

# Licensing of IP Rights as a Business Tool



---

## **Table of Contents**

- Considerations whether to licence or not
- Preparing to negotiate a licence agreement
- Negotiating a licence agreement
- Registration of licences
- The special case of patents endorsed "licence of right" (LOR)
- Useful resources
- Acknowledgement

**IP Licence** refers to the permission to use IP granted by the owner of the IP, the licensor, to the user, the licensee. Often the permission relates to the use of the IP right, for example, manufacture or sale. Ownership of the IP right is retained by the IP owner unlike an assignment.

Licensing-out is a means of exploiting one's IP and brings about potential source of income for the owner. For example, if you have a patent for your invention, you may licence your invention to a third-party in return for an upfront amount plus royalty tied to sales. You are the licensor in this case.

Licensing-in is a means of obtaining access to IP without owning it. For example, you operate a franchised outlet. The outlet operates under the franchisor's trade mark because you have been granted a licence to use it. You are the licensee in this case.

The licence should be in writing and signed. Apart from this being a legal requirement for some IP rights, this is also good practice as it minimises disputes. This document is known as the licence agreement and usually contains all the agreed terms and conditions. It is typically a term contract. Upon expiry, the licensor may choose not to renew the licence.

## **Considerations whether to licence or not**

Licensing becomes a viable option when both the licensor and the licensee can benefit from it. The decision whether or not to resort to licences is but one feature of the larger business plan and strategy, e.g. question of degree of reliance on licensee for revenue, or the degree of reliance on licensor for viability of business operations. Here are some factors which may influence your decision whether to licence or not.

Considerations for Licensor	Considerations for Licensee
<ul style="list-style-type: none"> <li>• Can licensing increase your revenue without increasing your capital expenditure or ongoing expenses?</li> <li>• Would you rather not be involved in the manufacturing, distributing, marketing and selling of the products?</li> <li>• Would licensing help you tap on new territories?</li> <li>• Would you like to generate revenue outside of your core business areas?</li> <li>• Can you settle or avoid litigation by licensing to a party who is producing a potentially infringing product?</li> <li>• Can licensing help you to revive a dormant brand?</li> <li>• Do you have the resources to monitor and control the quality of your licensee's products?</li> <li>• Can you provide the technical assistance, training and other support which the licensee may require?</li> <li>• Will your licensee become your competitor?</li> </ul>	<ul style="list-style-type: none"> <li>• Will licensing help you gain a competitive advantage over your competitors?</li> <li>• Does it help you shorten the time you need to market the product?</li> <li>• Does it help you reduce your R&amp;D costs and risks?</li> <li>• Does it help you obtain access to technology or expertise that you do not have?</li> <li>• Does it help you obtain access to information which can enhance your business opportunities?</li> <li>• Does it provide you with opportunities for strategic alliances among businesses?</li> <li>• Is the state of development of the technology suitable for your need or is additional work required to bring the technology to market and can you afford this time window. If not, you may need to build in that time frame into the business plan or consider alternative technologies.</li> </ul>

### Preparing to negotiate a licence agreement

Once you have decided that licensing is the strategy for you, you should commit appropriate resources to identify the suitable licensor or licensee, as the case may be, and see through the negotiation. It is advisable for both licensors and licensees to do their due diligence before approaching the other side.

Considerations for Licensor	Considerations for Licensee
<ul style="list-style-type: none"> <li>• Have you assessed the strength of the IP to be licensed in the territory it is to be used by the licensee, such as ownership, validity and enforceability of those rights as this affects your ability to command payment?</li> <li>• Have you looked into the licensee's financial and business plans and his ability to meet the expected quality standards?</li> <li>• Is there a need to ask the licensee to enter into a non-disclosure or confidentiality agreement?</li> </ul>	<ul style="list-style-type: none"> <li>• Have you investigated the licensor's legal right to the IP?</li> <li>• Is the IP protected in the relevant markets?</li> <li>• Are there any third party claims over the IP?</li> <li>• Have you assessed the licensor and is satisfied as to his financial standing and his ability to comply with his contractual commitments?</li> <li>• Have you ascertained all the rights that you will need to obtain in order to utilise the IP for your intended purpose?</li> </ul>

### Negotiating a licence agreement

The terms of a licence are usually to be negotiated to suit both parties' needs. The type of licence, scope of the licence, conditions to be fulfilled by each party, the performance targets and the non-performance provisions are to be discussed and mutually agreed. Below are some issues you will need to think about when you negotiate a licence agreement.

Issue	Points to consider
Parties	<ul style="list-style-type: none"> <li>• Who are the parties entering into this contract?</li> <li>• Are the licensee's subsidiaries and associated companies included?</li> </ul>
Subject matter	<ul style="list-style-type: none"> <li>• What IP is being licensed? Is it a trade mark, patent or copyright work?</li> <li>• Is the IP clearly identified, for example, by its registration number, if any?</li> <li>• What specific rights are being conveyed?</li> <li>• What is the licensee permitted to do with such rights?</li> <li>• What is the licensee prohibited from doing with such rights?</li> <li>• Is there a reservation of rights provision stating that all rights not explicitly granted to the licensee in the agreement are reserved to and retained by the licensor?</li> </ul>
Type of licence	<ul style="list-style-type: none"> <li>• Exclusive - permits only the licensee and persons authorised by the licensee to exploit the IP. The proprietor/licensor will not be able to use the IP for the duration of the licence.</li> <li>• Non-exclusive - permits the licensor to use the IP and grant additional licences to other parties.</li> <li>• Sole - permits the licensor to use the IP as well but the licensor cannot grant additional licences to third parties.</li> <li>• Where the licence is non-exclusive, have you considered a most favoured licensee clause to ensure that if the licensor grants another licensee terms that are more favourable than yours, you would be entitled to similar terms?</li> </ul>
Scope of licence	<ul style="list-style-type: none"> <li>• Is the licence limited by geographical boundary, industry sector, use or distribution channels?</li> <li>• Is the licensee allowed to sell to a party which it has reason to know will resell the goods in a country outside the licensed territory?</li> <li>• Does the licensee have a right to sub-licence?</li> </ul>
Obligations of licensor	<ul style="list-style-type: none"> <li>• Provision of technical assistance and know-how?</li> <li>• Training of personnel?</li> <li>• Support and maintenance?</li> <li>• Modify and improve the IP?</li> <li>• Prosecute and maintain registrations?</li> <li>• Take action against infringers?</li> <li>• Defend against infringement claims as well as challenges to the validity of the IP?</li> </ul>

Issue	Points to consider
Obligations of licensee	<ul style="list-style-type: none"> <li>• Any requirement to meet sales or other targets?</li> <li>• Are there quality control provisions which the licensee should meet?</li> <li>• Are there quality control provisions to enable the licensor to check that the goods on which the licensor's trade mark is being used are of an appropriate quality?</li> <li>• Maintain registrations in an exclusive licence? Should the exclusive licensee be maintaining the registrations?</li> </ul>
Fees and Payment	<ul style="list-style-type: none"> <li>• What is the upfront payment?</li> <li>• What is the formula for computing royalties? If based on sales volume, is there a need to establish a minimum selling price of the product(s)? Should it be gross or nett sales? For nett sales, what are the considerations for applicable taxes and special transactions like rejects, volume discounts or stock clearances?</li> <li>• Should there be minimum guaranteed royalties?</li> <li>• What is the frequency of payment of royalties?</li> <li>• What happens in the event of non-performance?</li> <li>• Does licensor have the right to audit books and who pays for the audit?</li> </ul>
Improvements	<ul style="list-style-type: none"> <li>• What happens if improvements are made to the IP?</li> <li>• Is there a duty to keep the other party informed?</li> <li>• If the improvement is made by the licensor, does the licensee have a right to obtain a licence to the improvement and on what terms?</li> <li>• If the improvement is made by the licensee, can the licensor obtain a grant back licence for further R&amp;D work?</li> <li>• How are improvements defined?</li> <li>• What restrictions or conditions can be imposed in a case of joint IP in improvement?</li> </ul>
Term	<ul style="list-style-type: none"> <li>• What is the duration of this licence agreement? Is it for the life of the IP or for a fixed period?</li> <li>• Are there provisions to facilitate auto-renewal?</li> <li>• Is licensee entitled to a first right of refusal?</li> <li>• Is the renewal upon the same terms and conditions or are they subject to review?</li> </ul>
Termination	<ul style="list-style-type: none"> <li>• When can each party have the right to terminate the agreement? For the licensor, these could be the licensee's failure to pay royalties, breach of confidentiality provisions or failure to meet performance targets. For the licensee, these could be in the event the IP is declared to be invalid or when the IP infringes third party rights.</li> <li>• What are the consequences, rights and obligations of the parties after termination, for example, are there clauses which survive termination such as obligations of confidentiality?</li> </ul>
Confidentiality	<ul style="list-style-type: none"> <li>• What confidentiality-related obligations should be imposed on the licensor and licensee?</li> </ul>
Warranties	<ul style="list-style-type: none"> <li>• Licensees may seek a variety of warranties from licensors such as warranty that the licensor is the rightful owner of the IP, has sought the appropriate IP protection and will be responsible to maintain the protection (for registrable IP), warranty that the use of the IP does not infringe other people's IP.</li> </ul>

Issue	Points to consider
Infringement	<ul style="list-style-type: none"> <li>Does licensee have the right to initiate infringement action? Jointly with licensor or solely? If solely, must licensee first consult licensor before instituting action?</li> </ul>
Dispute settlement	<ul style="list-style-type: none"> <li>What approach should the parties take in the event of dispute or deadlock? Civil action, arbitration or mediation?</li> </ul>
Governing law	<ul style="list-style-type: none"> <li>Which law governs the licence? This is important in the event of a dispute.</li> </ul>
Notification	<ul style="list-style-type: none"> <li>The names of the official contact points for each party.</li> </ul>

When in doubt, you should seek the advice of an IP lawyer. Negotiating a licence can be more efficiently and effectively done with the help of professionals.

### What Next?

#### Registration of licences

Issue	Points to consider
What to register?	Once you have obtained a licence to use a registrable IP right in Singapore, you are strongly encouraged to record your interest in the register to put third parties on notice.
Why register?	In the case of licences over registered designs and patents, you should put in your request for recordal promptly as any delay may affect your right to damages or account of profits in respect of infringements.
How do I register a licence?	To record a licence in the register, the appropriate form with fee should be lodged. For patent licences, please use <a href="#">PF24</a> . For trade mark licences, please use <a href="#">TM 37</a> . For registered design licences, please use <a href="#">D9</a> .

### The special case of patents endorsed "licence of right" (LOR)

#### Have you considered this?

If you are interested in obtaining a licence to someone's patent but do not know where to start, perhaps you may start by looking at our Patents Register for patents that are endorsed with a licence of right entry. To facilitate the search process, IPOS has consolidated a list of Singapore patents with such endorsements. See [link](#) here. Patents endorsed with a licence of right entry means that the patent owner is willing to grant a licence to work the invention in the patent to an interested party. This licence will be on terms agreed between the parties. If you are a patent owner and are interested to licence-out, such an endorsement may help you attract licensees. In addition by doing so, your patent renewal fees will also be halved.

Issue	Points to consider
What is LOR?	After a patent has been granted, the patent owner can inform the Registrar to enter in the register that licences under his patent is available as of right. That means that the patent owner cannot refuse to licence the invention.
What benefits are there for doing so?	By making licences to his patent available as of right, the patent owner enjoys a reduction of his renewal fees by half the amount. The purpose of this provision is to encourage patent owners to come forward and make known their intentions to licence-out.
Terms of the LOR	The terms of LOR are to be negotiated between the patent owner and the licensee. If the parties cannot agree on the terms, the Registrar may be asked to settle the terms of the LOR for them.
How would a patent owner inform the Registrar that he wants his patent to be endorsed as LOR in the Patents Register?	To apply for a LOR entry to be made on the Patents Register, the appropriate form with fee should be lodged. Please refer to <a href="#">Patents Form 28</a> and its corresponding fee in this <a href="#">schedule</a> . It is only when the Registrar of Patents is satisfied that the patent owner is not precluded by contract from granting licences under the patent, shall the LOR entry be made.
Can the patent owner apply to cancel the LOR after it has been entered in the Patents Register?	To cancel a LOR entry that is on the Patents Register, the appropriate form with fee should be lodged. Please refer to <a href="#">Patents Form 30</a> and its corresponding fee in this <a href="#">schedule</a> . When an application for cancellation is made and the balance paid of all renewal fees which would have been payable if the entry had not been made, the Registrar of Patents may cancel the entry if satisfied that there is no existing licence under the patent or that all licensees under the patent consent to the application.
The LOR list	The LOR list contains details of all live granted patents with a LOR status extracted from the Patents Register. However as the LOR status of a patent can change (e.g. if a LOR endorsement is cancelled), you should check the Patents Register before relying on the information in this list.

An example of a LOR entry

This is an example of what you can see in the LOR list.

FIELD OF INVENTION	INTERNATIONAL PATENT CLASSIFICATION	PATENT APPLICATION NUMBER	PATENT NUMBER	TITLE OF INVENTION	PROPRIETOR
BASIC ELECTRIC ELEMENTS	H01R 4/36*	<a href="#">2000039446</a>	101422	SCREW TERMINAL	MATSUSHITA ELECTRIC WORKS, LTD.

IPC is an international classification of patent documents. For details of the IPC, please click [here](#).

Click on this number for information on the register pertaining to this patent. The patent specification and abstract can be accessed by conducting a "Patent Search" at [www.epatents.gov.sg](http://www.epatents.gov.sg).

**\*Understanding the IPC**

Below is a detailed breakdown of the classification "H01R 4/36".

Section	H	ELECTRICITY
Class	H01	BASIC ELECTRIC ELEMENTS
Subclass	H01R	ELECTRICALLY-CONDUCTIVE CONNECTIONS; STRUCTURAL ASSOCIATIONS OF A PLURALITY OF MUTUALLY-INSULATED ELECTRICAL CONNECTING ELEMENTS; COUPLING DEVICES; CURRENT COLLECTORS
Main Group	H01R 4/00	Electrically-conductive connections between two or more conductive members in direct contact, i.e. touching one another; Means for effecting or maintaining such contact; Electrically-conductive connections having two or more spaced connecting locations for conductors and using contact members penetrating insulation
Subgroup	4/36	Conductive members located under tip of screw

**Useful Resources**

1. IPOS has an IP Management programme catered for SMEs. Please click [here](#) for more info or contact IPOS at Tel 6339 8616.
2. For a list of IP professionals, please refer to SNIPS [here](#).
3. For a list of registered patent agents with IPOS, please click [here](#).

**Acknowledgement**

We would like to thank the following reviewers for their valuable feedback.

1. Mr Alban Kang, Managing Partner, ATMD Bird & Bird LLP
2. Dr Aaradhana Sadasivam
3. Mr Soh Yee How, Managing Director, Xpressflower.com Pte Ltd
4. Dr Sze Tiam Lin (CLP\*\*), Senior Vice President, Science & Engineering Commercialisation, Exploit Technologies, A\*STAR

\*\*CLP: Certified Licensing Professionals

**Feedback**

We seek your views on how IP Knowledge Kaleidoscope can serve the business community better. Please email us your feedback to [ipos\\_enquiry@ipos.gov.sg](mailto:ipos_enquiry@ipos.gov.sg).

Information as of 4 May 2009  
© 2009 Intellectual Property Office of Singapore

**Disclaimer:** This article is for general information only and is not intended to be a substitute for professional advice. Please seek independent legal, business or other relevant specialist advice, where necessary, and not merely rely or act on any information provided here.

**Intellectual Property Office of Singapore**

51 Bras Basah Road #04-01, Plaza By The Park, Singapore 189554  
Tel: (65) 63398616 Fax: (65) 63390252 <http://www.ipos.gov.sg/>



INTELLECTUAL PROPERTY  
OFFICE OF SINGAPORE