

Anatomy of a License

Joseph D. Fondacaro, Ph.D.

**Director, Center for Technology
Commercialization**

Cincinnati Children's Hospital Medical Center

**Co-founder and Chairman
Cincinnati Chapter of LES**



Topics and Format

- Introduction to Licensing
- Preamble and Recitals (Background)
- Definitions
- Grants clause(s) and related terms
- Obligations of the Parties
- Financial terms
- Warrants and Indemnification
- Terms and Termination
- Others clauses

What is a License

- Derived from the Latin word “licentia” meaning “freedom” or “liberty”
- A contract granting rights in intellectual property and/or materials of one party to another in exchange for good and valuable consideration.

Why Universities License Technology

- Provide for public benefit
- Forge industry relationships
- Researcher satisfaction
- Support regional economic growth
- Financial reward

Licensors' Perspective

- The Licensor is concerned about:
 - transferring technology and having it developed (diligence) for public benefit
 - protecting inventor's (researcher's) rights
 - protecting assignee's (University's) rights
 - getting a fair deal

Why Companies License Technology

- Enhance existing technology
- Fill a gap
- Answer a question
- Expand a product line or franchise
- Capture a greater share of a market
- Create a new business opportunity

Licensee's Perspective

- Licensee is more concerned about:
 - increasing revenue through acquisition of new technology
 - expanding market potential through exclusivity
 - decreasing risk
 - late stage technology
 - investing as little \$\$ as possible

What Factors Influence a License

- Who are the parties
- What is being granted
- What type of license is defined
- What are the field and territory
- What are the financial considerations
- What rights are being retained

Preamble and Recitals

- Preamble is an introduction to “who, where and when”
- Preamble identifies the Parties (by name and address) and establishes the Effective Date
- Parties usually given an abbreviation or identified as “Licensor” and “Licensee” for the remainder of the Agreement

Preamble and Recitals

- Recitals provide “what, why, how”
- Licensor owns Technology or Know-how
- Licensee desires to acquire certain rights to the Technology or Know-how for the purpose of
- Licensor desires to license these rights to the Licensee
- Therefore, in consideration foretc.

Definitions

- **Definitions are used to simplify the agreement**
- **Defined terms always capitalized**
- **Defined because they are used and referred to quite often**

Examples of Defined Terms

- Affiliates
- Field of Use
- Improvements
- Know-how
- Licensed Patents
- Licensed Technology
- Net Sales
- Patent Rights
- Products
- Royalty
- Term
- Territory

The Grants Section

- Rights granted in the license
 - “Licensor hereby grants to Licensee an exclusive license within the Territory, in the Field, with rights to sublicense, to make, have made, lease, use, market, distribute, sell and otherwise dispose of Products as described under the Technology and/or the Patents.”

The Grants Section

- Rights being retained; ownership rights
 - “Licensor shall retain title to the Technology, the Know-how and the Patents.”

The Grants Section

- Rights being retained; right to use
 - “The exclusive license specified in Paragraph 2.1 is subject to the ongoing rights of Licensor to utilize the Technology and/or the Patents for ongoing research and patient care purposes only by Licensor.”

The Grants Section

- Rights being retained
 - Retain rights also to grant other non-profit institutions the right to conduct research using the Licensed Technology (“research exemption”)

The Grants Section

- **Third party rights**
 - “The exclusive license specified in Paragraph 2.1 may be subject to certain rights of the Government if the Technology and/or the Patents were created or invented in the course of Government-funded research. Such rights may include, for example, a royalty-free license to the Government and the requirement that any Product produced for sale in the United States will be manufactured substantially in the United States.”

Obligations of the Parties

- **Due diligence of the Licensee**
 - a license is an implied covenant to exploit, especially when exploitation of the technology provides public benefit
 - “Licensee shall use its best efforts to bring one or more Products to market through thorough, vigorous and diligent programs of research, development, testing, marketing and sales of the Technology and to continue active, diligent marketing efforts for one or more Products throughout the Term.”
 - may require progress reports

Obligations of the Parties

- **Licensors become aware of infringement**
 - obligation to inform Licensee
- **Prosecution of patent application(s)**
 - consult and work with Licensee legal team

Financial Terms

- License fee
- Patent expenses
 - incurred and going forward
- Royalty
 - minimum royalty, royalty stacking
- Milestone payments
- Sublicense fees and royalty
- Others
 - license maintenance fee, research

License Fee

- **“Upon execution of this Agreement, Licensee shall pay to Licensor a license fee (“License Fee”) of one hundred thousand dollars (\$100,000) within thirty (30) days of the Effective Date of this Agreement.”**

Patent Expenses

- Patent and legal expenses
 - recover what Licensor has incurred to date
 - “As of the Effective Date, Licensee shall reimburse Licensor for all previous patent and legal expenses incurred by Licensor to file and prosecute the Licensed Patents.”

Patent Expenses

- Patent and legal expenses
 - Licensee assumes all expenses going forward
 - “Licensee further agrees to assume full responsibility to pay future prosecution and maintenance fees of Licensed Patents, U.S. and foreign, according to the applicable patent office schedule.”

Royalty

- **Percent of Net Sales paid by Licensee to Licensor**
 - **Net Sales: gross sales minus discounts, returns, credits and other allowances**
 - **not the cost of doing business: taxes and tariffs, shipping, product development, marketing, etc.**
 - **usually paid quarterly with a report**
 - **assigning value to royalty rate**

Determining Royalty Rate

- **Some factors influencing royalty rate:**
 - stage of technology
 - type of technology (time to market)
 - diagnostic, medical device, traditional therapeutic, gene therapy
 - size of market
 - size of licensee company
 - ramping up or down
 - “sharing the risk”

Minimum Royalty

- **Minimum annual cash payment**
 - applied to any running royalty
- **Market size, market penetration, number of competitive products**
- **Extremely variable**
 - 10% to 20% of expected annual royalty flow; (example)
- **Important to know the market**

Example of Minimum Royalty

- Market = \$1.0 billion/yr.
 - 30% penetration = \$300 million/yr.
 - 2% royalty = \$6.0 million/yr.
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- Minimum royalty of \$1.0 million/yr.
 - 2% of \$50 million net sales/yr.
 - \$50 million represents a 5% market penetration

Royalty Stacking

- Licensee has to establish other “arrangements” in order to complete product development
- May offer a share of profits in terms of a royalty to third party in exchange for service provided
- Will ask Licensor to reduce royalty rate to accommodate additional royalty

Royalty Stacking

- Be prepared
 - Consider size of company; this may be determining factor
- Language:
 - “In the event that Licensee is required to offer a royalty to a third party in exchange for services directly related to development of Licensed Technology, Licensor is prepared to reduce the agreed upon royalty rate by.....”
 - should you get something in return?

Milestone Payments

- Payments to Licensor for successful achievement of a development step
- Share in the success of the Licensed Technology
- Example: Approval to enter Phase I clinical trials, Phase II, Phase III, launch of product, notice of allowance of patent claims, etc.

Sublicense Fees, Sublicense Royalty

- These are different sources of revenue but the percentage to Licensor could be the same
- Usually in the 20%-30% range
- Sublicense fees paid on the “Sublicense Fee”, milestone payments, minimum royalty, sublicense maintenance fee but not on patent costs or research funding

Sublicense Fees, Sublicense Royalty

- **Sublicense royalty:**
 - percent of royalty received by Licensee paid to Licensor
 - often Licensee will get higher royalty rate from Sublicensee (added value to technology)
 - 20%-30% range

Other Financial Considerations

- License maintenance fee
 - annual payment on anniversary of agreement
 - not applied to running royalty
 - often negotiated out as a trade-off
 - know status of company
 - marketing capability
 - contract out marketing and sales

Other Financial Considerations

- Research support
 - licensee's interest
 - improvements (part of the license??)
 - consult with P.I.
 - NIH level funding over 2-3 years
 - include indirect costs

Warrants and Indemnification

- These sections should confirm that Licensor:
 - owns and/or has the rights to the Licensed Patents
 - has no pending or threatening actions regarding the Licensed Patents and the Technology

Warrants and Indemnification

- These sections should also confirm that Licensor:
 - extends no express or implied warranties or indemnification, including claims of damages, injury to person or property, loss of profit or obligations to defend against third party claims arising from use of the technology.

Term of a License

- Usually runs from the Effective Date to the last to expire of the Licensed Patents or until none of the Licensed Patents remain in force for any reason (invalidity)
- Where no patent(s) involved, term defined by an agreed upon period of time
- When patent application(s) licensed, establish a set term unless during that time a patent issues.
- What else can you do in this situation?
Milestone payment

Termination

- **This provision varies:**
 - expiration or invalidity of patent
 - defined period for non-patent license
 - breach or default, most common
 - provide period for curing the breach or default, usually 60 days

Common Causes of Breach

- **Overdue payment**
- **Bankruptcy**
 - including insolvency or receivership
- **Expropriation**
 - esp. in foreign licenses
 - automatic termination
- **Change of control**
 - renegotiate license

Others Terms and Clauses

- **U.S. Export Controls**
 - U.S. Office of Export Administration
 - restrictions on countries with whom we can do business, provide technology, etc.
 - Licensee should be aware of this and some statement should be in license
- **Arbitration**
 - dispute resolution; AAA procedures

Others Terms and Clauses

- **Applicable law for interpretation and location**
 - both parties U.S. choose state
 - foreign licensee, choose U.S.
- **Most Favored Nations**
 - licensee may insist in cases of non-exclusive licenses or a “carve out”

Tips and Advice

- Establish a relationship with licensee before negotiations begin
- Do homework on licensee and market
- Assemble a team to consult with during drafting and negotiation
- Always consult with General Counsel or an outside attorney
- AUTM Technology Transfer Practice Manual

Q and A Discussion

jdfonda@cchmc.org



"change the outcome"