

# What to watch for in Licensing

PRESENTED BY

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# What is a license?

- *“Permission granted by an owner or inventor, generally for a consideration to a person, firm, or corporation to use the owner’s proprietary information, invention, or material.”*



# Variations in “Use”

- Evaluation
- Manufacture
- Use
- Lease
- Distribution
- Combination thereof
  - ***Licensors retains ownership/title of IP***



# Definition of Licensed property

- With registered items (copyright, trademark, patents) be sure to include the registration number
- One license can cover single or multiple items
  - **The more restrictive the license, the smaller the royalty**

# Licensors Title

- Do you, the licensor, have clear title?
  - Is there a university involved
  - Are there co-inventors?
- Consider a “right-to-use” study in order to assure clear title

# Who is the licensee?

- Do the terms of the license extend to
  - Subsidiaries
  - Related companies and affiliates
  - Strictly the company named

## Subsidiaries of IBM

- The Weather Company
- Science Research Associates
- Red Hat
- Taligent
- AlchemyAPI
- Ambra Computer Company
- Many others

**Who will you give your baby to....?**

# Assessment of Potential Licensees

- Starting point - Define potential domain
  - Who is citing your patents? Your research?
  - Who provides raw materials to this industry
  - Whose business will change by your entry
    - Positively - savings, new products
    - Negatively – leapfrog
  - **Who has competing products**
- Quickly determine
  - Financial health
  - Reputation



# Assessment of Potential Licensees

- **Evaluate and contrast potential candidates**
  - Evaluate Core competencies
    - R&D
    - Manufacturing
    - Marketing, sales, distribution
  - Evaluate strategic direction
    - Tools used to achieve strategic goals
      - Outsourcing R&D, acquisition mergers, divestiture
    - Issues facing potential licensee
  - Understand and express the strategic advantage of your technology to licensee

# Exclusive licenses

- Will the terms restrict your rights to continue to conduct R&D in this field?
  - Assure that licensor rights are expressly clarified in the license
- Consider granting an exclusive license with a clause to revert to non-exclusive if performance criteria are not met
  - Also consider, losing license for non-performance

# Territory

- Can vary in scope
  - Highly restrictive - use at one site
  - Very lenient – Global
- Best to provide rights only to a territory where licensee has appropriate sales, marketing, and distribution channels

# Issues to consider in agreements



# Indemnification

- **One party to a contract holds the other party harmless in the event that a lawsuit is brought by a third party**
  - If you accept the indemnity, you are saying that you are legally responsible and will act as a shield
- **Things to consider**
  - Is the indemnity limited to certain types of claims, certain geographic regions, a specific dollar amount
  - Special issues with open source software

# Licensee/Licensors indemnification

- “Licensor shall indemnify Licensee and hold Licensee harmless from any damages and liabilities (including reasonable attorneys’ fees and costs)....”
- “Licensee shall indemnify Licensor and hold Licensor harmless from any damages and liabilities (including reasonable attorneys’ fees and costs)....”

*Sample, partial clauses taken from License Your Invention by Attorney Richard Stim*

*Such clauses should be negotiated and full implication understood*

# Best or Reasonable Efforts Clause

- This is an indication of how much effort the licensee shall put into promoting the licensed technology
- Very weak clause from a licensor's perspective
- Alternatives desirable from licensor's perspective
  - Quantified performance criteria
  - Upfront payment to assure performance
  - Requirements for minimum annual royalties
  - Conversion from exclusive to non-exclusive license for failure to perform
  - Reversion of all right, title and interest to assignor

# Assignability

- **A clarification of the party to whom the rights are assigned**
  - Affiliates, acquirers, subsidiaries
  - Do you know who owns whom?
- **What happens to those rights in the case of a merger/acquisition**
- **What happens to those right in the case of a bankruptcy?**



# Assignability clauses

- Restrictive clause
  - “Licensee will not assign, transfer, or encumber its interest in this agreement, or the rights granted to Licensee without the prior written consent of Licensor...”
- Less restrictive clause
  - “Licensee can assign its interest in this Agreement to a third party whereby the third party buys or otherwise acquires all the assets of the licensee to which the agreement relates...”

*Excerpts from Companion to Licensing Negotiations - Robert Goldscheider*

# Sublicensing

- Provides the licensee with the right to sublicense or transfer rights to another to make or sell your invention
- Why would licensee want to do this?
  - Spin-offs
  - Sales and distribution in other countries
- How can licensor protect itself?
  - Require prior written approval

# Sublicensing clauses

- No rights without approval
  - “The exclusive license granted does not include the right to sublicense without the prior written approval of Licensee....”
- Approved with conditions
  - “Licensor grants licensee the right to grant sub-licenses in the licensed territory provided that
    - Each sub-license has a grant which is consistent with...”

*Excerpts from Companion to Licensing Negotiations - Robert Goldscheider*

# Termination

- The conclusion of a license
- Can occur based on
  - **Fixed time**
  - **At will**
  - **Contract problems**
  - **Bankruptcy**

# Termination

- Based on time
  - Upon expiration of the term of this Agreement... Licensee shall surrender or deliver to Licensor...”
- Based on time
  - Upon expiration of earlier termination of this Agreement, Licensee and any sublicensee will immediately and without notice deliver to Licensor...”

*Excerpts from Companion to Licensing Negotiations - Robert Goldscheider*

# Termination

- Breach
  - “...if Licensee shall violate any of its material obligations under this Agreement, Licensor shall have the right to terminate this agreement...”
- Licensee’s abandonment
  - “If Licensor notifies Licensee of failure to carry out the terms of this Agreement so as to exploit the Technology as granted herein for any 12 consecutive month period...”

*Excerpts from Companion to Licensing Negotiations - Robert Goldscheider*



# Improvements

- Improvements are enhancements to the licensed technology that could be made by either party
- Define the domain of relevant improvements at the outset
  - Restrictive - relates to licensed technology and are patentable
  - Less restrictive - Any advances that relate to licensed technology whether or not they are patentable



# Grant-backs

- Provides rights to licensor of original technology to improvements
  - Cross-license, assign, or grants back rights to improvements in the technology that the licensee may make
  - Licensee may restrict licensor's right to sublicense improvements; may request reduction in royalties in exchange



# Improvements and Grantbacks

- Improvements

- “Licensor and licensee shall cooperate closely with one another ...Licensor shall have a world-wide, royalty-free, irrevocable, nonexclusive and no assignable license..”

- Improvements

- “Licensee and Licensor will have a royalty-free license to use all of these improvements and modifications...”

# Improvements and Grantbacks

- Grantbacks by Licensee

- To the extent that Licensee develops technology outside the scope of licensor's intellectual property rights...licensee will not be obligated to pay royalties to licensor

- Definitions

- “Licensee’s Improvement Patents” will mean all patents and patent applications of all countries owned, acquired, or controlled by licensee during the term...provided that the claims thereof cover inventions falling within the scope of one or more of licensed patent claims.....”

# SUMMARY

- Relevant Intellectual Property
- Partitioning the Opportunity
- Rights You Wish to Retain
- Consulting and Development Role
- What are you willing to provide
- What licensee would need to provide