

Guidebook of IP/Technology Transfer

Track 1

Entry-level Tech Transfer Professional

Topic 1.11.5

License Agreements

License Agreements

- What are they? When are they needed by the TTO/TTP?
- What role do they play in the IP management/technology transfer process?
- What are the elements of a standard License Agreement?

License Agreements

What are they? When are they needed?

- License Agreements are contracts between an IP owner (the Licenser) and another party (the Licensee) for the purpose of providing commercial use rights to a defined intellectual (and maybe bioproperty) property asset
- In a License Agreement, the Licenser grants certain use rights, but retains ownership of the asset

License Agreements

What are they? When are they needed?

- The License Agreement is contractual centerpiece of the technology transfer process
- It is where “technology transfer” is truly defined, structured, and assured
- The License Agreement (particularly, exclusive) are one of the key goals for the TTP and TTO
- They define precisely the rights the Licensor is granting to the Licensee, and the compensation the Licensee will remit to the Licensor in exchange for these rights.

Licensing Basics

License vs. sale

Definition: granting certain use rights without transfer of title (ownership)

Requires something to license (i.e. property rights), typically IP

Licensing Basics

Advantages:

- separates technology creation from commercialization

- allows non-profits to have commercial partners

- avoids marketplace risks

- allows stewardship by technology creator

Disadvantages

- retain some liability

- not in full control

- requires ongoing management of license

Licenses are flexible

- can be tailored for the technology and the parties

Types of Licenses

Option: a pre-license agreement

Commercial vs. research use, evaluation

Exclusive vs. non-exclusive

Exclusive licenses:

- world-wide, all fields

- by territory, and/or field-of-use

- time-limited

- consortia

Non-exclusive licenses:

- typically available to all qualified

- non-exclusive in one territory, and exclusive in another territory

Developing a Licensing Strategy:

driven by the technology

Is the technology suitable for exclusive or non-exclusive licenses?

(consider institutional philosophy)

Is the technology applicable in different “fields of use”?

Is there a geographical aspect to the technology?

Does the cost to develop/commercialize require the grant of exclusive rights?

Does the cost to develop/commercialize require a licensee to have “deep pockets”?

Developing Licensing Strategy:

evaluating alternatives

Exclusive or non-exclusive licenses?

Balancing maximum return vs. broad dissemination

Consider short, medium, long term returns

Need for key partners (remote management, R&D collaborations, infringements)

Exclusive licensees as agents vs. internal management

Investment required to develop

Institutional philosophy

Developing a Licensing Strategy: the critical question

**What does the technology require for successful
development and commercialization?**

Who is the TTO's Primary client?

- The university?
- The public
- The VP for Research? The President?
- Local community?
- Entrepreneurs
- Licensees

The technology

Developing Licensing Strategy:

An exclusive license:

- Secures a managing partner

- Maximum incentive for licensee/investors

- Needs strict “diligence” requirements for product development, promotion, sales, etc. (no “sitting it on the shelf”)

- Might need stringent sublicensing incentives/disincentives

Developing Licensing Strategy:

Variations on Exclusive licenses

(Assume stringent diligence provisions)

- Field-of-use
- Geographical
- consortia
- Limited exclusive period (head-start)

Examples of Licensing Strategy Alternatives

(for patent on antimicrobial compound)

Exclusive, world-wide, all uses (ag, industrial, vet, human)

Exclusive, world-wide, veterinary applications only

Exclusive, world-wide, agricultural only

Exclusive, world-wide, vet and ag only

Exclusive, Mexico only, all fields

Exclusive, Europe, vet only

Etc., etc., etc.,

Developing Licensing Strategy

Financial considerations

recovery of investment, patent expenses, cash flow needs, opportunity cost (license fees)

Licensee's business model (royalty type & amount)

Licensing Strategy: implementation

License strategy must adapt to the marketplace (i.e., license negotiations)

Maintain strategy but be flexible enough to adapt it to market realities

Licensing Strategy Alternatives:

licensing to a start-up

Is the start-up a good idea for the technology? the institution? the inventor(s)? The public good?

Is it an “in-house” start-up?

conflict of interest/commitment issues

institutional policy on faculty/grad start-ups

Is it the best strategy to commercialize the technology?

Institutional choice: start-up or existing company

Financial issues: equity vs cash for license fee

What role does institution play? (arms-length, active advisor, investor, promoter?)

Structuring License Financial Terms

License Fee

(typically upfront, lump sum, non-refundable, can be staggered over time or events)

Royalty

(usually linked to sales, industry standards)

Minimum royalties & Milestone Payments

(assures diligence, shares risk)

Amounts & schedule

Ongoing cost sharing

(patents, R&D, bioproperty, etc)

Structuring License Terms

License Fee

Factors:

product

demand

investment to date and future

cash flow needs

market size & characteristics

competition

opportunity cost

exclusivity

development status

scope of technology

Structuring License Terms

Royalty

Factors:

business model

market characteristics (i.e., typical margins)

COGS and pricing

scope of technology

enabling value (spark-plug vs. whole car)

royalty stacking (3rd parties)

the “25% Rule”

Structuring License Terms

Minimums & Milestones

Linked to the product development schedule

Time-based

Event-based

Structuring License Terms

Special Issues & Topics

R&D collaboration

Future inventions

Personnel exchanges, equipment sharing

Bioproperty Licensing

- Requires tight control of possession & use prior to licensing
- Some bioproperty cannot feasibly be licensed
(if it is the item of commerce, it will become public domain)
- Works well when the bioproperty is used in manufacture of a product
- When appropriate, bundle the bioproperty and IP in the license grant and royalty provisions:
 - tiered royalty on use of bioproperty & IP
 - bioproperty-use royalty after IP expiration

Bioproperty Licensing

- Determine if bioproperty is part of the technology
- If so, bundle it with the IP in the license agreement
- Make sure you are the clear owner
- Be sure it has not been made publically available through actions of your researcher
- Consider the value of the bioproperty to the licensee and factor that into the negotiation
- Include a bailment-type clause in the license agreement that extends your ownership/control

License Agreements

Elements of a typical License Agreement

The Parties defined

License Agreement

This License Agreement (the "**Agreement**") is entered into as of the _____, **20XX** (hereinafter called "**the Effective Date**") between **XXXXXXXX.**, with its registered address at _____, (hereinafter "**XXX**") and YYYYYYYY, with an address at _____ (hereinafter "**YYYYYYY**"). **XXX** and **YYYYYY** shall hereinafter collectively be referred to as "**the Parties**" and individually as "**Party**".

The Parties hereby agree that:

Whereas clauses: no legal impact, set the stage

WHEREAS, Party A is the owner of the intellectual property defined hereinbelow (the “Licensee IP”); and

WHEREAS, Party B desires to have the right to commercially develop and exploit the Licensed IP; and

WHEREAS, Party A is willing to grant such commercial use rights to Party B under the terms and conditions described hereinbelow; and

WHEREAS, The Parties agree to enter into This Agreement for the mutual benefit of the Parties and will act accordingly; and

NOW THEREFORE,
the Parties hereby agree as follows:

Definitions

- “**Licensed IP**” shall mean all those invention disclosures, patent applications, and issued patents described and listed in Attachment 1.
- “**Licensed Products**” shall mean any product or service the use, or sale of which would infringe Licensed IP.
- “**Licensee**” shall mean the entity referred to hereinabove and any affiliates in which the Licensee owns a majority share of the company
- “**Field of Use**” shall mean the field of
- “**Territory**” shall mean the country(ies) of
- “**Net Sales**” shall mean the gross revenue from sales, rent, lease, and any other transaction related to Licensed Products, less shipping, taxes, commissions, and returns
- “**License Year**” shall mean the twelve month period beginning on the Effective Date.

Grant of Rights

Licenser hereby grants Licensee the right to make, use, sell, export and import Licensed Products, in the Field of Use, in the Territory. Licensee's grant of rights shall include the right to sublicense under the terms and conditions defined hereinbelow.

Licensee's grant shall include the right to have Licensed Products made by a third party provided that said third party does not sell Licensed Products and provides all Licensed Products it has made directly to Licensee or to Licensee's buyer or customer.

License Fee

Licensee shall pay a one-time, non-refundable License Fee of \$XXXXXX, due on signing of this Agreement

(alternatives)

Licensee shall pay an additional License Fee according to the following annual schedule:

OR

Licensee shall pay an additional License Fee according to the following milestone schedule:

Milestone 1: \$XX,000

Milestone 2: \$YY,000

Milestone 3: \$ZZ,000

Etc....

Royalty

Licensee shall pay Licensor a royalty of Ex-percent (X%) of Net Sales from sales, rent, lease, or other transaction of Licensed Products with third parties.

Licensee shall pay Licensor a minimum annual royalty payment according to the following schedule:

License Year 1 : \$0

License Year 2: \$0

License Year 3: \$25,000

License Year 4: \$50,000

License Year 4+: \$75,000

The minimum annual payment shall be made at the beginning of the License Year and the amount paid shall be credited against royalty owed at the end of the License Year.

License Fee

Licensee shall pay a one-time, non-refundable License Fee of \$XXXXXX, due on signing of this Agreement

IP Management and IP Expenses

Licensor shall retain final decision-making authority on all Licensed IP. Licensor shall keep Licensee fully and timely informed of all communications and decisions related to Licensed IP, and shall endeavor wherever reasonably possible to incorporate input into said communications and decisions.

Licensee shall reimburse Licensor for all direct and documentable expenses paid to intellectual property service providers and national intellectual property offices.

Licensor and Licensee shall notify each other if they become aware of a potential infringement of Licensed IP by a third party, and shall agree if, and the manner in which, any action shall be taken, and

License Period

The License Period shall last until the last-to-expire patents of Licensed IP

OR

or a period of X License Years, beginning with the Effective Date. The License Period may be extended by mutually agreed, written amendment.

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Thank you