

The University/Industry Connection

License Agreements, Negotiating and How It All Started: Elements of a License Agreement

MATTO Workshop for Licensing Officers

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License Agreements

- Why Do We Need Them?

License Agreements: Purpose?

- To Memorialize The Deal
- To Allocate Risk

Before You Start

- Control the Document!
- First Draft Sets Tone for the Negotiation
 - Reflects Initial Business Decisions

More Before You Start

- Who owns it?!
- What are you licensing?
 - Know the technology
 - Know the potential products
- Know the licensee
 - Size, financial position
 - Territorial limitations
- Know the marketplace
 - Scope of the license
- Where are you licensing it?

Licenses: Structure

- Preamble
- Recitals/Whereas
- Definitions
- License Grant
- Retained Rights
- Due Diligence
- Payments
- Patent Prosecution
- Patent Infringement
- Term; Termination
- Dispute Resolution
- No Representations
- Limited Liability
- Indemnification
- Miscellaneous Legal

The Deal

□ Preamble:

- Name the players
- Date the party starts
- Addresses

□ Recitals:

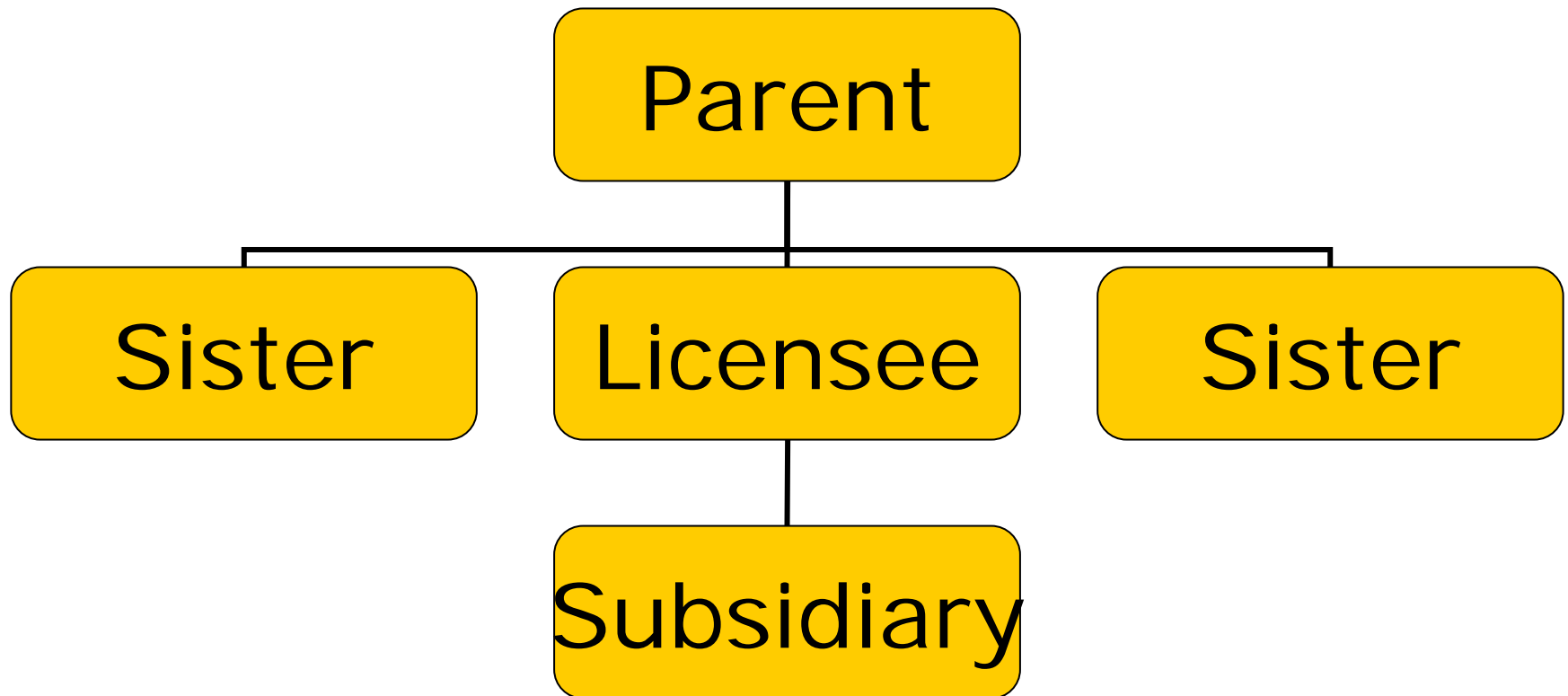
- What's it all about
- Notes to future readers
- General intent of the parties

Definitions=Infrastructure

- Affiliate
- Field
- Licensed Product/Licensed Process
- Net Sales
 - **Combination Products**
- Patent Rights/Valid Claim
- Related Technology/Know-How
- Reporting Period
- Sublicense Income
- Sublicensee
- Term
- Territory

Affiliate

□ Up-Down-Sideways



Field

- Limitations on License Grant by market or technological area
- For instance:
 - Automotive Engines
 - Wireless Telephony
 - Research Reagents
 - Diagnostic Purposes
 - Human Therapeutic Purposes

Licensed Product/Licensed Process

- Use, manufacture or sale infringes patent
- This is what you collect a royalty on
 - Ok to have subproduct definitions
- “In whole or in part” vs. Combination Product
- Royalty bearing prior to patent issuance-
 - Connected to Valid Claim
 - Connected to Related Technology/Know-How
- Match license grant to definition of royalty-bearing product

Net Sales

- Royalty-base
- Amounts billed vs. received
- By Whom-Affiliates, Licensee, Sublicensees (Pass-Through Royalties)
- Allowable deductions
- Non-cash consideration
- Samples/Test Products
- Combination Products

Patent Rights/Valid Claim

- Applications vs. Issued
 - Foreign vs U.S.
 - Connected to Territory
- Valid Claim:
 - In Patent Rights defn: limits scope of license grant
 - In Licensed Product defn: limits royalty base
- Improvements—Subject to 3rd Party Rights
 - Limit in time and scope (“dominated by”)
 - Require at least a fee for adding to the license

Related Technology/Know-How

- ❑ Not always included but often requested
- ❑ Only directly related or “necessary” to practice Patent Rights as granted
- ❑ Only from the named PI/Inventor
- ❑ Only Owned By the University
- ❑ Only Non-Exclusive License Grant
 - Academics need to be able to share and build on basic knowledge, know-how could include data or simple techniques to be used over and over again in the PI’s research and collaborations

Reporting Period

- Sets the calendar period for which royalties and sublicense income are due
- Quarterly/Semi-annual
- Connected to Reports

Sublicense Income

- Catches all payments received by Licensee in consideration for sublicenses of the Patent Rights
 - Milestones
 - Annual fees
 - One-time fees
 - Above fair market value equity premiums
 - Royalties—Only if not collected in Net Sales!
- \geq 50% sharing

Sublicensee

- Another entity granted rights under the Patent Rights by the Licensee
- Affiliates included?
- Multi-tiered:
 - Sublicensee of a Sublicensee

Term

- Begins on Effective Date: Choose a Date
- Until last to expire of Patent Rights
- But—
 - License to Related Technology/Know How Could Continue at Reduced Royalty
 - Avoid Patent Misuse

Territory

- Worldwide
- Europe (define which countries)
- Country by country

License Grant

- Exclusive v. Nonexclusive
 - Full Term or Limited Term
- All rights or some?
 - Makes, uses, offers to sell, sells or imports
 - “Have made” and the other “haves”
- Sample Limitations:
 - For internal research purposes
 - For research uses, but not clinical trials
- Match grant to royalty base
- Treat Know How differently--nonexclusive

Right to Sublicense

- Recall-Right of Sublicensees to grant sublicenses
- Consent to each sublicense
- Required clauses in sublicense agreements
- After License Agreement terminates?
 - Sublicenses terminate; right to negotiate
 - Sublicensee becomes a direct licensee
 - Other

Retained Rights

- Federal Government (Bayh-Dole)
- Pre-existing third party rights (sponsors)
- University teaching and research
 - Future Industry Sponsored Research
 - Nonprofit distributions (materials)
 - Nonprofits/Collaborators

Due Diligence

- Indicia of development and commercialization (avoid Govt “march-in”)
- Consequences of failure
 - Termination v. Nonexclusive v. Renegotiate
 - Buy it off? Once or every time?
- Examples:
 - Investment milestones in a Startup
 - First Product Sale
 - Annual Minimum Net Sales
 - Regulatory Approvals

Payments

- License Issue Fee
- Product Royalties
 - Combination Product Reductions
 - Royalty Stacking
- Minimum Royalty Payments
- Annual License Fee
- Sublicense Income Sharing
- Milestone Payments
- Reimbursement of Patent Prosecution and Maintenance

Payments (cont'd)

- Equity: Separate Discussion
- No withholding taxes
- Foreign currency exchange
- Late payments
- Royalty reports
- Audit rights

Patent Prosecution

- University v. Licensee control
- Foreign rights
- Termination of rights by country
- Termination of rights by patent
- Reimbursement from Licensee

Patent Infringement

- Licensee first right to pursue infringers
 - Only in Field, only in Territory
 - Only if exclusive
- Right to name university as a party if “indispensable”
 - Patent owner needed for legal standing
- Consult university prior to bringing suit
- No settlement without university consent
- Sharing of damages/settlements
- Licensee royalty withholding to offset costs

Patent Infringement (cont'd)

- Declaratory Judgment
 - Defending the Patent
- Licensee goes first
 - Only if exclusive
 - In all Fields

Term; Termination

- Voluntary by Licensee
 - How much notice?
- Breach
 - Cure period
 - Automatic termination or another notice
- Insolvency/Cessation of business
- Pre-termination payments remain due
- Sell-off of inventory
- Certain clauses survive

Dispute Resolution

- Set out your institution's approved process
- Step Dispute:
 - Clear notice of dispute
 - Negotiation by authorized decision makers
 - Nonbinding Mediation
 - Litigation—with or without a jury

No Representations / Warranties

- Risk Allocation
- From University:
 - Ownership
 - Noninfringement of univ. and third party
 - All technology or rights related to what is licensed

- Which of the above is acceptable?

No Representations / Warranties

None of the Above

No Representations / Warranties

- Might be Okay: (Check with Counsel)
 - Received assignments from named inventors
 - But check with patent counsel!!
 - Not knowingly withholding information or rights related to or necessary to practice the licensed rights
 - Haven't received a claim that the patent rights infringe third party patents
 - So long as it's true!
- Disclaim all other warranties, including noninfringement

Limited Liability

- It's more of the stuff in all capital letters.
- University disclaims consequential and incidental
 - Often requested to make mutual
- Licensee often requests "special" or "exemplary"
 - Same as "punitive"
- Consider liability limit if University gives representations and warranties

Indemnification

- Always discuss any changes with Counsel!
- If anything goes wrong, Licensee defends University and pays all of University's costs and damages
 - More than for just product liability

Other Clauses

□ Assignment

- If not assignable, be aware of whether your Affiliate definition includes a “parent”—could be a work around

□ Confidential Treatment

- Consider including the terms and nature of the license “confidential” (but not the existence of the license)

Miscellaneous Legal Stuff

- Insurance
- Non-use of Names
- Export Controls
- Compliance with Laws
- Governing Law
- Headings; Counterparts; Notice; Entire Agreement; Severability; etc.

Thank you.

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