

Licensing Executives Society (U.S.A. and Canada), Inc.

# The Basics of LICENSING

Including  
International License  
Negotiating Glossary



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# Basics of Licensing Booklet

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## Acknowledgements

This booklet has been prepared for general use by the Licensing Executives Society (U.S.A. and Canada), Inc., but is not a substitute for the services of a licensing professional.

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## About Licensing Executives Society (U.S.A. and Canada), Inc.

Established in 1965, the Licensing Executives Society (U.S.A. and Canada), Inc. is a professional society comprised of over 6,000 members engaged in the transfer, use, development, manufacture and marketing of intellectual property. The LES (USA & Canada) membership includes a wide range of professionals, including business executives, lawyers, licensing consultants, engineers, academicians, scientists and government officials. Many large corporations, professional firms, and universities comprise the Society's membership. LES (USA & Canada) is a member society of the Licensing Executives Society International, Inc. (LESI), with a worldwide membership of over 12,000 members in 30 national societies, representing over 40 countries. For more information visit [www.lesusacanada.org](http://www.lesusacanada.org).

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## Introduction:

Over the past 20 years, the business of intellectual property (IP) licensing and commercialization has come of age creating a vibrant marketplace of ideas and innovation that we increasingly rely on to meet our needs both great and small.

From breakthroughs in medicine, science, and technology to providing experiences that delight, educate and entertain, now more than ever before, government and business leaders alike are looking to the powerful IP marketplace for its proven ability to spur commerce and infuse cash into the world's economies.

The days of patents, copyrights, trademarks, and trade secrets being the sole responsibility of patent attorneys are long gone.

Knowing the basics of IP licensing is essential for anyone operating in today's competitive and volatile business environment.

So, do you speak fluent IP?

If not, you're in the right place.

Let's get started.



*"Licensing is like a marriage. It can be a beautiful thing, but there has to be total transparency and trust between both parties and if it's not a win-win situation—you're going down a road of ruin."*

*Jay Sorensen, inventor,  
(See his story on Page 11)*

## What is Licensing?



Licensing is a powerful and flexible means for creating partnerships that bring innovation out of the darkness of an inventor’s workshop and into the light of the marketplace.

Simply put, a license is analogous to a “lease” agreement between an owner (licensor) and a lessee (licensee) that is based on granting permission to use property in exchange for compensation.

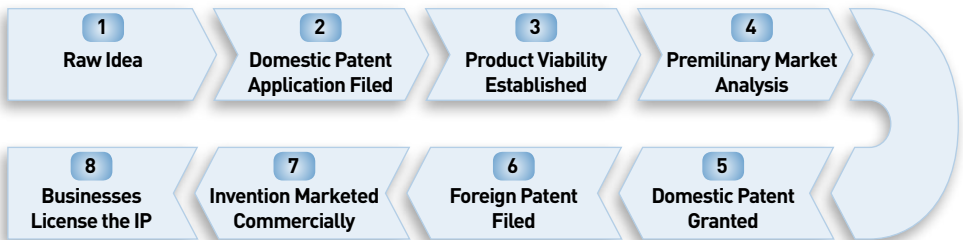
However, rather than leasing something “tangible” such as a car or a home, licenses apply to intangible assets (i.e., IP), which are creations of the mind, such as formulas, drawings, processes, software, or literary and artistic works that are protected by patents, trademarks, copyrights, know-how or trade secrets.

Unlike tangible property, IP can be made available (licensed) to multiple users in several places at the same time. However, the lease/license is only good for a limited period of time and under terms and conditions dictated by a mutually agreed licensing agreement.

These agreements also limit how IP can be used to assure that licensees pay only for the benefit of their use and, in turn, licensors receive their “fair share” in return for each use. It is through this compensation that inventors are able to fund and undertake further research and development (R&D) and the cycle of invention is perpetuated.

## The Lifecycle of an Invention

A patentable idea increases in value with every step of the cycle.



## What can be Licensed?



Almost anything can be licensed as long as it contains a protectable property right. These IP rights can be legally protected through the use of patents, trademarks, copyrights, know-how and trade secrets. Licensing allows a person to use someone else’s protected legal IP rights under the terms and conditions established in a license agreement.

There are many types of licensable IP rights. We often speak of “technology” as being licensable. Technology typically relates to useful products, materials, machines, processes, or methods, which incorporate a practical or industrial character, such as a new pharmaceutical. Once legal requirements are met, new technology can be legally protected by a government-issued patent and can then be licensed by the patent holder to a licensee for their use. Technology in the form of a trade secret or know-how also may be licensed.

New expressions of ideas in the form of literary and artistic works such as books, paintings, sculptures, motion pictures and musical compositions are protected by copyrights. Copyrightable expressions also come in the form of practical objects such as computer programs, product label designs, and architectural works. In this case, a person may use (e.g., copy, perform, distribute, make derivative works of) a copyrighted expression only by permission of the copyright holder.

Trademark and similar rights may be established through use of a name, logo, symbol, or other identifying characteristic, which associates a trademark with the source of a product or service. A trademark right (based on associating goodwill with a mark) may also be licensed to another person.

Again, the common element among all of these forms of “licensable” properties is that each contains a legally protectable right, which is protected in one of three ways:

1. The IP right is protected by a government granted patent or copyright and is protected against infringement by legal statutes;
2. The IP right is established by use and is recognized through statutes in the form of a trademark;
3. The IP right is established by conduct (maintaining secrecy) or through a contract, in the case of a trade secret and know-how. These are also recognized and protected through legal statutes.

Without a protectable legal right, anyone may make, reproduce, or sell a product or process developed by another.

## What's in a Licensing Agreement?



While only the parties involved know the specifics of licensing agreements, most include:

1. A clear statement of the licensed subject matter and the scope of rights being granted by the owner/licensor to the licensee;
2. Identification of specific terms and conditions about the scope of the license (e.g., exclusive or non-exclusive), the field in which the licensed activities may be conducted, and duration of the agreement;
3. A statement of the compensation provided by the license for use of the licensor's IP rights;
4. Other terms and conditions concerning such things as when, where and how payments are to be made.

## Why License?

Licensing is a common, flexible, and expedient means of commercializing IP. It's a powerful way to build lucrative, win-win relationships between parties who bring different strengths to the table.

For example, licensing is an excellent option when:



- Your organization specializes in the creation of IP but needs a partner to handle commercialization.
- Your organization doesn't have R&D capabilities but is well positioned to commercialize.
- Your organization decides that “licensing-in” technology is a “cost effective” way to obtain technology needed to move a business concept to the next stage.
- Your organization decides that “licensing-out” would be a useful means of recovering R&D expenses.
- Your company's final product is years away and licensing would secure some much-needed income throughout the R&D process.

Through licensing, licensees may use the licensor's IP rights, including rights to make new products, use secret processes, brand merchandise with a trademark, or reproduce a copyrighted work.

In return, licensors gain access to the market, the support of the licensor and reduced risk. It's important to note that because licensors assume less risk (licensee typically assume responsibility for raising capital, building a sales force, equipping a manufacturing facility, establishing advertising campaigns, etc.), they receive only a portion of revenue from the sale of a licensed product.

Licensing often breeds other valuable and lucrative business opportunities. For example:

- A licensor can transfer technology in return for an equity position in a joint venture.
- There may be an opportunity to obtain a “grant back” of improvement technology from the licensee.

- Licensors are able to gather competitive information about technology as practiced by licensees and others.
- Small businesses can gain quick access to domestic and foreign markets otherwise closed by trade restrictions, quotas, tax, freight or other legal considerations.
- Licensing can be a method for increasing production of some parts of a complex mechanism, which then are sold to the licensee for inclusion in the licensed assemblies.
- Licensing of a commercially practiced technology assures the licensee that the technology will be operable without new R&D costs.
- Financial success of a licensing program may encourage managers to continue or expand R&D programs, which lead to additional licensable technology.
- A licensing program can increase the goodwill and reputation of a firm and may be a first step to establishing relationships in other countries or markets, which can lead to later-stage joint ventures and other kinds of partnerships.

## How do Licensors and Licensees Find Each Other?



Creators of IP often need to find licensees who can make the investments needed to bring their creations into being as commercial products. Similarly, people/businesses that are well positioned to manage the essential business end of the deal are often not very good at creating.

So, how do these folks find each other? Most often it's through good old fashion word-of-mouth networking and research. IP owners usually have ideas about how and where their product could be used or sold and are familiar with companies that are already selling similar kinds of



products. At the same time, a venture capitalist who is looking to invest in a new invention can find assistance from patent law firms, university tech transfer offices, and other venues inventors routinely use to license their inventions.

In addition, the Internet with its vast resources and powerful search engines is also making it easier to find potential partners for commercial ventures all over the world.

## Evolution of a Deal and the Art of Disclosure



There is no single process for developing a licensing deal. Experienced licensing professionals use a variety of approaches. But for our purposes, here's an example of how a deal might come together.

Communication between parties often begins with a series of e-mails or phone calls in which few details are divulged but where mutual interest in moving forward with the potential deal is established.

It is very important to keep in mind that IP rights can be lost if you disclose your idea without taking adequate precautions. It's a good idea to speak with an IP attorney for more information before beginning any discussions.

In the initial stage, the licensee may ask to see some published examples of the licensor's other work to determine credibility of their capabilities. In return, the licensor may ask that the prospective licensee company identify products it has introduced to the marketplace under a license from a creator of a similar product.

Usually many such prospective discussions take place before there appears to be a good possibility for mutual interest. Licensors be warned—the process of finding a licensee can be discouraging, not only because of the unavoidable rejections involved in the process, but also because of the time and effort required.

At some point, the prospective licensee may ask about the specific licensing opportunity. At this point the licensor must consider whether a confidentiality agreement is necessary prior to disclosure.

In most cases, prospective licensees are reluctant and often slow to enter an agreement of this sort. However, in certain cases the licensor may be comfortable in making a partial or full disclosure without concern for a confidentiality agreement. For example, in a case where the invention is contained within an unobservable component or system, the so-called “black box,” then it may be possible to demonstrate the effect of the opportunity without yet disclosing how the effect is achieved.

Or, when the inventor has filed for or been granted a patent on the technology. Because most patent applications eventually are published, the inventor is free to provide a prospective licensee with published information without a confidentiality agreement.

The two sides may seek to determine how much further information is needed to make a final decision to negotiate or “pass” on the opportunity. Such further study is “due diligence” and is usually about what a licensee company needs to do to persuade itself that the invention or creation has real commercial potential. But a seller can do his or her own due diligence on the buyer by examining the kinds of products it has brought to the marketplace and how successful it has been. The buyer may provide the names of other inventors that can serve as references.

Through negotiation, the prospective licensor and licensee must agree on a set of license terms and conditions under which both parties can benefit. A license is a trade. It only happens when both sides conclude that they will benefit by entering the deal more than the cost, or loss, required to make the deal possible.

## What is a Royalty?



A royalty is the compensation paid by a licensee to a licensor. Most often it is a cash payment. However, it can also be an exchange of other property or rights held by the licensee.

Cash royalty payments are paid in one of three ways: as series of payments over time based on production or sale of a licensed product; as a series of fixed (annual or milestone) payments; or as a “lump sum.”

A royalty paid over time based on production or sale of a product is a “running royalty.” Running royalties are paid as a percentage of the revenue received by the licensee for sales of licensed products (e.g. 5% of net sales) or as a fixed amount of money per unit sold (e.g. \$1 per unit sold).

A second type of payment for a license is a “period payment.” The most common example of this would be a fixed annual payment, which is usually specified in a license agreement. Under such an arrangement the licensee does not pay a per-unit running royalty. If the product is very successful, usually the licensor is better off with a running royalty rather than a fixed period payment.

A variation on a fixed payment is a “milestone payment.” Such a payment would be required of the licensee based on the completion of some specified milestone. One example of a milestone would be when the licensee reaches a certain amount of sales, either in total, or on an annual basis.

The third form of royalty is a one-time “lump sum” payment to cover license rights for a period of time.

In addition to any of the above, it is not uncommon for there to be an initial payment made upon execution of the license or shortly thereafter.

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## How do I Determine the Value of My Invention or Idea?

This is one of the most difficult questions in licensing, and only general guidelines can be used until the parties have actually negotiated. There are no hard and fast rules as to what is a suitable licensing compensation other than both sides must agree.

Here are some factors that influence royalty rates:

- The strength and scope of the protected IP;
- The expense necessary for a license to reach full production;
- The cost of any additional R&D required;
- The exclusivity or non-exclusivity of the licensing agreement;
- The geographic scope of the license;
- The competitive product, processes, and technology available to the prospective licensee;
- The total market and its estimated growth;
- Common industry or standard license rates; and,
- Whether the license covers all or part of a process or product.

## A Final Thought

Each day, members of the Licensing Executives Society (U.S.A. and Canada), Inc., are involved in spurring commercialization of innovation through the licensing of IP across industry sectors (life sciences; high tech; chemicals, energy, environment and materials; industry-university and government interface). LES (USA & Canada) is the preeminent source of information on IP licensing and can offer vast resources to help you establish and cultivate win-win licensing partnerships.

If you would like to continue to build your licensing knowledge, attend an LES meeting and/or enroll in the LES PDS 100: Licensing Technology through the Power of IP Licensing course. A more in-depth study of licensing, deal making and negotiation is provided by PDS 200 and PDS 300. To learn more about these courses and about LES, visit [www.lesusacanada.org](http://www.lesusacanada.org).

## Licensing The Java Jacket

### Jay Sorensen: An Inventor's Story

*“My advice to anyone considering licensing is to look at it from both sides and ask yourself, ‘Is this a win-win situation for both parties?’ and if it is then it can be a beautiful thing.”*

*Jay Sorensen*

#### Inventor Profile:

**Born:** 1958

**Home:** Portland, Oregon

**Company:** Java Jacket has sold more than 1 billion of its insulated coffee sleeves to date.

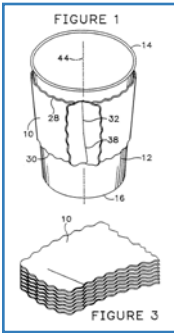
**Patent:** U.S. #5425497 Java Jacket cardboard coffee sleeve

#### Fun Facts:

- A standard cup of coffee at brewing is approximately 170-180 degrees
- In 1993, Sorensen used \$15,000 to do his initial product development, production and distribution of 100,000 sleeves to Portland coffee houses

#### Inventor's Story: Jay Sorensen

In 1991, service station owner and part-time real estate agent, Jay Sorensen pulled through a drive-thru and his “cup of joe to go” landed in his lap. Rather than suing, Sorensen came up with the most groundbreaking invention to hit the hot beverage industry since the disposable cup: the Java Jacket.



The Java Jacket

You may not know this invention immediately by name, but there is no doubt you've benefitted from using one somewhere along the line. The Java Jacket is an insulated cardboard sleeve that slips on to a disposable cup to prevent the handler from getting burned, while also helping to keep the beverage hot.

Wish you'd thought of it? You bet!

Sorensen has turned his simple idea into a multi-million dollar family business.

Initially, Sorensen spent two years developing his concept and distributing 100,000 Java Jackets to independent coffee houses and chains in and around Portland. But it was a visit to a coffee trade show in 1993 that placed the Java Jacket firmly into the public consciousness. "We got off to a great start after we attended the Seattle coffee fest," said Jay's wife, Colleen Sorensen. "I sent out 4,000 sample kits the next week, which really got us from selling out of the trunk of our car into our new office."

Today, Sorensen's distribution has grown beyond coffee houses to include convenience stores and other national chain and specialty stores around the country and Canada.

Licensing is one means Sorensen used to expand his reach. "I licensed the Java Jacket in Canada because it's hard for us to service that market with transportation issues, customs issues, exchange factors and all of those things," said Sorensen. "The company we license to there also does some manufacturing for us in the United States and so the arrangement has worked beautifully for the better part of 12 years now. They license both our trademark and our patent."

Sorensen also secured a licensing deal with a large national account in the U.S with the help of a (3rd party) mutual vendor—a paper converter company that does work for both Java Jacket and the national account. "It was much easier for the vendor to make the sale given their

ongoing relationship with the company. The connection gave us a distinct competitive advantage in getting the business. There was a built-in trust there. In turn, we are able to get the product to them cheaper and more efficiently,” he said.

Sorensen says he has only had one licensing deal “go south.”

“I didn’t know the party well enough that I licensed to and I trusted them too much. Maybe we drove too hard a bargain. We got a hefty fee and maybe it was just a little too hefty and they were too optimistic about their profit potential,” said Sorensen. “In the end, I didn’t monitor the relationship closely enough and we didn’t communicate as well as we should have and the deal deteriorated and led to a messy two-year court battle. We emerged whole but not without a lot of heartache and turmoil.”

After successfully building his brand, Sorensen says he “coasted” for a few years but that the company is not entirely “insulated” from tough economic times. These days he’s enjoying being out hustling again targeting new markets and looking for ways to repromote his product.

“People are squeezing us a bit and the new business isn’t coming in as fast as it was,” said Sorensen. “I’ve had to retrench and rethink the product and target new markets. We’re back to the way it was when we started the business and it’s fun.”

## Sources for this biography and links for learning more about Jay Sorensen:



*www.javajacket.com*

Source: Interview with Jay Sorensen, April 10, 2009

Source: Interview with Colleen Sorensen

Source: The Entrepreneur: Jay Sorensen a 2003 write up by Entrepreneur Media Inc. and Gale Group

Source: Skiing-today.com a Skiing & Snowboarding cover story “Young Millionaires”

Source: A Brief History of Innovation by Inc.com, Gruner + Jahr USA Publishing, 2005

## Glossary

This is a special list of words and phrases that may have plural or different meanings and it includes suggestions on the most appropriate word or phrase to use. This list is not intended to be a dictionary.

**Act of God:** An event beyond the reasonable control of the parties preventing the carrying out or delaying of an obligation. Words or phrases sometimes used for the same meaning: force majeure, catastrophic event or happening, event not under control of a party. Preferred phrase: force majeure.

**Affiliate:** See *Subsidiary*.

**Agreement:** A binding contract between parties such as a license, however some countries such as China interpret an agreement as non binding, but a contract is considered binding. Preferred term: contract or license contract.  
See *Execution date and Effective date*.

**Agreement not to license others:** See *Sole license*.

**Arms-length transaction:** Idiomatic English, means a transaction between strangers who have no financial interest in each other or no ties. May present difficulties in translation.

**Assign, assignment:** Used primarily in connection with the transfer of the tangible evidence of a right such as a patent or trademark or copyright. Words some times used for the same meaning: grant, transfer, convey. Preferred word: assign or assignment. See *Exclusive license*.

**Authorize:** See *License*.

**Available to the public:** See Generally known to the public and Public domain.  
Terminis not equivalent to “generally known to the public;” something that is available to the public in a library is not necessarily generally known.

**Best effort:** Means the degree of commitment to an obligation. Has been interpreted by some court decisions to mean surprisingly high degrees of effort, perhaps the highest degree of effort ever used even though such effort would be unreasonable under the circumstances. Preferred phrases: bona fide effort, reasonable effort or diligent effort as appropriate or set minimum performance standards.

**Bona fide effort:** See *Best effort*.

**Cancel or cancellation:** See *Terminate*.





**Certified or registered mail:** Terms primarily used only in U.S.A. Do not use in international licenses unless each country has this kind of mail.

**Commencement date:** See *Effective date*.

**Complimentary assets:** Generally refer to those assets, buildings, equipment, machines, instruments, etc., that churn out products. Often versions of these assets are unique to the firm and provide it with a singular capability to maintain a competitive position. The definition can be expanded to include other unique assets such as organizational effectiveness, development capability, and other unique skill sets.

**Composed of:** See *Consisting of*.

**Comprising:** Means a group of items which includes those named and others not named—open ended. Other words and phrases sometimes used for the same meaning: including, such as. Preferred phrase: including but not limited to. See *Consisting of and Composed of which are sometimes erroneously used to mean comprising*.

**Confidential information:** Means information not generally known to the public. Supplier may not necessarily own information. Other words and phrases sometimes used and in some instances erroneously for the same meaning: propriety information, secret information, trade secret, know-how. Preferred phrase: confidential information. See *Secrecy agreement*.

**Consisting of:** Means only those items mentioned—closed ended. Other phrase sometimes used for the same meaning: composed of. Preferred phrase: use the word “only” in conjunction with the above. See *Comprising which is sometimes erroneously used to mean consisting of*.

**Contract:** See *Agreement*.

**Convey:** Used in connection with real property and assignments, not often used in licensing. See *Grant and Assign*.

**Core competencies:** The firm's unique ability to extract value from its technology base through utilization of its complementary working assets, provides the firm with the ability not only to deliver on its promises but also to differentiate itself from its competitors, both sustaining or increasing market position and increasing profitability.

**Core technology:** Technologies which are owned or controlled by a firm and form the basis of the firm's business.

**Corporate address:** See *Place of business*.

- Corporate strategy:** Defines how a firm will utilize its core competencies to exploit and optimize the value of its core technologies.
- Cost approach:** Value of asset is established by determining the actual and direct costs of developing the asset; a value for opportunity costs is also included.
- Covenant not to sue:** See *Nonexclusive license*.
- Cross license:** Means when each party to an agreement grants a license to the other on the same subject matter. Term is used most often as a title and not as a technical licensing term in the body of the agreement.
- Customer:** Usually a purchaser of goods or services, term is generic in time—first purchaser such as distributor or last purchaser such as retail purchaser. Terms sometimes used for same meaning: end user, purchaser. Preferred phrase: final customer if end user is intended or intermediate customer or direct customer as appropriate.
- Domicile:** Means place of residence, used in connection with tax law, should not be used in licenses. Sometimes used to indicate place of incorporation. See *Place of business*.
- Down payment:** See *Lump sum*.
- Due diligence:** A term used by investment bankers. Means evaluating the situation or technology within a short period of time.
- Effective date:** Means the date the agreement comes into full force and effect. Date may be before or after date of signing of agreement by all parties. Words and phrases sometimes used and in some instances erroneously for same meaning: execution date, agreement date, commencement date, signing date. Preferred phrase: effective date. See *Execution date*.
- Election:** A requirement to make a choice. Word sometimes used for same meaning: option. Preferred word: election when appropriate. See *Option*.
- Employment Agreement:** An agreement between employer and employee usually including provisions setting forth obligations of employee regarding confidential information, assignment of inventions, and obligations after termination of employment. Normally does not deal with monetary matters. Words and phrases sometimes used for same meaning: technical agreement, secrecy agreement, confidentiality agreement, assignment agreement. Preferred phrase: employment agreement. See *Secrecy agreement*.

**End user:** Means final customer or purchaser. Is an idiomatic English term and may be difficult to translate. Preferred phrase: final customer. See *Customer*.

**Exclusive license:** Means licensor grants the licensee the sole right to practice the invention or use trademark to the exclusion of licensor and others; may be limited to territory, field, product or time. Normally exclusive licensee has right to license others. Phrases sometimes used, and in some instances erroneously, for same meaning: sole license, single license, assignment, limited license. Preferred phrase: exclusive license. See *Sole license*.

**Execution date:** Means the date all parties have signed the agreement. Sometimes means the date an executory obligation has been fulfilled. Words and phrases sometimes used, and in some instances erroneously, for same meaning: agreement date, effective date of agreement. Preferred phrase: agreement execution date. See *Effective date*.

**Expiration date:** See *Term of agreement*.

**Explicit knowledge:** Knowledge or how-how which has been reduced to writing or some other form of communication such as computer disks, CDs or video/ audio tapes.

**Fair market value:** Value of asset is established by determining the price at which the asset changes hands between a willing buyer and seller when all of the risks are known.

**Field of use:** Relates to the scope of license, such as a particular product for a particular use. Should define product and area of use.

**First option:** See *First refusal*.

**First refusal, right of:** Right of one party of an agreement to receive a right, commitment or a license from another party of the agreement prior to being offered to any third party. Usually coupled with a time limit or a payment or both. Term per se not usually used in agreements but instead the specific terms of right are written out. Phrases sometimes used for same meaning: first option, right to improvement inventions, right to expand scope or to select other fields. In communications, right should be clearly defined and specified.

**Fixed fee or royalty:** See *Lump sum and Minimum royalty*.

**First-class mail:** Does not have meaning in most countries outside the U.S.A. In international licensing use term regular mail or airmail as appropriate.

**Force majeure:** An event beyond the reasonable control of the parties preventing the carrying out or delaying of an obligation. Words and phrases sometimes used for the same meaning: act of God, catastrophic event or happening, event not under control of party. Preferred phrase: force majeure.

**Freedom:** See *License and Right*.

**Generally known to public:** Means information not confidential or secret. Information may, however, be subject to proprietary rights, such as information described in a valid, unexpired patent. Words and phrases sometimes used for same meaning: in the public domain, nonconfidential, not secret, available to public, publicly known. Preferred phrase: generally known to the public.  
See *Public domain*.

**Grant:** Used primarily in connection with a license, such as “grant a license.” Sometimes misunderstood to mean a warranty by licensor that no other licenses are required from third parties. Words and phrases sometimes used for meaning: convey, transfer, assign. Preferred word: grant.

**Guarantee:** See *Warranty and Indemnification*.

**Hold harmless:** See *Indemnification and Nonexclusive license and Warranty*.

**Immunity from suit:** See *Nonexclusive license*.

**Including:** See *Comprising*.

**Income approach:** Value of asset is established by determining the future income stream and converting it into present net worth taking into account all known risk factors likely to affect the generation of such income.

**Indemnification:** Usually the licensor agrees to pay specified liabilities, such as repay any court awarded monetary damages, to licensee if he/she infringes another's patent or trademark in practicing licensed inventions or using licensed trademark. Words and phrases sometimes used for same meaning: hold harmless, guarantee, liability, warranty. Preferred phrase: indemnification.  
See *Warranty*.

**Industrial property:** See *Intellectual property*.

**Initial payment:** See *Lump sum*.

**Intellectual asset:** Forms of explicit knowledge owned or controlled by a firm, which have an identifiable link to the company's capacity to do business.

**Intellectual capital:** Sum of a firm's knowledge, both tacit and explicit.

**Intellectual property:** Ownership rights given by law in intellectual information such as inventions, patents, trademarks, trade names, logos, copyrights, know-how, trade secrets. Words and phrases sometimes used for same meanings: industrial property, proprietary information. Preferred phrase: intellectual property. See *Proprietary information*.

**Know-how (information):** Know-how may be confidential or non confidential and it may be proprietary or nonproprietary (such as in a text book). It may be technical or non technical. See *Confidential information, Trade secret and Proprietary information*.

**Letter of intent:** Has different meanings in different countries. In U.S.A., merely an outline of objectives for negotiations, usually not binding. In Japan, usually a binding agreement, with terms embodied in a letter of intent. Further negotiations focus only on terms not set out in letter. Unless intended to be a binding agreement, use another term such as "non-binding proposal."

**Liability:** See *Indemnification and Warranty*.

**License:** Means permission to practice all or a part of a proprietary right. Words and phrases sometimes used for same meaning: right, right and license, permission, authorize, freedom. Preferred word: license. See *Nonexclusive license and Right*.

**License rights:** See *Proprietary rights*.

**Limited license:** See *Exclusive license*.

**Logo:** See *Trademarks*.

**Lump sum:** Idiomatic English. Means a single monetary payment. Words and phrases sometimes used for same meaning: down payment, initial payment or fee, fixed fee. Preferred phrase: lump sum.

**Market approach:** Value of the asset is determined by comparing the proposed deal to similar intangible asset transactions that have occurred in similar markets.

**Minimum performance:** See *Best effort and Minimum royalty*.

**Minimum royalty:** Obligation to pay certain amount periodically, otherwise the license may be changed or terminated automatically or at option of licensor. Words and phrases sometimes used for same meaning: promise to pay, promissory notes, fixed royalty. Preferred phrase: minimum royalty.

**Non-confidential:** See *Generally known to the public*.

**Non-confidential agreement:** See Secrecy agreement.

**Nonexclusive license:** A license that does not prohibit the licensor from licensing others in the same field, or on the same product, or same territory, etc. Words and phrases sometimes used for same meaning: license, sublicense, immunity from suit, holds harmless, covenant not to sue. Preferred phrase: nonexclusive license.

**Option:** Right to make a choice, not a requirement. Word sometimes used for same meaning: election. Preferred word: option. See *Election*.

**Owned:** See *Proprietary rights*.

**Paid-up license:** A license which does not require further royalties because some consideration has been given in advance including cash but not necessarily cash. Phrase sometimes used for same meaning: royalty free license. Preferred phrase: Paid up license with no future royalty payments.

**Permission:** See *License*.

**Personal license:** Idiomatic English, means a nonassignable, nontransferable license, usually license terminates on death of individual or dissolution or merger of corporation or firm.

**Place of business:** Means principal place of business or corporate offices. Words and phrases sometimes used, and in some instances erroneously, for same meaning: domicile, corporate address, place of incorporation, location of corporate offices, principal place of business. Preferred phrase: a place of business. See *Domicile*.

**Place of incorporation:** Used primarily for identification purposes in license agreements. See *Place of business and Domicile*.

**Principal place of business:** See *Place of business*.

**Promise of promissory:** See *Minimum royalty*.

**Proprietary information:** Means information owned by supplier but not necessarily confidential. Misused to mean confidential information. Words and phrases sometimes used, and in some instances erroneously, for same meaning: confidential information, all rights and title in intellectual property, owned, controlled. Preferred phrase: proprietary information. See *Confidential information and Intellectual property*.

**Property rights:** Rights conferred by law for ownership or control (generic). Words and phrases sometimes used for the same meaning: patent, trademark and copyright rights, license rights, intellectual property rights, right, proprietary information, title, confidential information. Preferred phrase: proprietary rights.

**Public domain:** Means free to use; free of patent, trademark and copyright rights. Misnomer for generally known to the public. Words and phrases sometimes used for same meaning: non-confidential, not secret, publicly known, available to the public. In the context of non-confidentiality, preferred phrase: generally known to the public or available to the public (something that is available to public may not be generally known to public).

**Relief from royalty:** The value of the asset is the amount of the royalty that a firm need not pay.

**Rescind:** See *Terminate*.

**Right:** Means permission to practice all or part of a proprietary right. Has different meanings in different countries. Sometimes broader than a license but with restrictions on grantor. Words and phrases sometimes used for same meaning: license, right and license, permission, authorize, freedom. Preferred word: license. See *License*.

**Royalty-free license:** See *Paid-up license*.

**Scope:** See *Field of use*. Sometimes refers to territory, type of license (e.g., nonexclusive), subject matter. When used, it should be clearly defined. Seldom used alone.

**Secrecy agreement:** An agreement between two or more parties setting forth conditions of accepting or not accepting confidential information. Words and phrases sometimes used for same meaning; confidential agreement, non-confidential agreement, employment agreement, technical agreement. Preferred phrase: secrecy agreement when accepting confidential information, non-confidentiality agreement when not accepting confidential information.

**Secret information:** See *Confidential information and Proprietary information*.

**Semi-exclusive license:** See *Sole license*.

**Service mark:** See *Trademark*.

**Signing date:** See *Execution date and Effective date*.

**Single license:** See *Exclusive license and Sole license*.

**Sole license:** Means licensor grants licensee exclusive license except for retained nonexclusive license of licensor. Has different meanings in different countries and regions. Phrases sometimes used, and sometimes erroneously, for same meaning: single license, exclusive license, semi-exclusive license, agreement not to license others. Preferred phrase: exclusive license except for a nonexclusive license retained by licensor. See *Exclusive license and Nonexclusive license*.

**Statute of Venice:** One of the earliest patent laws known, the Statute of Venice was enacted in 1474 to encourage ingenuity and the importation of ideas; required that inventions be new and “ingenious”; penalties were provided and a definite term of ten years was set for the grant of rights.

**Sublicense right:** The right of a licensee to grant licenses to others. Phrase sometimes used for same meaning: exclusive license right, sub-contract right. Preferred phrase: right to grant licenses to others.

**Subsidiary:** Means a company at least partially owned by another company, the parent company. Should be defined in the license agreement. Words and phrases sometimes used for same meaning: affiliate, related company, joint venture. Preferred word: subsidiary with definition.

**Tacit knowledge:** What is in the heads of employees, including skills, acquired abilities, knowledge of the firm, its operations, and its relationships.

**Technical agreement:** See *Employment agreement*.

**Technology:** One or more of technical know-how, tacit, or explicit (intellectual assets), and trade secrets and/or patents.

**Technology factor:** The percentage of increased cash flow that can be attributed to practicing the technology.

**Technology mining:** A process to identify, prioritize, and package intellectual capital.

**Technology transfer:** The process of transferring technical knowledge and/or legal rights from one party to another for the purpose of enhancing its value to benefit both parties.

**Term of agreement:** Means length of agreement until it automatically terminates by an event or date certain. Not to be confused with right to terminate or cancel agreement before term of license agreement is up or termination of a specific right or obligation under the agreement. Words and phrases sometimes used for same or similar meaning: expiration of agreement, expiration date, termination date. Preferred phrase: term of agreement or the termination of a specific right or obligation under the agreement.

**Termination date:** See *Term of agreement*.

**Terminate or termination:** Termination of an agreement prior to its normal term as the result of an event or the option of one of the parties. Not to be confused with term of agreement. Words sometimes used for same meaning: cancel or cancellation, abrogate, default, rescind. Preferred word: terminate or termination.



**Territory:** Refers to the geographical area covered by a license; may be territory of sale or territory of manufacture or both. Term must be defined in agreement.

**Trade name:** Usually the name of a business enterprise. May or may not be protected by law. See *Trademark*.

**Trademark:** A mark, word or phrase for which the law has given the owner a right to exclude others from using. Often confused with trade name. Words and phrases sometimes used, and in some instances erroneously for same meaning: trade name, logo, motto, service mark, character. Preferred word: trademark.

**Trade secret:** Means confidential information which is protected by law. Has different meanings in different countries. Limited or no protection in some countries. Words and phrases sometimes used, and in some instances erroneously for same meaning: confidential information, proprietary information, secret information, know-how. Preferred phrase: confidential information or trade secret depending on use of term and jurisdiction.

**Transfer:** Used in connection with real property and assignment of title, not often used in licensing. See *Grant, Assign, and Convey*.

**Warranty, warrant:** Licensor's guarantee of ownership of licensed proprietary rights, right to grant license, no conflict with other licenses granted by licensor, non-infringement of other patents in practicing license, usefulness of information for purpose of agreement, practicability of information, operability, non-toxicity and non hazardous. The guarantee or obligation of licensor must be defined by type, duration, and monetary or other obligations. Words and phrases used for same or similar meaning: guarantee, liability, damages, indemnification. Preferred term: warrant with definition of scope and subject matter. See *Indemnification*.

## Other Resources:

- Licensing Executives Society International, Inc.: [www.lesi.org](http://www.lesi.org)
- LES Foundation, Inc.: [www.lesfoundation.org](http://www.lesfoundation.org)
- Intellectual Property Owners Association: [www.ipo.org](http://www.ipo.org)
- American Bar Association—IP Section: [www.abanet.org/intelprop/](http://www.abanet.org/intelprop/)
- U.S. Patent and Trademark Office: [www.uspto.gov/](http://www.uspto.gov/)
- World Intellectual Property Organization: [www.wipo.int/portal/index.html.en](http://www.wipo.int/portal/index.html.en)
- Japanese Patent Office: [www.jpo.go.jp/](http://www.jpo.go.jp/)
- European Patent Office: [www.epo.org/topics/ip-webguide.html](http://www.epo.org/topics/ip-webguide.html)



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