IP value extraction and commercialisation

Licensing I

in cooperation with I3PM
Your speaker: Vincent Couteau

Background:
- Master in Law, LLM ICT Law & Management
- QLTT (solicitor England & Wales)
- Currently managing IP strategy and asset portfolios in 74 countries, including litigation
- responsible for the entire IP bundle
- > 15 years of experience in licensing
- Lawyer by training, in-house legal manager strongly involved with operations, based in Belgium

Memberships: I3PM\(^1\), Atos scientific community\(^2\), IQPC\(^3\), LES Benelux\(^4\)

1. i3pm.org
2. ascent.atos.net
3. iqpc.com
4. les-benelux.org

Disclaimer
Opinions expressed in this presentation are those of the speaker and not necessarily those of the European Patent Office nor of the speaker's employer.
Overview of webinars on offer

1. **IP strategy**
   Five VC sessions

2. **IP evaluation and protection**
   Five VC sessions in June 2018

3. **IP value extraction and commercialisation**
   Four VC sessions in October 2018:
   - IP value extraction (4 October 2018)
   - Licensing I (11 October 2018)
   - Licensing II and enforcement (18 October 2018)
   - Determining the value of IP (25 October 2018)
Main purpose of this module

- Demistify licensing
- Outline the basics of negotiation tactics
- Provide insights, tips & tricks for negotiating appropriate license terms
- Provide you with actionable take-aways for your daily practice
Agenda

- What is licensing?
- Types of license
- Structure of a license agreement
- What to whom and where?
- Negotiating a license agreement
- The role of know-how in licensing
- Negotiating an appropriate licensing fee or royalty scheme
- License of rights and cross-border licensing agreements
What is licensing?

- A complex process with a simple outcome: permission given by the owner (Licensor) to a user (Licensee) to use the IP in return for some form of consideration.

- Without a license, the owner could prevent the use of the IP by the user.

- A license agreement must be carefully drafted to avoid future pitfalls or drawbacks.

- No license = risk and risk can materialize.
What is licensing?

“‘To license in haste is to repent at leisure’” ¹

Or, put differently, “Hindsight is a wonderful thing” ²

A license is a contract, it can be oral (not recommended), but ideally is well-negotiated, balanced and comprehensive.

The licensor remains the owner of the IP.

A license can be “hybrid”
Types of license

Terms can vary widely: ¹, ²

- sole
- (non-) exclusive
- cross-license
- (ir)revocable
- (non-)assignable (i.e. (non-)transferable)
- worldwide (or not)
- perpetual (or not)
- hybrid or addressing specific IP rights
- for a specific business activity or field of use (or not)
- sub-licensable (or not)
- royalty-free or royalty-bearing
- other terms

¹ Bristows, IP Licensing Handbook; February 2011.
License agreements vary based on many factors including the types of IP being licensed and the context in which the licensing arises.

Common IP licensing situations:
• generating revenue
• expanding a business geographically or into new business lines
• avoiding or settling infringement claims
• selling a business or assets
Types of license

- **Exclusive and sole** license are sensitive and may be(come) counterproductive unless limited clearly e.g. field of use

- **Perpetual** licenses may cause problems in M&A transactions, IPOs, other Change of Control events

- **Fully paid-up** license may look interesting at first, but often appears to be too cheap in the end
Q&A
Structure of a license agreement

- Parties
- Recitals
- Definitions
- Grant of rights
- Consideration and payment terms
- Obligations of licensor and licensee
- Confidentiality
- Improvements, enhancements and modifications
- Warranties and indemnities
- Term and termination
- Boiler plate clauses
Parties

β Legal entities, not individuals (limited liability)

β Substance ~ performance of contract

β Well-identified

Example:

“POLYGLOT ZAO, a company incorporated under the laws of Cuba, with registered seat at Red Square, Moscow, and bank account held at Bank Melli Iran”
Recitals

- Often neglected, underappreciated or underutilized
- Can – however – play a useful role ~ interpretation
- To-the-point, neutral: strike the right balance
- Should not contain any biased terms.
- Beware that the other party does not use the recitals to highlight your weaknesses in the legal relationship
Definitions

◊ It’s crucial to get them right ~ future interpretation

◊ Pay attention thereto, do not rely on familiar lexicon only, use shortcuts or hollow jargon

◊ Tips to get things right

◊ It all depends on how narrow (licensor’s view) or broad (licensee’s view) one wishes to formulate them

Definitions

β “Licensed Technology”/“Patents”/“Know-How”
β “Licensed Products”
β “Field of use”
β “Territory”
β “Compensation”
β “Royalty”
β “Improvements”
β “Confidential Information”
β “Net Sales” / “Net receipts”
β “Licensee”/“Affiliates”/“Successors”/…

1. Donald M. Cameron, Rowena Borenstein, Ogilvy Renault, Key aspects of IP license agreements., 2003
Grant of rights

1. Licensor’s rights >= Grant of rights ~ chain of sublicensing (!)
2. Crucial provision: 
   - Type of license (sole, exclusive, non-exclusive, sub-licensable, assignable, …)
   - Nature of the IP
   - All or part of the rights
   - Right to sublicense
   - Compensation
   - Field of use
   - Territory

special note: right of first refusal/Right of first offer

Grant of rights

§ 3 major categories of grant:

<table>
<thead>
<tr>
<th>Cat.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>To some IP rights only e.g. license to practice (an) identified patent(s)</td>
</tr>
<tr>
<td>2)</td>
<td>To all the IP rights of any kind that are necessary to reproduce, make, use, market and sell products based on a type of technology</td>
</tr>
<tr>
<td>3)</td>
<td>To all the IP rights in order to create and market a product that complies with a technical standard or specification</td>
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† example of patent cross-license agreement between majors
## Grant of rights

<table>
<thead>
<tr>
<th>Type of IP</th>
<th>Grant</th>
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<tbody>
<tr>
<td>Inventions / Patents</td>
<td>Right to <strong>make and have</strong> <em>made, use, sell, offer for sale and import</em></td>
</tr>
<tr>
<td>Trademarks</td>
<td>Right to <strong>use in commerce</strong> to identify and distinguish <strong>goods or services</strong> and to indicate the origins thereof</td>
</tr>
<tr>
<td>Copyrights / Trade Secrets</td>
<td>Right to <strong>use information</strong> associated with a <strong>duty to maintain its secrecy</strong></td>
</tr>
<tr>
<td>Technology</td>
<td><strong>Develop, practice, manufacture and sell</strong></td>
</tr>
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Payments and payment terms

- Amount(s) of compensation
- Timing
- Frequency
- Liability for taxes
- Reporting by licensee in order to enable payment
- Audit
Obligations of licensor and licensee

- Disclosure and assistance
- Exclusivity
- Enforcement of intellectual property rights
- Trademark requirements
- Covenant to exploit
Confidentiality

- On the existence of the license itself
- On all the terms of the license
- On some specific terms expressly marked “confidential” in writing
- Usual exceptions to confidentiality may not be sufficient e.g. due diligence for M&A purposes
- Confidentiality must survive license term
Improvements, enhancements and modifications (IEM)

- Included in the license or not?

- By licensor or by licensee

- Licensee: ask license on IEM

- Licensor: do not accept an obligation to generate IEMs

- License-back to licensor must be non-exclusive to avoid competition effects
Warranties and indemnities

- Legal capacity
- Ownership, title
- Valid and subsisting IP (non-challenged)
- Non-infringement
- Sufficiency
- Performance

- Use a cap on liability!
Term and termination

- Clearly describe the circumstances triggering right for termination
- Effects of termination (damages ?)
- Specific termination events
- Wind down provisions
- Survival of certain terms
Boiler plate clauses

β Applicable law

β Venue for dispute resolution

β Force majeure

β Notices

β Variations of the agreement
Q&A
What to whom and where?

COMPANY A

licensing-in
licensing-out
cross-license

COMPANY B

Evolving landscape

Static/Dynamic analysis

Alternatives: insurance, pooling, M&A, …
Negotiating a license agreement

- “No deal without a meal.”: building personal relationships transcending the business dealings
- Due diligence
- AVOID: standstill, exclusive negotiation agreements, standard non-negotiable contract forms
- Execution and performance
- Alliance management
The role of know-how in licensing

- Codified IP (patents, trademarks, designs) vs. non-codified IP (know-how, copyrights, know-how)

- A hybrid license is preferable for the licensee, but also for the licensor (higher royalty)

- Critical parts of products can be covered by non-codified IP and patents have a limited lifetime vs. trade secrets (virtually eternal)

- Focus on software licensing
The role of know-how in licensing

- Know-how vs. trade secrets

- How to define?

- Defined by function: All unpublished information disclosed to B by A relating to/useful for the exploitation of the Inventions/Patents/Technology

- Framed definition: The information set out in Exhibit...

- Non-exhaustive list
**Negotiating an appropriate licensing fee and / or royalty scheme**

<table>
<thead>
<tr>
<th>Roughly, 3 possible scenario’s</th>
<th>Result</th>
</tr>
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<tbody>
<tr>
<td>1) equal in skill, knowledge and talent partners, but not so sophisticated</td>
<td>FARMER’S AGREEMENT</td>
</tr>
<tr>
<td>2) unequal with one being significantly more sophisticated than the other</td>
<td>DANGER</td>
</tr>
<tr>
<td>3) two highly sophisticated parties</td>
<td>MOST INTERESTING &amp; COMPLETE NEGOTIATION</td>
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Negotiating an appropriate licensing fee and/or royalty scheme

- Different payment structures
- Upfront fee or milestones or combination
- Royalties
- Fixed or variable (% of licensee receipts : NET SALES VALUE) or mixed (upfront minimum royalty + performance-based)
- Calculation method: cost method, income method, comparables or market method*
- Royalty stacking
- Reasonable rate?
  - no fixed rule, publications, databases
Negotiating an appropriate licensing fee and / or royalty scheme

- Lump sum may be offset against future royalties (constitute advance payment) or not

- Minimums and maximums

- Most favored licensee (“MFL”) clause

- Currency, tax

- Other consideration than money: assignment of assets, equity, sales rights in certain territories, …
License of right and cross-border licensing agreements

- Requirement to practice a patent vs. loss of rights
- License of right
- To register or not?
Key take-aways

◊ Yes, it’s complex, but – through continuous practice, your learning curve will be steep!

◊ At the end of the day, it’s no rocket science, it’s often about sound judgment and preparation

◊ Find reliable sources for model contracts:
  https://www.ipag.at/en/model-contracts/

THANK YOU FOR YOUR ATTENTION!
Next VC module

Licensing II and enforcement:

- Anti-competitive constraints for license agreements
- Covenant not to sue agreements
- Statistics, civil v. criminal, border seizure
- Infringement proceedings
- Proving infringement
- Defense mechanisms
- Efficient strategies
- How patent cases are resolved