

Technology Licensing Basics

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Intellectual Property

“A property right created by law to protect intangible assets”

Trademark protects words, names, or symbols used in commerce

Copyright protects original works of authorship

Patent protects process, machine, article of manufacture, or composition of matter



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Intellectual Property License

“A transfer of property rights without a transfer of ownership”

• **Trademark License** grants the right to use trademark in commerce

this name on any device to be sold as a Kindle™

• **Copyright License** grants the right reproduce, distribute and display copyrighted works

reproduce and distribute this book to be read on any device

• **Patent License** grants the right to make, use and sell patented inventions

manufacture and sell this device



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Why License Intellectual Property?



- **Universities** develop novel ideas and inventions but have limited capacity to distribute them in a format useful to the public

- **Companies** develop and manufacture useful products but have limited research capacity for developing new or improved products



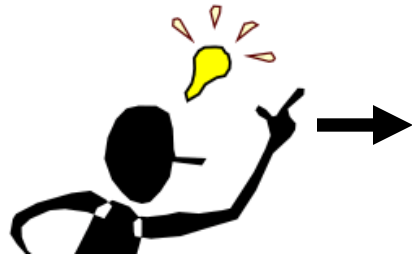
A Marriage Made in Heaven?

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The Dating Game

(Or how do we end up with a license?)



Idea from
UNC inventor

United States Patent [19]
Sitrick

[54]	VIDEO GAME NETWORK
[76]	Inventor: David H. Sitrick, 820 Burchel Highland Park, Ill. 60035
[21]	Appl. No.: 431,154
[22]	Filed: Sep. 30, 1982
[51]	Int. Cl. ⁴ A63
[52]	U.S. Cl. 273/85 G; 27 273/D
[58]	Field of Search 273/DIG. 28, 85
[56]	References Cited
	U.S. PATENT DOCUMENTS
	4,121,283 10/1978 Walker 273/E
	4,126,851 11/1978 Okor 273/E
	4,193,598 3/1980 Freese 273/E
	4,247,106 1/1981 Jeffers et al. 273/E
	4,389,048 6/1983 Burgess 273/E

Patent
or
Copyright



Marketing to
companies



License

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The Engagement and the Prenuptial Agreement (The License Agreement)



- Memorialize the business relationship
- Clearly define rights and obligations
- Convey intentions as to future events



Content of The License Agreement

- Preamble
- Recitals
- Definitions
- Grant
- Consideration
- Due Diligence
- Property Rights and Obligations
- Term and Termination
- Representations, Indemnity
- Housekeeping/Legal Provisions



Content of The License Agreement

Preamble, Recitals, Definitions

Preamble

- Parties
- Effective date

Recitals

- The “WHEREAS” clauses
- Provide background and intent
- Identify prior agreements or controversies
- Identify special relationships

Definitions

- Clarify ambiguous terms (“Net Sales”)
- Create special terms (“Licensed Products”)



Content of The License Agreement

Grant, Consideration, Due Diligence

Grant

- Type: exclusive, non-exclusive, co-exclusive
- Limitations: reserved rights (academic use, U.S government, etc)
- Scope: geographic, field of use, sublicensing rights

Consideration

- Type: lump sum, royalties on product sales, sublicensing
- Form: cash, equity, crosslicense
- Timing: fully paid upfront, repeating fee, fee per product sold, contingency

Due Diligence

- Product development and commercialization milestones
- Reporting

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Content of The License Agreement

Property Rights and Obligations

Patent Prosecution

- Payment of fees (Company)
- Control (University)

Confidential Information

- Company information provided in reports to University
- Technical assistance provide by University to Company

Infringement, Product Liability

- Control and participation (Company +/- University)
- Cost (Company)
- Distribution of awards or burden of payment (Company +/- University)



Content of The License Agreement

Term and Termination

Company

- May terminate at any time without cause

University

- For breach of material terms of license agreement: failure to meet development milestones, failure to pay fees due, failure to provide reports, etc.

Automatic

- Fixed date
- Expiration of patents
- (Company liquidation but not merger or acquisition)



Content of The License Agreement

Representations, Indemnity

Representations

- University represents that it owns the intellectual property and has the right to license it
- University does not represent that any patent will issue, that any patent is free from competing claims, or that potential products are useful for any purpose

Indemnity (protection from third party claims)

- Company reimburses University for any costs incurred if a third party sues the University in relation to the licensed products including: patent infringement, product liability, failure to comply with laws and regulations



Content of The License Agreement

“Housekeeping”/Legal Provisions

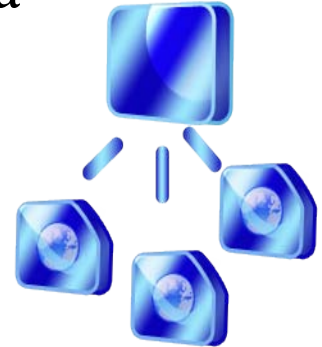
- Notice requirements
- Recordkeeping
- Dispute resolution
- Choice of law
- Force Majeur
- Amendment/Modification
- Integration
- Severability
- Non-waiver
- Survival
- Publicity



Pre-Marital Counseling

(Licensing Issues: Rights to Improvements)

- An invention becomes “fixed” in the form of a patent or copyright
- Rights to minor improvements (patent continuation-in-part or copyright derivative works) often granted as part of the license agreement
- Rights to major improvements/new inventions are not granted as of right, they may be subsequently licensed for a fee or may end up licensed to a competitor
- Managing expectations is key!



Pre-Marital Counseling (Licensing Issues: Valuation)

- Determined by the invention stage/cost of development
- As Company adds value University share decreases



1. Upfront payments (cash, equity)
2. Milestone payments (triggered by value-creation milestones)
3. Running royalties (a % of product sales)
4. Percentage of revenue generated by sublicenses

Post-Marital Counseling

(Licensing Issues: Due Diligence)



University requires of Company:

- Product development milestones met by certain dates
- Sales minimums after first sale
- Failure to meet milestones may result in termination or conversion to non-exclusive

Company requires of University:

- Good faith accommodation of delays for reasons outside of Company's reasonable control

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Balancing Valuation and Due Diligence

MUST BE WIN:WIN FOR BOTH PARTIES!!!

University

- Fair return on original investment

Company

- Fair profit

What is “Fair” requires good faith negotiation and communication

- Company may need to extend milestones or adjust compensation as product development progresses
- University should be compensated for lost opportunities when granting extensions or license modifications



The Seven Year Itch

(Licensing Issues: Disputes, Performance)

Disputes

- For University typically over failure to pay or perform
- For Company typically over improvements, patent prosecution
- Good faith negotiation is key, litigation is rarely of value
- One sided solutions are not conducive to maintaining an ongoing relationship

Remedies for failure to perform

- Termination: typically University's primary recourse
- Monetary damages: a remedy that can arise out of litigation
- Forced performance: negotiated only (in litigation performance is not an available remedy), a threat to terminate may result in performance only if product line is in fact of value to company



Divorce

(Licensing Issues: Termination)

Active Termination

- Company may elect to abandon development at any time: may be due to product failure or may simply be a change in business strategy
- University may terminate for breach, company may resist if intent is to protect a competitive product
- Company and University may negotiate access to product development data and documents

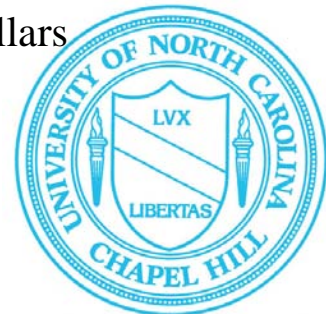
Passive Termination

- Sometimes companies just disappear!
- Bankruptcy – bankruptcy court controls termination
- Merger or acquisition – acquiring company may just ignore unwanted assets



Example of a License

- Whereas University (U) has developed an electronic reading device and an operating system
Whereas Company (C) has expertise in manufacturing and selling electronic books
- U grants C worldwide rights under the patents to make use and sell the electronic reading device; U grants C worldwide rights under the copyright to reproduce and distribute the operating system (together the “Licensed Product”);
Field of use is limited to electronic reading devices where the device and operating system are packaged and sold together;
U reserves the right to use the device and operating system for con-commercial research purposes; the U.S. government has been granted a paid up nonexclusive license under the patent rights
- C will pay U a license fee of \$100, a milestone payment of \$10 upon first commercial sale, and a 5% royalty on net sales of Licensed Products.
- Milestones: C must develop a working prototype within 1 year, reach first commercial sale within 3 years, and reach minimum sales of 1 Million dollars per year within 5 years



A Typical University License 1

Exclusive to an established company

Licensed Product: Patent or Copyright

Grant: Scope = Exclusive

Field = Generally limited

Territory = Varies

Ability to sublicense? = Yes

Compensation*: Upfront = Cash (much discussion)

Milestone payments = spread out

Running royalty = Varies

% of sublicensing = Fixed

Diligence: Mix of early and later-stage diligence milestones

* payments evenly distributed

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A Typical University License 2: Exclusive to a startup company

Licensed Product: Patent or Copyright

Grant: Scope = Exclusive

Field = Varies

Territory = Worldwide

Ability to sublicense? = Yes

Compensation*: Upfront = Equity

Milestone payments = Back-loaded

Running royalty = Varies

% of sublicensing = Tiered

Diligence: Heavy! May include fundraising milestones as well as early product development

*lower upfront payments, higher back-end payments

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A Typical University License 3: Non-exclusive

Licensed Product: Patent or Copyright

Grant: Scope = Non-exclusive

Field = Limited

Territory = Varies

Ability to sublicense? = No

Compensation: Upfront = Cash (less than exclusive)
Milestone payments = Varies (sometimes none)
Running royalty = Varies (sometimes none)
% of sublicensing = n/a

Diligence: Light. Sometimes non-existent, since rights are not being “tied up.”

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A Typical University License 4: Tangible property (mouse, antibody)

Licensed Product: material (no patent or copyright)

Grant: Scope = Non-exclusive

Field = Limited (frequently to internal R&D)

Territory = Worldwide

Ability to sublicense? = No

Compensation: Upfront = Cash

Milestone payments = n/a

Running royalty = Varies (frequently none)

% of sublicensing = n/a

Diligence: None typically required.

