

Exploitation of research results: LICENCING



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LICENCING

What is it about?

The right to use the licensor's intellectual property (IP) is granted to the licensee, in exchange for a fee for a given period of time.

What is licensed?

The IP: Patent rights + know how

When is licensing the main choice?

- ▶ The University has the policy not to participate in spin-off companies
- ▶ The RTD results do not constitute a technology platform
- ▶ The researcher does not want or is not able to be deeply involved



BASIC CONSIDERATIONS

- *There must be something to exploit: intellectual property rights (patents, utility models, trademarks, copyright, designs, sometimes know-how/trade secrets)*
- *Exploitation is primarily based on contracts*
- *Therefore all 'usual' contractual issues matter (e.g. who must sign)*
- *Legal provisions concerning particular IP rights may differ considerably. However with regard to licensing they have a lot in common.*
- *Crucial questions: what and at what price?*



WHAT A LICENCE PROVIDES

A patent:

Allows holder to exclude others from making, using, selling, importing/exporting the invention. Protects a product/process.

A copyright:

Allows holder to make/copy, distribute, display, perform, import/export the work. Protects the tangible expression of an idea.

A license:

Exempts our partner—the “licensee”—from the right to exclude under a patent or permits them to make/copy, etc. under a copyright (can be called “covenant not to sue”).



LICENCE STRUCTURE

- ▶ *Preamble/Definitions: Framework of the relationship*
- ▶ *Grant: What we're allowing licensee to do*
- ▶ *Compensation: What we get for allowing them to do it*
- ▶ *Diligence: Mechanism for ensuring they work hard*
- ▶ *IP: Who controls the process*
- ▶ *Legal: What happens if things go awry*



BASIC PROVISIONS

- ▶ *The subject of the Agreement – basic rights and obligations should be defined in order to avoid controversies regarding the type of contract.*
- ▶ *Subject- matter (IP rights) should be clearly indicated. However with regard to know-how licenses confidentiality must be observed.*
- ▶ *In case of numerous IP rights listing them in an annex may be of help*
- ▶ *Definitions of terms assist in avoiding misunderstandings*
- ▶ *Since IP rights are territorial licenses are also territorial*



DEFINITIONS

It is important to know what are the goals of the parties to the agreement

Field of use - e.g. application of product / technology in a certain industry branch,

Exploitation - authorized exploitation activities, e.g. production, offer, sale in the territory / for the defined field of use

Main types of licenses:

Non-exclusive license :The same license can be granted to as many as licensees as the licensor wants

Exclusive license :The license excludes any other potential licensee



WHICH TO CHOOSE

Non-exclusive license :

Licensor can spread the risk of a successful commercialization by licensing to more than one Licensee in a territory and field of use

Exclusive license :

Licensor takes a high risk as to successful exploitation based on the activities of one licensee only

In practice exclusivity is very often a precondition set up by the licensee

However, we should remember that all licenses are flexible. For example exclusivity can be limited to a territory and / or field of use



TYPICAL NON-EXCLUSIVE

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.”**



TYPICAL : TANGIBLE

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*



OTHER TYPES

▶ *Passive licenses*

- *Limited licenses authorizing only the use of an invention. Rare in practice.*

▶ *Active licenses*

- *Provisions regarding the transfer of know-how technical assistance such as offering experts' help in using the licensed invention.*
- *Contracts that require some activity on the part of the licensors*



SUBLICENSING

- ▶ ***Often needed to enable manufacture, distribution and marketing of the final product***
- ▶ ***Requires consent of the licensor***
- ▶ ***Should correspond to the same terms and conditions as the license***
- ▶ ***Rights and obligations as in a license agreement***
- ▶ ***The licensee should indemnify the licensor against any actions by the sub-licensee and be required to collect any royalties payable***



ASSIGNMENTS

- ▶ *The right is transferred to the acquirer*
- ▶ *Usually the payment will be in a lump sum. The sum should be higher than in case of a license*
- ▶ *The assignee takes over all the risk but will also gain all profits*
- ▶ *Nevertheless, it is often possible to arrange for flexible payment models. Royalties are not excluded*
- ▶ *It is preferable to license rather than assign, valuable IP assets*



ROYALTIES

- ▶ **Lump sum payments**
 - *Usually paid at the beginning of the license period*
 - *Often used by exclusive licenses*
 - *Less risk for the licensor*
 - *Do not depend on profits generated by the licensed IP*
- ▶ **Recurrent payments**
 - *E.g. payments per unit or percentage license*
 - *Percentage license refers to a base formula like e.g. net sales. Defining this formula is crucial.*
 - *Dependent on generated profits – incentive creating*
- ▶ **Minimum royalties**
 - *A mixed formula providing some benefits of both 1 and 2.*
- ▶ **Flexible royalty schemes**
- ▶ **TARGET: Win-win deal**
Value break-down (possibly 25% rule of thumb): inventor-developer-producer- distributor



CALCULATION OF LICENSE FEES

- ▶ ***Calculation based on projected income streams (i.e. based on the probable profit, the technology may generate***
 - ***How valuable is the technology?***
 - ***What is its useful life?***
 - ***Is there a market?***
 - ***Is it easy to defend in litigation?***
- ▶ ***Calculation based on standard royalties applied commonly in a given field (often percentage royalties).***
- ▶ ***Costs of developing technology, costs of protection (esp. relevant for patents), the need to obtain other licenses***



SPECIFIC CLAUSES

- ▶ ***Development of the technology and rights to improvements***
- ▶ ***Co-operation obligations***
- ▶ ***Term of license and termination***
- ▶ ***Non-competition clauses***
- ▶ ***Private international law – choice of law***



LICENSENCING RESOMMENDATIONS

Licensor's warranty & liability limited to a minimum

- ▶ *Ownership of patents.*
- ▶ *Right to license.*

Avoid restrictions for potential future collaborations

- ▶ *Non-exclusive or field-exclusive licenses possible?*
- ▶ *Freedom to operate granted (non-commercial collaboration w/ other third parties possible)?*
- ▶ *Distribution of material possible?*

Make sure the technology is successfully transferred

- ▶ *Know-how and software available?*
- ▶ *Allow for a limited amount of time spent after execution of agreement.*
- ▶ *Future improvements?*

License income is an important aspect ... but not the only one. Do what is good for the technology!



LICENSENCING RESOMMENDATIONS (2)

Manage expectations towards the institution, the inventors, the public, etc. It will take a long time until substantial amounts of money can be made out of technology licensing (unless you are very lucky).

Develop different strategies / channels to market, Technologies, Websites, direct marketing, news letters, technology fairs, tech brokers, collaborations, etc.

***Commitment of the researchers / inventors
Without the inventor's technical help it will be very difficult to market technologies! (e.g. preparation of factsheet, willingness to demonstrate invention, timely handling of questions/documents).***



TERM SHEET

A term sheet is a non-binding short outline (2 pages) of the key terms of the license, concentrating on the “business terms”. Basis for negotiation.

- ✓ *Definition of Object of License: Patent, Software, Know-how, Materials, etc.*
- ✓ *Administration / Costs*
- ✓ *Prosecution / Patent defense*
- ✓ *Geographical scope / Duration / Reasons for cancellation*
- ✓ *Field of use*
- ✓ *Exclusivity / Right to sublicense*
- ✓ *Due diligence*
- ▶ *Responsibilities for product development, introduction on the market, advertisement*
- ▶ *Milestones!*



BEFORE LICENSING: TERM SHEET

Remuneration

Up-front or milestone payment

Repayment of incurred patent costs

Milestone payments

Equity

Royalties (piece / turn-over dependent); annual minimum payments

Time of payments

Due date for royalties

Frequency of payments

Reporting to licensor

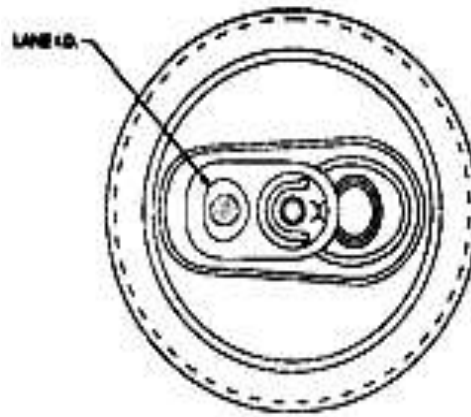
***Liability / Warranty. Only warranty acceptable for universities:
ownership of IPR and right to grant license.***

***Applicable law / Place of Jurisdiction. Foreign laws may be a
problem.***



LICENSING EXAMPLE

The inventor of the can opener system, licensed it to Coca-Cola at 1/10 of a penny per can. During the period of validity of the patent the inventor obtained 148,000 UKP a day on royalties



LICENSING vs SPIN-OFF

Aspect	Spin-off <i>Favoured by</i>	Licensing <i>Favoured by</i>
<ul style="list-style-type: none"> ▪ Technology - Stage of Development - Uniqueness - Stand alone product or part of a system 	Unique, sustainable, stand alone product with satisfies an unmet need	Unique, sustainable, stand alone product with satisfies an unmet need
<ul style="list-style-type: none"> ▪ Intellectual Property - Patented - Know-how - Copyright protection - Design protection 	Well protected product or a process relying on know-how or IP protection	IP in place
<ul style="list-style-type: none"> ▪ Manufacturing - Capital expenditure - Use of existing equipment - Volume required to achieve financial projections 	<p>Lower upfront capital requirement.</p> <p>Low volume high value product</p>	<p>High upfront capital requirement</p> <p>High volume requirement</p> <p>Low cost manufacturing base requirement</p>
<ul style="list-style-type: none"> ▪ Market - Fragmented or concentrated - Few or many key companies - Global or few countries - Few or many customers - Established or new market - Route(s) to market 	Relatively easy to access customers and accessible route to market	<p>Fragmented market serviced by existing sales forces.</p> <p>Supply deals in place</p> <p>Difficult to access route to market</p>
<ul style="list-style-type: none"> ▪ Competition - None or well established - Differentiated or “me to” product 	Well differentiated product which satisfies an unmet need	Highly competitive cost conscious area. Differentiation slight. Well established competition.
<ul style="list-style-type: none"> ▪ Team - Experience - Inclination 	<p>Experienced and committed team</p> <p>All skills present in team</p>	Inventor does not wish to leave university
<ul style="list-style-type: none"> ▪ Environment - Buoyant or depressed - Availability of funding 	Funds from VC’s etc.	<p>Funds available from company</p> <p>Funds from VC’s restricted</p>

THANK YOU

FOR YOUR ATTENTION

QUESTIONS?

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