active in achieving a clinical therapeutic objective in concert with, or supplementary to, a Licensed Product(s). In determining the Net Sales of Combination Product(s), Net Sales shall first be calculated in accordance with the definition of Net Sales in Paragraph X.X and then multiplied by the percentage value of the Licensed Product(s) contained in the Combination Product(s), such percentage value being the quotient obtained by dividing (a) the cur-

> *rent market value of the Licensed Product(s) by (b) the sum of the separate current market values of the Licensed Product(s) and the other components which are contained in the Combination Product(s). The current market value of each therapeutically active ingredient and of the Licensed Product(s) shall be for a quantity comparable to that contained in the Combination Product(s) and of the same class, purity, and potency. When no current market value is available for a component other than the Licensed Product(s) of a Combination Product(s), LICENSEE shall calculate a hypothetical market value for such component, allocating the same proportions of costs, overhead, and profit as are then allocated to similar components made by LICENSEE and having an ascertainable market value. If, however, the parties determine that the above formula does not adequately and fairly reflect the contribution of each component in a particular Combination Product(s), then the parties shall negotiate in good faith a modification of the formula for the determination of Net Sales of that Combination Product(s).*

A sample stacking clause may be:

> *In the event that Licensee incurs royalty obligations to any third party in order to make, have made, use or sell a Licensed Product within the Field Of Use, then Licensee shall be entitled to set off as a credit against earned royalty payable to Licensor under Section X.X on Net Sales of such Licensed Product, fifty percent (50%) of the amount actually paid to such third parties under such licenses for sales of Licensed Product; provided, however, that in no event shall the earned royalty payable to Licensor under section X.X for Net Sales be reduced by more than 50%.*

However, note that stacking should be negotiated when discussing the financial terms of the agreement. If you have already agreed on your well-balanced financial terms, stacking can be an unwelcome additional deduction.

Another area to note under earned royalties is sales by sublicensees. Will the earned royalty also apply for sublicensees' sales or is remuneration from sublicensees accounted for in a different manner? An example may be that the licensor receives a certain percentage of all sublicensing income the licensee receives from the sublicensee (not a separate earned royalties amount). Another route is for the licensor to receive a certain percentage of sub-licensing income the licensee receives from the sublicensee, except for earned royalties. In the case of earned royalties, the licensor could be paid on what is called a pass-through basis, meaning the licensor receives what it would have received if the direct licensee had sold the product.

Milestone Payments

Milestone payments may also be part of the consideration for the license. These payments reflect the proven and increased value of the licensed technology. Milestone payments are more common in field exclusive or fully exclusive licenses than nonexclusive licenses, but can be included in any license to gain the balanced financial consideration.

Types of milestone payments include:

- therapeutics (upon investigational new drug filing; initiation of Phase I, II, and/or III clinical trials; nondisclosure agreement filing; Food and Drug Administration approval)
- prototype
- first commercial sale
- strategic partner signed
- funding (e.g., $1,000,000 total received by licensee from outside sources)
- first issuance of patent in a certain country
- issuance of certain types of patent claims
- proof of concept
- number of years of survival of agreement

Typically the amount of the milestone payment reflects the increased value of the technology following the achievement of the milestone.

Patent Expenses

In most exclusive licenses, the licensee reimburses the licensor for patent expenses. These expenses may or may not include expenses incurred prior to the effective date of the license agreement. When drawing up a term sheet for an exclusive license, include reference to patent expenses and be as explicit as possible regarding which expenses the licensee will reimburse.

Sometimes in nonexclusive licenses a portion of patent expenses may also be reimbursed by the licensee to the licensor, or the licensor may include consideration of the patent expenses in the upfront and annual payments.

Discussion of Most Favored Nations

Some nonexclusive licenses may include a most favored nations (MFN) clause. A sample MFN clause may read:

> *If Licensor grants a license for the Licensed Patent(s) to a third party to make, use, or sell the Licensed Product(s) on terms more favorable than the terms of this Agreement, Licensor will immediately notify Licensee and, at Licensee's option, this Agreement will be amended so that Licensee will receive the benefit and burdens of the terms granted to such third party. The remaining terms of this Agreement will continue in force.*

Be careful when including such provisions—the institution may not have an easy mechanism by which to remember when it granted a MFN. It may also be difficult to determine which are more favorable terms for a license. For example, a license may be more financially back-loaded vs. front-loaded. Other provisions may need to be in alignment as well, such as the licensed field of use, for the MFN clause to apply.

Diligence and Reporting

No one wants to grant a license simply to see a technology collect dust on a shelf. Licenses from institutions are granted so that products can be made to better the world. Therefore, diligence requirements for the licensee are included in agreements to help assure that progress will be made, and the invention hopefully developed into a product.

Both general diligence clauses and specific diligence milestones are typically found in license agreements. In a nonexclusive license agreement, milestones may or may not be included, depending on the technology and the institution's practices. Some sort of diligence should be included even under nonexclusive licenses, though. Otherwise, a licensor could license the technology simply to bar the institution from granting an exclusive license.

A sample diligence clause is:

> *Because the invention is not yet commercially viable as of the Effective Date, Licensee will diligently develop, manufacture, and sell Licensed Product and will diligently develop markets for Licensed Product. In addition, Licensee will meet the milestones shown in Appendix A, and notify Licensor in writing as each milestone is met.*

In order to know whether the licensee is being diligent, the licensor will ask for progress reports. Typically such reports are submitted annually. Information contained in these reports may also be required by the government, particularly the date the first commercial product is sold using a technology funded in part by the federal government.

If the licensee is not fulfilling its obligations of diligence or reporting, usually the licensor is allowed to terminate the agreement with sufficient notice to the licensee.

Warranties and Indemnities

A warrant is a written guarantee of the integrity of something. When considering warranties, the licensor and licensee must determine what risks they are willing to take. An institution is not often willing to warrant anything with regard to the licensed technology (e.g., whether the technology will work and if the licensor can commercialize it). In other words, the licensee takes the license and uses the invention at the licensee's own risk. The practices of your institution for warranties may be regulated by your risk management and/or general counsel's offices. Check with appropriate staff regarding what terms are acceptable for your institution or company.

Indemnity is security against hurt, loss, damage, liability for the licensed technology. In general, institutions want to be indemnified by the licensee for any claims or actions resulting from the use of the licensed technology. The exception on this may be the gross negligence or willful misconduct of the institution (licensor) or the researcher at the institution.

In general, the licensees of institutional technologies take on the technologies at their own risk. Certain exceptions can apply, but it is important to know what exceptions an institution is willing to make.

Patent Prosecution and Protection

Patent Prosecution

In an exclusive license, the exclusive licensee may request to have involvement with the prosecution of the licensed patent. The involvement may range from being copied on all patent correspondence to use of licensee's own in-house counsel. Each licensor must decide for each technology where its comfort level is for the transfer of control of the patent prosecution to the licensee. The licensor should at least retain review rights of prosecution as well as the final decision on matters regarding the substance and national filings of the patents. There should be a clear understanding by the licensee and attorney of record as to who (licensee or licensor) is the attorney's client.

A sample clause under which the licensee is responsible for patent prosecution is:

> *Following the Effective Date and subject to Stanford's approval, Licensee will be responsible for preparing, filing, and prosecuting broad patent claims (including any interference or reexamination actions) for Licensor's benefit in the Licensed Territory and for maintaining all Licensed Patents. Licensee will notify Licensor before taking any substantive actions in prosecuting the claims, and Licensor will have final approval on how to proceed with any such actions. To aid Licensee in this process, Licensor will provide information, execute and deliver documents, and do other acts as Licensee shall reasonably request from time to time. Licensee will reimburse Licensor for Licensor's reasonable costs incurred in complying with such requests.*

In a nonexclusive license, in general the licensor retains all control of the patent prosecution.

Suspected Infringement

If it is suspected that a third party is infringing the licensed patent, license agreements often address how to proceed against the suspected infringer. In nonexclusive licenses, typically the licensee will inform the licensor of any suspected infringement, and the licensor will then have full decision authority on how to pursue the suspected infringer.

In the case of an exclusive license, the licensor and licensee arrange which party can pursue the suspected infringer, the notifications required by one party to the other, who will pay what costs, and how the outcome of any action will be split.

Sample clauses on suspected infringement:

1.1 Licensor Suit. Licensor has the first right to institute suit, and may name Licensee as a party for standing purposes. If Licensor decides to institute suit, it will notify Licensee in writing. If Licensee does not notify Licensor in writing that it desires to jointly prosecute the suit within 15 days after the date of the notice, Licensee will assign and hereby does assign to Licensor all rights, causes of action, and damages resulting from the alleged infringement. Licensor will bear the entire cost of the litigation and will retain the entire amount of any recovery or settlement.

1.2 Joint Suit. If Licensor and Licensee so agree, they may institute suit jointly. If so, they will:

(A) prosecute the suit in both their names;
(B) bear the out-of-pocket costs equally;
(C) share any recovery or settlement equally; and
(D) agree how they will exercise control over the action.

1.3 Licensee Suit. If neither Section 1.1 nor 1.2 apply, Licensee may institute and prosecute a suit so long as it conforms with the requirements of this Section and Licensee is diligently developing or selling Licensed Product. Licensee will diligently pursue the suit and Licensee will bear the entire cost of the litigation, including expenses and counsel fees incurred by Licensor. Licensee will keep Licensor reasonably apprised of all developments in the suit, and will seek Licensor's input and approval on any substantive submissions or positions taken in the litigation regarding the scope, validity, and enforceability of the Licensed Patent. Licensee will not prosecute, settle, or otherwise compromise any such suit in a manner that adversely affects Licensor's interests without Licensor's prior written consent. Licensor may be named as a party only if

(A) Licensee's and Licensor's respective counsel recommend that such action is necessary in their reasonable opinion to achieve standing;
(B) Licensor is not the first named party in the action; and

(C) the pleadings and any public statements about the action state that Licensee is pursuing the action and that Licensee has the right to join Licensor as a party.

1.4 Recovery. If Licensee sues under Section 1.3, then any recovery in excess of any unrecovered litigation costs and fees will be shared with Licensor as follows:

(A) any payment for past sales will be deemed Net Sales, and Licensee will pay Stanford royalties at the rates specified in Section X.X;

(B) any payment for future sales will be deemed a payment under a sublicense, and royalties will be shared as specified in Article Y.

(C) Licensee and Licensor will negotiate in good faith appropriate compensation to Stanford for any non-cash settlement or non-cash cross-license.

1.5 Abandonment of Suit. If either Licensor or Licensee commences a suit and then wants to abandon the suit, it will give timely notice to the other party. The other party may continue prosecution of the suit after Licensor and Licensee agree on the sharing of expenses and any recovery in the suit.

Although lengthy, these clauses address each type of situation that could occur with the suspected infringement.

Termination

There may come a point when either party to the license agreement wishes to terminate the license. The licensee may determine the technology is no longer of interest or may change research directions. The licensor may find that its licensee is not fulfilling the licensee's obligations under the license agreement.

The termination section of the license agreement outlines how and when each party can terminate the agreement. Often, the licensee is allowed to terminate at any time upon a certain number of days notice to the licensor. However, this may not be the case when the license agreement is tied to sponsored research or collaboration contracts.

The licensor is only allowed to terminate the license in certain situations such as:

- delinquency on payments or reports
- missing diligence milestones or not diligently developing the licensed technology
- other material breaches of the license agreement
- providing false reports

The licensee does not want to enter into the license agreement with the risk that the technology could be pulled away at any point. At the same time, the licensor needs to ensure that its technology is being developed and it is receiving the consideration agreed upon.

If the licensor does send a notice of termination to the licensee, usually there is a period in which the licensee can cure the breach or work out a settlement with the licensor for the breach. Note that the period to respond to the termination and the cure periods are separate, therefore these periods can add up to quite a bit of time if the licensor is not careful on limiting the total time for these periods.

Sublicensing

Particularly in exclusive licenses, sublicensing privileges may be granted to the licensee. The licensee can then further license the technology to other parties.

In nonexclusive licenses, sublicensing isn't generally allowed or needed. Instead, the new party wishing to take a license can come back to the licensor to take a license. However, certain exceptions may be practical for some technologies. The licensor should consider what is in the best interests of the technology.

If the licensor does allow the licensee to sublicense, areas to consider are:

- Can a sublicensee then further sublicense? How many layers of sublicensing are allowed? Note that unlimited layers of sublicensing are not a good idea as the licensor may quickly lose control over what is happening with the technology.
- What provisions from the license agreement between the licensee and licensor should also be included in the sublicense? Items the licensor may want the licensee to include in the sublicense are the warranties, indemnification, reporting, and auditing provisions.
- Does the licensor receive a copy (perhaps redacted) of the sublicense?

- How much remuneration should the licensor receive of the payments received by the licensee from the sublicensees?
- What happens to the sublicenses if the license agreement between the licensee and licensor terminates?

Sublicensing can also be required by the licensor in cases of unmet markets or needs for the technology.

A sample clause on required sublicensing is:

> *If Licensee is unable or unwilling to serve or develop a potential market or market territory for which there is a company willing to be a sublicensee, Licensee will, at Licensor's request, negotiate in good faith a sublicense with any such sublicensee. Licensor would like licensees to address unmet needs, such as those of neglected patient populations or geographic areas, giving particular attention to improved therapeutics, diagnostics, and agricultural technologies for the developing world.*

Other Provisions

There are many other provisions that are also important to include in certain types of license agreements. Some are noted below and samples can be found in the boilerplate license language of many institutions (for Stanford's standard agreements, visit the Web site at http://otl.stanford.edu/industry/resources/industry_res.html. Examples also might be found on the AUTM Web site in the AUTM Toolkit at http://community.autm.net/AUTM/AUTM/Resources/LibraryDocuments/Default.aspx?LibraryKey=e6f054bc-45cb-42ff-8c77-a8e76942091d. Some of these provisions are also covered in several *AUTM Technology Transfer Practice Manual* chapters available on the AUTM Web site at http://www.autm.net/TTP_Manual_Third_Edition/4304.htm).

- exports
- accounting/audits
- names and marks
- assignment
- arbitration and governing law

- marking of licensed product
- notices
- severability, force majeure, entire agreement, electronic signatures

Conclusion

A license agreement is a relational document. One part affects other parts of the agreement. Negotiate the agreement knowing how each change affects other provisions. Keep the agreement language clear such that anyone reading the agreement would interpret the clauses the same way. This will help avoid ambiguities that could strain the relationship between licensor and licensee and ultimately could help some of the cutting-edge technologies from institutions make it to market.

One final note: Stanford lists all of its boilerplate agreements on its Web site at http:/otl.stanford.edu/industry/resources/industry_res.html?headerbar=2. With the new AUTM Toolkit, which can be found on the AUTM Web site at http://community.autm.net/AUTM/AUTM/Resources/LibraryDocuments/Default.aspx?LibraryKey=e6f054bc-45cb-42ff-8c77-a8e76942091d I hope other universities will also share their boilerplate agreements for review by their AUTM colleagues.