

A CHECKLIST FOR LICENSE AGREEMENTS

1. Effective Date

2. Proper Identification of Parties

Whether on the side of the licensor or the licensee, you must ensure that the correct entity enters into the Agreement and that it is properly identified. In order to properly identify each party, the agreement should include the following:

- a) Names
- b) Addresses
- c) Representatives
- d) Legal status

3. Recitals

- a) why are the businesses entering into the licensing agreement?
- b) what is being licensed by whom?

4. Grant of License

- a) Exclusive versus non-exclusive relative to “field of use/territory”
- b) Right to sub-license
- c) Which of the rights to make, use, exercise, vend and exploit are to be granted?
To what extent? – e.g. entitlement to manufacture a certain number of products

5. Terms

- a) Price
- b) Percentage (with terms for accounting disclosures/auditing)
- c) Duration and commencement
- d) Approved purpose
- e) Territory

6. Consideration

- a) Upfront payments:
 - i. Credit against future royalties
 - ii. In installments upon achievement of milestones – e.g. upon date of signing and upon date of regulatory authority’s approval
 - iii. Royalty payments; based on what? – e.g. a fixed amount per unit manufactured, a percentage of the gross sales, a graduated scale, etc.
 - iv. Do royalties accrue on an invoice being rendered for the relevant product by the licensee or upon payment being made of that invoice?
 - v. Combination products, royalty should only relate to part of net sales or gross sales value
 - vi. Local jurisdiction restrictions in permitted amount of royalties and remittance rights
 - vii. Should there be a mechanism to review the amount of the royalty for market reasons
 - viii. Late payments to attract interest?

7. Intellectual Property

- a) Licensed subject matter include or exclude any of the following IP:
 - i. Copyright, trademark, tradename, patents, trade secrets, items, formulas, products, branding, etc.
- b) What are the permitted and prohibited uses of each?

8. Time for payment of Royalties

- a) Minimum royalties payable in advance with adjustment at end of relevant period
- b) Quarterly or half-yearly is most common

9. Licensor's Warranties

- a) Warranty as unencumbered ownership and entitlement of the licensed subject matter
- b) Warranty as to the fact that the licensor is not aware that the exploitation of the licensed subject matter will at the date of this agreement infringe or in the future be likely to infringe the rights of any third party
- c) From the licensor's perspective, no warranty as to validity of license should be given

10. Licensee's Warranties

- a) That licensee has and will continue to have during the term of the license the personnel, expertise and resources to properly fulfil its obligations under the license.

11. Licensee's Performance Criteria

- a) Should be more onerous for exclusive licensees than for non-exclusive licensees
- b) Minimum royalties per annum – fixed or adjustable against previous year's performance
- c) Minimum sales per annum – fixed or adjustable against previous year's performance
- d) "Best endeavors", reasonable endeavors in best commercial judgment" etc.
- e) Provide trigger mechanisms for converting exclusive license to non-exclusive license

12. Licensor's Obligations

- a) To transfer know how to the licensee in tangible form – e.g. documents
- b) To transfer know how to the licensee
- c) To continue to conduct research and development concerning the licensed subject matter
- d) To advise the licensee of adverse indications

13. Licensee's Obligations

- a) To manufacture relevant produce in accordance with approved specification/registration details
- b) To undertake research and development concerning the licensed subject matter
- c) To advise the licensor of improvements

- d) To purchase active ingredients and other products from licensor or third party nominated by licensor
- e) Not to challenge licensor's intellectual property rights
- f) To use relevant licensed trade mark

14. Sub-licenses

- a) Extent to which licensor's consent is needed to appointment of sub-licensee
- b) Extent to which licensor's consent is needed to proposed agreement to be entered into with sub-licensee
- c) Extent to which licensor shares licensees, sub-license income
- d) Extent to which licensor can require that sub-licenses be in certain form

15. Improvements

- a) What right should parties have to the respective improvements of the other?
Royalty free to each other but any further licensing at additional royalty?
- b) Ownership of improvements?
- c) Who should have entitlement to patent improvements? The other party should have a right in default
- d) Extent of obligation to consult in relation to proposed patenting program for improvements, including extent of claims and jurisdictions

16. Defense of Infringement Proceedings

- a) Each party to be obliged to inform the other promptly of any threats or commencement of infringement proceedings against them relating to the licensed subject matter
- b) To what extent will the licensor indemnify the licensee arising from the consequences of infringement proceedings against the licensee? No indemnity to the extent that infringement arose through acts/omissions/improvements of the licensee.
- c) Licensee's right to terminate license upon bona fide threat of commencement of infringement proceedings or infringement proceedings being commenced against it.

17. Trademark

- a) Does licensed subject matter include the licensor's trademark?
- b) If licensor's trade mark is part of licensed subject matter, is a separate royalty applicable?
- c) Is the licensor's trademark registered or not?
- d) If the licensor's trademark is registered, procure registration of licensee as registered user at licensee's cost
- e) If licensor's trademark is registered, oblige licensor to register trade mark at its own expense?

18. Packaging and Advertising Material

- a) To what extent is the licensor's approval required to packaging and advertising material – this is more significant from the licensor's point of view, where the licensor's trade mark is being used.

19. Maintenance and Inspection of Licensee's Records

- a) Licensor to have right of inspection/audit an copying of licensee's records
- b) Licensee's and sub-licensee's records to be properly kept and be available for inspection- audit and copying
- c) Licensor to bear cost of inspection, unless discrepancies outside approved range discovered
- d) Licensee to co-operate with inspection/audit
- e) Confidentiality of inspection/audit
- f) Period for keeping records

20. Confidentiality

- a) Properly define what is "confidential information" or provide a mechanism for identifying – e.g. any documents marked "Confidential".
- b) Obligation on licensee only to use confidential information for purposes of fulfilling its obligations under the license
- c) Obligation on licensee not to disclose confidential information to third parties
- d) Parties permitted access to confidential information?
- e) Obligation on licensee to procure confidentiality undertaking from third party who may be permitted to confidential information
- f) Obligation on licensee to indemnify licensor from breach of confidentiality obligation
- g) Obligation on parties to return confidential information to source upon termination or expiration of license
- h) Mutuality of confidentiality obligations?

21. Licensee not to use Licensor's name without permission

22. Product Liability

- a) Licensee to indemnify licensor in relation to defects in product arising from improper manufacture
- b) Licensor to indemnify licensee in relation to defects in product arising from faults in licensor's specification to the product
- c) Licensee to effect product liability insurance noting interest of licensor, with approved insurer and for approved amount and vice versa regarding licensor's indemnity

23. Indemnification

- a) Relating to breach of express warranties
- b) By licensee relating to advertising and promotion of product
- c) By licensor relating to licensee being alleged to infringe third parties' intellectual property rights

24. Limitation of liability

- a) Relating to breach of express warranties
- b) By licensee relating to advertising and promotion of product
- c) By licensor relating to licensee being alleged to infringe third parties' intellectual property rights

25. Termination

- a) Mutual rights or unilateral?
- b) Termination upon breach
- c) Termination without breach
- d) Termination following opportunity to rectify breach
- e) Termination right on change of ownership or management
- f) Termination to be without prejudice to rights accrued up to that time
- g) Remedies for non-terminating party

26. Consequences of Termination

- a) Licensee to have right to dispose of inventory of licensed products and complete orders.
- b) Royalties to continue
- c) Licensor to have right to acquire inventory of licensed products held by licensee at certain price
- d) Licensee to return all licensor's property to licensor and vice versa
- e) Licensee to cease exercising rights under license and in particular cease using trade mark, or other indicia crating association with licensor or benefiting from licensor's rights
- f) Parties rights to be paid outstanding monies? Any right of set off? Personal guaranty?
- g) Licensee to procure novation of such sub-licenses as nominated by licensor in favor of licensor.
- h) Maintenance of confidentiality post termination?

27. Assignment

- a) With or without consent to non-related parties
- b) With or without consent to related parties. Consent only valid as long as party remains related party
- c) Absolute discretion as to consent or not to be unreasonably withheld.
- d) Qualities of assignee to be pre-determined – e.g. technical expertise, financial viability

28. Right of Refusal

- a) If licensor wants to assign
- b) Period of right during license or some post termination/expiration right?
- c) Limited to number of occasions?
- d) Applying to equipment and not just rights

29. Withholding Tax

- a) Impact on royalty payments?

30. Severability

- a) If clause or part thereof severed, should either party have right to terminate?

31. Force Majeure

- a) Obligation to forthwith notify force majeure
- b) Right of termination if period of force majeure exceeds certain time
- c) Obligation to remove force majeure as soon as possible

32. Notices

- a) Note who, where and how notices should be given.

33. Governing Law

- a) What law should control a dispute between the parties

34. Method of Dispute resolution

- a) Courts – identify which courts, if any, have exclusive jurisdiction
- b) Arbitration
- c) Mediation
- d) Identify which, if any, of (b)-(c) must occur first before litigation commenced
- e) Cost of alternative dispute resolution – e.g. 50% each, loser to pay or as determined by adjudicator
- f) Which matters cannot be subject of alternative dispute resolution – e.g. Arbitration not to deal with validity of patent
- g) Attorney's fees – does the loser pay all attorney's fees?

35. Method of Amendment