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# IP value extraction and commercialisation

## Licensing I

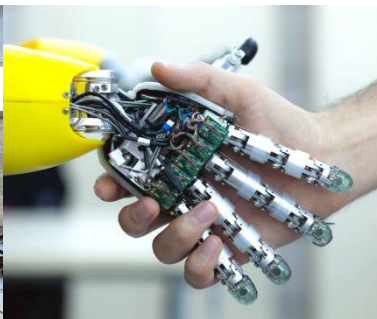
in cooperation with I3PM 



Vincent Couteau



Vice-President of I3PM



# Your speaker : Vincent Couteau

- Background :
  - Master in Law, LLM ICT Law & Management
  - QLTT (solicitor England & Wales)
  - Weiss & Porat, Taylor Wessing, K.U. Leuven R&D, Siemens, Atos
  - 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<sup>1</sup>, Atos scientific community<sup>2</sup>, IQPC<sup>3</sup>, LES Benelux<sup>4</sup>

1. [i3pm.org](http://i3pm.org)
2. [ascent.atos.net](http://ascent.atos.net)
3. [iqpc.com](http://iqpc.com)
4. [les-benelux.org](http://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.

# 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” <sup>1</sup>
- Or, put differently, “Hindsight is a wonderful thing” <sup>2</sup>
- 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”

1. Old licensing saying.

2. ASTP, Complex Clauses,  
L. MacDonald.

# 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.

2. European IPR Helpdesk, Fact Sheet, Commercialising Intellectual Property : License Agreements, November 2015.

# Types of license

- 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

# 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

EPO, Inventor's Handbook,  
<https://www.epo.org/learning-events/materials/inventors-handbook.html>

WIPO, Successful Technology Licensing

OGILVY RENAULT, Key Aspects of IP License Agreements

THOMSON REUTERS, Practical Law, IP Licensing Toolkit

UKIPO, Licensing Intellectual Property

# Parties

- Legal entities, not individuals (limited liability)
- Substance ~ performance of contract
- 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 <sup>1</sup>
- Tips to get things right
- It all depends on how narrow (licensor's view) or broad (licensee's view) one wishes to formulate them

1. Brian P. O'Shaughnessy, Devising More Durable Deals, Avoiding Common Pitfalls in Patent Licensing, *Les Nouvelles*, March 2018, Volume LIII, no. 1

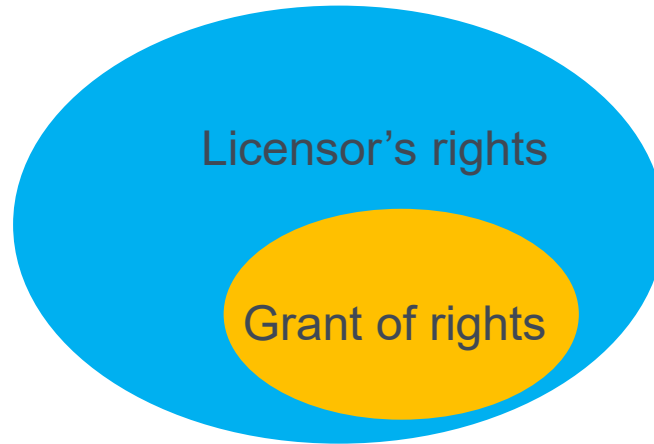
# Definitions

- “Licensed Technology”/”Patents”/”Know-How” <sup>1</sup>
- “Licensed Products”
- “Field of use”
- “Territory”
- “Compensation”
- “Royalty”
- “Improvements”
- “Confidential Information”
- “Net Sales” / “Net receipts”
- “Licensee”/”Affiliates”/”Successors”/...

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

# Grant of rights

- Licensor's rights  $\geq$  Grant of rights ~ chain of sublicensing (!)
- Crucial provision : <sup>2</sup>
  - 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

1 R. Torenstra, Grant of right clauses in technology licensing agreements, LES Conference Brussels, 9.11.2016

2. E. Gwen Poeteron, Patent licensing considerations, 2013

# Grant of rights

- 3 major categories of grant :

Cat.	
1)	To <b>some IP rights only</b> e.g. license to practice (an) identified patent(s)
2)	To <b>all the IP rights of any kind</b> that are necessary to reproduce, make, use, market and sell products based on a <b>type of technology</b>
3)	To <b>all the IP rights</b> in order to create and market a product that complies with a <b>technical standard or specification</b>

1. WIPO, Successful Technology Licensing



→ example of patent cross-license agreement between majors



# Grant of rights

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



# 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

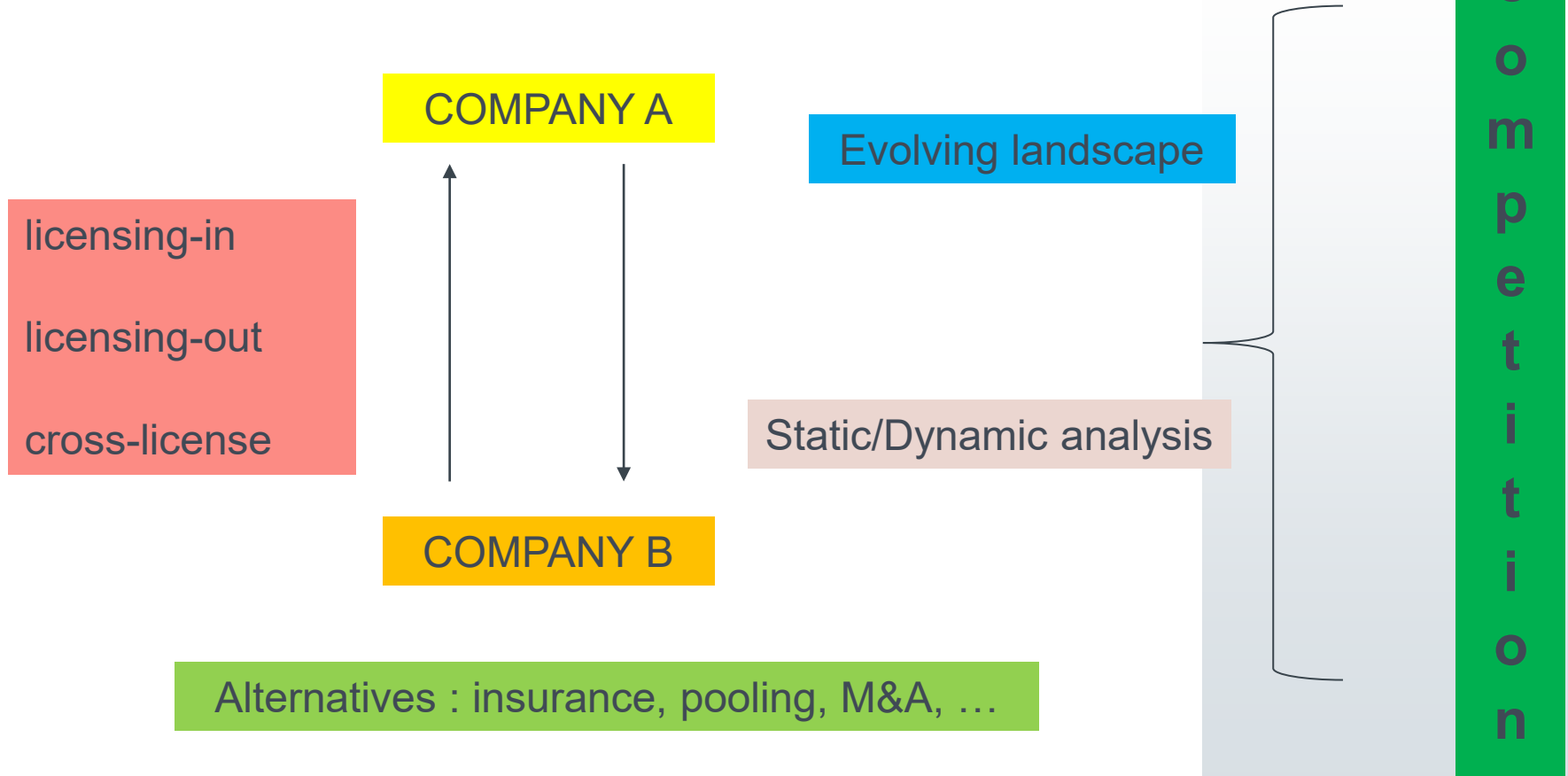
- Applicable law
- Venue for dispute resolution
- Force majeure
- Notices
- Variations of the agreement





Q&A

# What to whom and where ?



# Negotiating a license agreement

- Consider using short useful preparatory documents :  
NDA, Term Sheet (!), Heads of Agreement, *Letter of Intent\**, *MoU\*\**, MTA
- “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

Roughly, 3 possible scenario's	Result
1) equal in skill, knowledge and talent partners, but not so sophisticated	FARMER'S AGREEMENT
2) unequal with one being significantly more sophisticated than the other	DANGER
3) two highly sophisticated parties	MOST INTERESTING & COMPLETE NEGOTIATION



# 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 ?

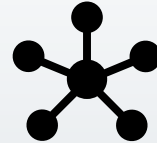


Q&A

# 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 !**



# Additional 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

