

**WIPO-KIPO-KWIA International Workshop for Women  
Inventors and Entrepreneurs 2014**

**Topic 7: Exploiting Intellectual Property Assets**

**Licensing 1: License Terms other than financial terms**

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# Outline

- Three Licensing topics:
- Today
  - Topic 7: Licensing 1: Terms of a License, other than Financial Terms
- Tommorrow
  - Topic 10: Licensing 2: Financial Terms of a License
  - Topic 11: Licensing 3: Valuation of IP (for license and assignment)



# What is a license ?

- **Comparison with renting a building**

	<b>Rented Building</b>	<b>Licensed IP</b>
<b>Owner restriction</b>	Cannot use building	Cannot use IP
<b>Owner's right</b>	To collect rent	To collect royalties
<b>User's name</b>	Tenant	Licensee
<b>User's obligation</b>	Pay rent	Pay royalties
<b>User's right</b>	To exclusive use	To exploit exclusively



# What is a license ?

## Legal -binding contract

### Contains terms

- Create rights (eg royalties)
- Imposes Obligations (to exploit, to complete R&D, to market)
- Creates liabilities
- Warranties and indemnities

## An asset

- Can be sold
- Can be used as security for a loan
- Can be given by will

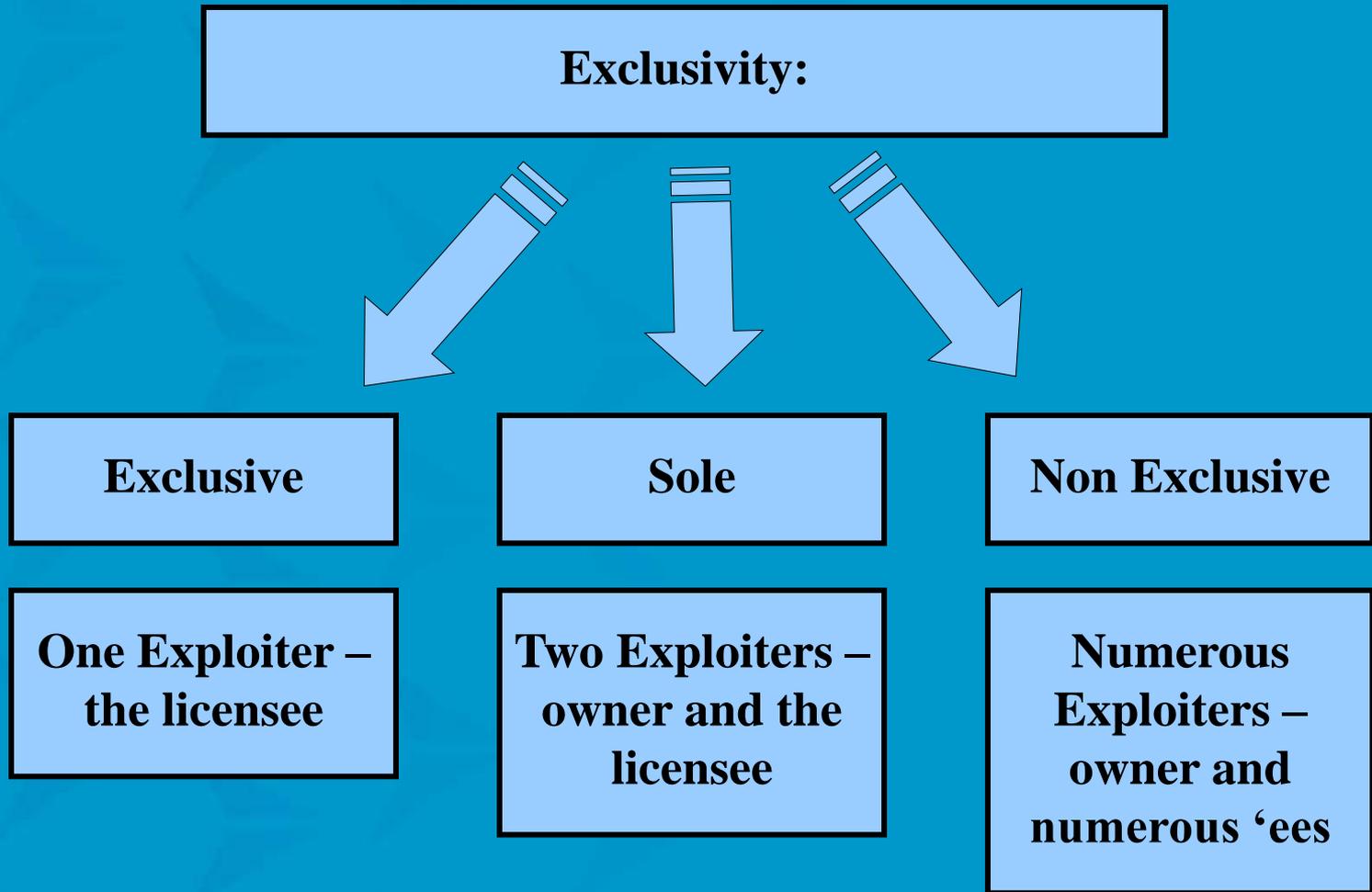


# License is an asset: Selling a Royalty Stream

Institution	Drug	Price	Date
<a href="#"><u>Children's Hospital (Philadelphia)</u></a>	<a href="#"><u>RotaTeq</u></a>	\$ 182 MM	10/2007
<a href="#"><u>Northwestern University</u></a>	<a href="#"><u>Lyrica</u></a>	\$ 700 MM	11/2007
<a href="#"><u>New York University</u></a>	<a href="#"><u>Remicade</u></a>	\$ 650 MM	5/2007
<a href="#"><u>Emory University</u></a>	<a href="#"><u>Emtriva</u></a>	\$ 525 MM	7/2005



# Scope: Exclusivity





# Scope: Exclusivity

- Which would be most likely be sort by a licensee ?
  - What rights does patent confer ? – exclusivity of use
  - What rights is patent user likely to expect ?
  - Most common type of license agreement ?
  - Exclusive license
  
- Exclusive license:
  - Where the licensee needs to have the same exclusive rights that a patentee has
  - Particularly
    - Biotech
    - ICT



# Scope: Exclusivity

- Sole License
  - Where rights to exploit are shared between the owner and a single licensee
  - Owner can exploit
  - Owner grants a single license only, there are no other licensees
  - Eg, license of library for screening
- Non exclusive license
  - Many licensees
  - All competing with each other
  - Competition reduces price
  - Licensor maximises return by increased volume
  - Eg floppy disk



# Scope: Fields of Application

- Some technologies lend themselves to different uses.
- These are called fields.
  - field of science
  - particular application
  - industry by industry
- Some licensees have expertise / marketing networks in some fields but not all.
  - Would you license in all fields where the licensee has the ability to service only one, but not others ?
  - License particular field to match the licensee's exploitation capability



# Scope: Fields of Application

- Biotechnology
- Fields may be
  - Human therapeutic and prophylactic applications
  - Diagnostic applications
  - Veterinary applications
  - Plant applications
- Would you license
  - a human therapeutic product to a diagnostics company ?
  - A disease resistant Tg plant to a pharmaceutical company ?
- Maybe - these days, after mergers, some companies have merged their capability



# Scope: Fields of Application

## **New formulation for scratch resistant plastic**

### ■ Possible fields:

- Bottles for consumer products – injection moulding industry
- Car trim – motor vehicle industry
- Fashion: Handbags
- Kitchen appliances – kettles etc
- Mobile phones
- etc

Would we license person in fashion industry rights in relation to mobile phones ?

Would we license motor vehicle trim manufacturer rights in relation to kitchen appliances?



# Scope: Fields of Application

- Pick our licensee with the expertise / capability / marketing networks, and license in appropriate fields

## Field of Application

**Bottles**  
**Car parts and trim**  
**Handbags**  
**Kitchen appliances**  
**Mobile phones**

## Appropriate Licensee

**Injection Moulding Industry**  
**Motor Vehicle Industry**  
**Fashion Industry**  
**Appliances industry**  
**Electronics industry**



## Scope: Fields of Application

- Licensing multiple licensees in multiple fields of application
- All are exclusive licensees
- Not non – exclusive licensees
- Multiple licenses does not necessarily mean non exclusive
  - Each license in each field of application is exclusive
  - Each licensee expects the exclusivity to warrant its investment to take to market
  - Same exclusivity that patent confers
- Non exclusive licenses occur when licensees *do not* have exclusivity and compete with each other
  - Here, each licensee in its field of application, is an exclusive licensee



# Scope: Territory

- Would we license North America to a European company that had no distribution networks in US ?
- If we did :
  - there would not be any sales in the US
  - there wouldn't be any royalties for US

- Why would we license a company to exploit anywhere other than where it had the capability to market and sell to best advantage ?
- We wouldn't.



# Scope: Territory

- License whole world to:
  - a multinational that can service the whole world
- License North America to:
  - A company that can service North America (whether in North America or elsewhere)
- License any Territory to a licensee that can exploit in that territory
- Key is capability to exploit in the market
  - No point granting a license to a licensee with no capability to service the Territory licensed.



## Scope: Territory

- Would we grant a world wide license to company in our own country ?
- No, if it did not have the capability to exploit in the global market
  - If its capability was limited to our own country, that is where the license would be restricted to
- Yes, if
  1. It can service a worldwide market place
  2. It has alliance partners and networks with others that can service the remainder of the world
    - In that case the license would have performance obligations in relations to sub-licensing to those alliance partners and those networks



# Scope: Summary

- Licensed rights can be scoped in numerous ways :
- Exclusive / Sole / Non Exclusive
- Field of application
- Territory
- When different rights are combined, the number of possible *exclusive* licenses is theoretically limitless



# Term of License

- Patent license
- Usually expressed as the duration for which patent rights exist
  - “Until the expiration of the last to expire patent”
  - Exclusive licensee wants to be in the same position of the patent owner, for the whole of the period that patent rights exist
- Therefore automatically allows
  - If patent term extended (such as in the case of a pharmaceutical patent), royalty obligations are extended
  - If patent term shortened (such as in the case of a revocation), royalty obligations are shortened as well
- Can a licensor get royalties beyond the life of the patent ?
  - Patent legislation allows a licensee to terminate a license if a patent is revoked
  - Public policy considerations



# Term of License

- Know How License
- Not much more than a Confidentiality Agreement
  - Licensor shares confidential information with licensee
  - Licensee pays a royalty
- No statute which enables termination of agreement to pay royalties when patent expires
- Parties free to make any agreement they want.
- 1881 Dr Lawrence “licensed” formulation for Listerine to Lambert
- Over the years formulation entered the public domain, published in directories and journals
- 1959 Warner Lambert commenced proceedings to terminate its royalty obligations
- Court held that the original agreement was enforceable.
- Royalties were the commitment for the original disclosure
- No public policy considerations for statutory right to terminate
- No anti-trust considerations in the US to lead to a different result
- [http://warren.law.uconn.edu/homes/swilf/ip/cases/warner\\_lam.htm](http://warren.law.uconn.edu/homes/swilf/ip/cases/warner_lam.htm)



# Term of license

- Know how license:
- Has value, but only while the confidential information is outside the public domain
- Once it enters the public domain,
  - Loses its value
  - Any person can exploit the confidential information without a royalty obligation
- Term in a know how license therefore usually expressed as being until the know how enters the public domain
  - Theoretically this may be many years, or perpetual (eg Listerine)
- Perpetual know how license is not necessarily anti-competitive
  - EU: Technology Transfer Block Exemption (Regulation 772/2004)
  - can apply to know how license for as long as know how is secret
  - Ceases to apply once enters public domain
  - Unless entry into public domain is caused by licensee (Art 2)



# Term of license

- License for a fixed number of years:
  - When likely to be encountered
    - Non exclusive patent license
    - Know how license
    - Copyright
    - Software
    - Trade Mark
    - PBR
  - Fixed x number of years
  - With option to extend duration - if terms of license complied with



# What is licensed: Patent / know how

- Typically what is licensed is the combination of
  - Patents
    - Applications, PCTs, divisionals, continuations in part, grants, re-issues, etc etc
  - Know how
    - that is, all “intellectual property” in its widest sense, ie all knowledge
    - includes confidential information
    - includes knowledge encompassed in rejected patent claims which may still have value
- Usually in the licensor’s interest to provide everything to the licensee to equip it to the maximum extent to commercialise the IP



# What is licensed – Improvements

- Should Improvements be licensed ?
  - Improvement is an improvement, modification, enhancement of the Licensed IP
  
- Licensee has a legitimate expectation of improvements
  - Making the improvements available to the licensee improves its ability to commercialise, and to compete
  - Not making the Improvement available may encumber the licensee, may make it less competitive
  
- Licensors have a legitimate reason to provide the improvements as well
  - A better equipped licensee that has greater capability, and greater competitive edge will do better, in that way maximising the licensor's return

# What is licensed – Improvements

- Should an improvement automatically be caught by the license, with the licensor getting no additional financial return ?
- Or, should the licensor be able to get an additional financial return ?
- Improvements add to the quantity of the IP
- Logical that as the quantity of IP is increased, so does its value



**Value = X**



**Value = X + Y**

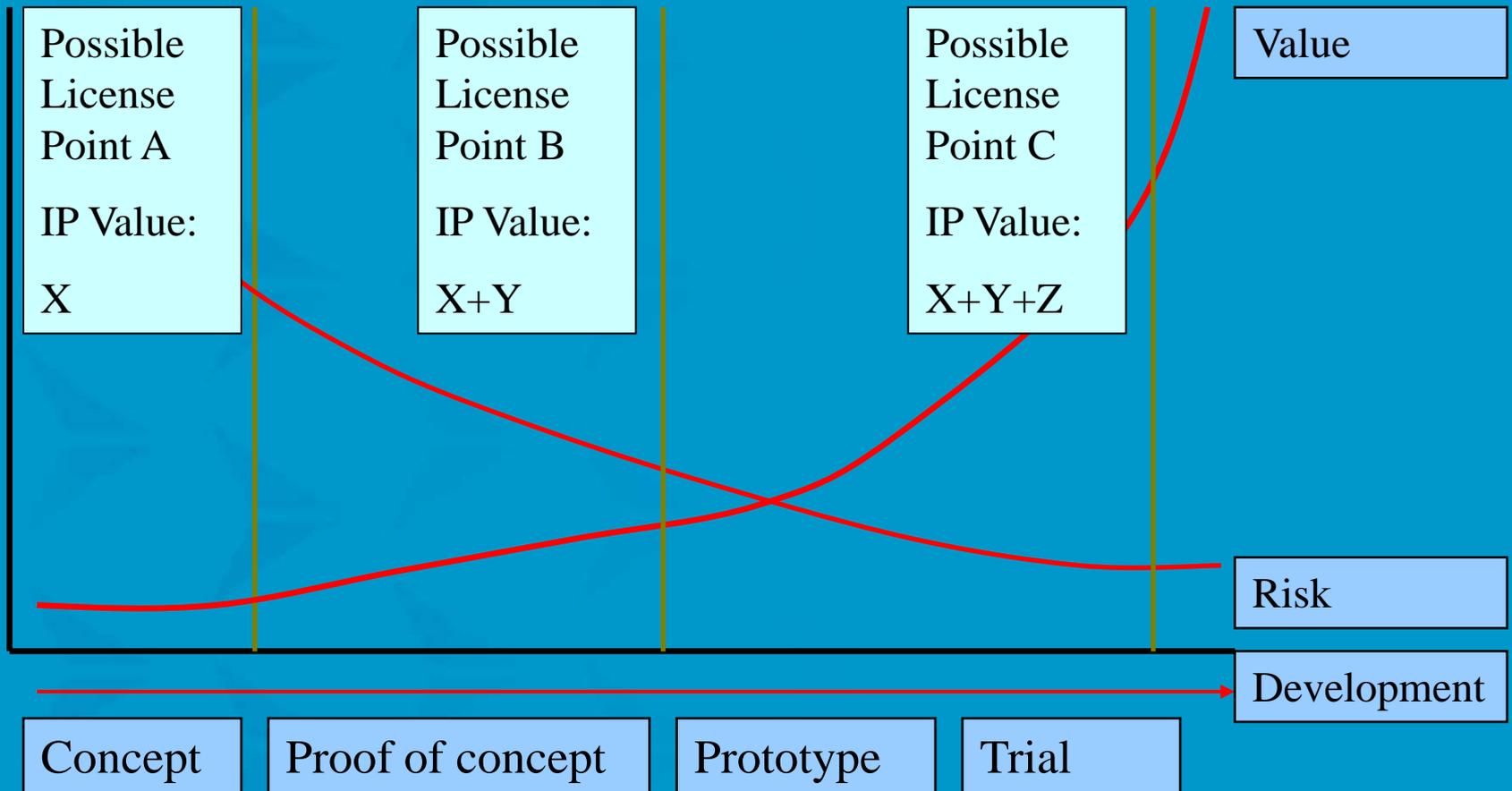


**Value = X+Y+Z**



# What is licensed – Improvements

- Consider the development / risk / value curve:





# What is licensed – Improvements

- The further along the development path a licensor travels (making improvements), the greater its remuneration should be
- Logically:
  - An improvements increases the quantity of IP licensed
  - And increases the value of IP licensed
- A license at Point A has a value of X eg, a royalty of 3%
- A license at Point B has a value of X + Y, eg a royalty of 5%
- A license at Point B has a value of X + Y + Z, eg, a royalty of 8%
- Logically therefore, an improvement should result in a higher royalty
  - Our frame of mind should therefore be that an improvement should entitle a licensor to greater remuneration



# What is licensed – Improvements

- But to be pragmatic:
  - Most improvements are small incremental increases in knowledge
  - They fine tune the IP
  - They do not justify additional remuneration to a licensor
- What is the boundary ?
  - Up to which improvements are captured by the license for no additional royalties
  - From which, if they are to be captured by the licensor the licensor has a legitimate expectation of further royalties ?



# What is licensed – Improvements

- For example: if the licensor discover an additional use in another field
  - Is that a thrown in improvement
  - Or does it deserve additional royalties ?
- Could that new application if it had been identified earlier
  - Have resulted in a field license, leaving the licensor free to license separately another licensee with that additional field ?
  - Or, if licensed to the same licensee, would it have justified a higher royalty payment ?
- In these circumstances is it fair that the licensee gets this additional IP thrown in for no further payment ?



# What is licensed – Improvements

- A boundary is needed
- Possible boundary:
  - If the practice of the improvement would infringe the licensed patent, then it is thrown in for nothing.
  - Not a desirable boundary: a new application may necessarily infringe the Licensed IP platform
- Another possible boundary:
  - That the Improvements has sufficient novelty to be granted its own patent
  - The better test
  - Still has a problem: the question whether it is an improvement may not be resolved until a patent is granted



# What is licensed – Improvements

- Another limitation on Improvements:
  - That the improvement is created by the same research team that created the original licensed IP
- Why?
  - Cannot capture the improvements across all the activities of a large licensor, eg, a university
  - University may not know, and cannot manage its obligations to identify improvements by other staff
- Therefore not unfair to limit the Improvement to that
  - Which is created by the same research team
  - Only while they are employed by the licensor



# Consent to Sub-licensing

- Typical term:
  - Licensee may grant sub-licenses with the prior written consent of the licensor which is not to be unreasonably withheld
- Motivation
  - Assess suitability of a sub-licensee
    - Assess capability
    - Assess identify of sub-licensee
  - Is it a member of corporate group that would embarrass the licensor
    - tobacco group
    - environmentally irresponsible
    - directors questionable
  - These issues of concern to a university / public sector licensor (ministerial approval / embarrassment)



# Consent to Sub-Licensing

- Motivation (cont):
  - Assess terms of license
    - Royalties may be based on Sub-License income
    - Consideration for sub-license may be non-monetary
    - Cross License
    - Other contract
    - Therefore no royalty flowing back to licensor
- All proper motivations for a licensor to seek to control sub-licensing
- Besides, consent is not to be unreasonably withheld
- Constraints on that legal mechanism such that it is incumbent on a licensor to grant consent if a licensee has the capability



# Consent to Sub-Licensing

- But holding out for this may kill the deal
- Pharma / large biotech / multinational is not likely to agree to any restriction on its ability to grant sub-licenses
- Given its level of investment US\$50m to US\$800m, it will typically not be prepared to rely on consent
  - Even if not to be unreasonably withheld
  - Even if incumbent on licensor to give it
- Open Position: If licensee gets taken over by a tobacco company or an Exxon, it does not want to lose its license, and write off its US\$50 to \$800m
- Holding out for this will kill a deal
- Licensors may have to be prepared to be relaxed in this



# Consent to Assignment

- Same issues
  - Licensor is entitled to satisfy itself about the proposed assignee
  - Does the assignee have the same capability
  - Is the licensor concerned about the identity of the proposed assignee
  
- Normally, consent to assignment
  1. Expressed as not to be unreasonably withheld
    - Again, makes it incumbent on a licensor to grant consent if a licensee has the capability
  2. Expressed as not required where the assignment arises out of a corporate re-organisation



# Patent prosecution

- Who should make decisions about patent prosecution:
  - What patent attorneys to engage
  - Scope of claims
  - Negotiations with patent offices
  - What countries to apply for patents
- Licensor is the owner, and may feel that it should
- Licensee that is a pharmaceutical company, multinational will insist on managing patents
- They have more at stake
- Not likely that licensee will make decisions to minimise its royalty obligations



# Patent Costs

- Regarded as a commercialisation expense
  - Therefore licensee should pay this expense
- Licensees may resist paying for patent expenses
  - May argue that patent expenses are an owner's expense and should be paid for by the licensor
  - May argue that is prepared to pay patent expenses, but only as an advance on royalties, so that future royalties are credited
  - Needs to be resisted
- Patent expenses are a commercialisation expense and should be paid for by the licensee without clawback



# Patent Costs

- What if the license is a field License
  - Should licensee pay all costs ?
  - Should Licensee make decision on extent of claims ?
- Decisions:
  - Licensor should make decisions given its broader interests in all fields
- Patent costs:
  - Licensee argues Licensor should pay patent costs as Licensor will benefit in other fields
  - But what if first field license is the only license – no other license in other fields ?
  - Licensee pays
  - If future second license, Licensee is refunded 50%
  - If future third license, licensee refunded further proportion, etc



# Patent Infringements

- Who should have responsibility for pursuing infringers ?
- Licensor may feel that it should
- Licensee will want to pursue infringers
  - Protect its commercial interests
  - It's a commercialisation expense
  - It's a commercialisation strategy – infringers will need a license
  - Licensee has greater commercial risk: profits are greater than revenues
  - Sometimes infringement proceedings give rise to patent revocation application by infringer – and licensee will want to control those proceedings
- Licensor will want Licensee to pursue infringers
  - Can cost US\$2m to “the sky is the limit”
  - Research organisation Licensor unlikely to be able to fund



# Patent Infringements

- Three Tiers
- Parties acting jointly
  - If they agree, they prosecute jointly, pay the costs jointly, benefit from damages jointly
- Likely that licensee will want to pursue infringers solely
  - Solely making decisions in pursuing the infringer
  - Solely paying the expense of doing so
  - Licensee that is exclusive will have the standing to do so
- If Licensee does not pursue infringer, licensor may do so



# General obligations on licensee

- Reporting
  - Progress in further research and development
  - Progress in seeking regulatory approvals
  - Progress in trials (including clinical trials)
  - Marketing strategies
  - Sales forecasts
  - Improvements made
  
- Use of patent numbers
- Compliance with laws
- No misleading or deceptive conduct
- No use of Licensor's name without consent



# Confidential Information

- Typical for license to contain all the terms commonly found in a Confidentiality agreement
- Usually mutual, as licensee also discloses confidential information to the licensor
- Restriction to disclosure to third parties
  - Cannot disclose without consent
  - Can disclose without consent where the purpose of disclosure is commercialisation
  - Can disclose to employees etc
- Restriction on use
  - Cannot use IP except for the purpose of commercialisation
- Usual exceptions.
  - Public domain
  - Disclosure from third party etc



# Publications

- Licensee will not want publication to prematurely put into IP into public domain
  - Still applicable after a patent is filed and there is a priority date
  - There may be improvements
  - There may be New IP
  - Licensed IP may be the subject of a lapsed provisional patent application
- Old school:
  - Licensor cannot publish without the consent of the licensee
  - Licensee justifies by its commercial interests
- More sophisticated licensees
  - Appreciate that publication is important to inventors
  - In licensee's interests for inventor to be accommodated
  - Therefore manage publications: Publish and Patent



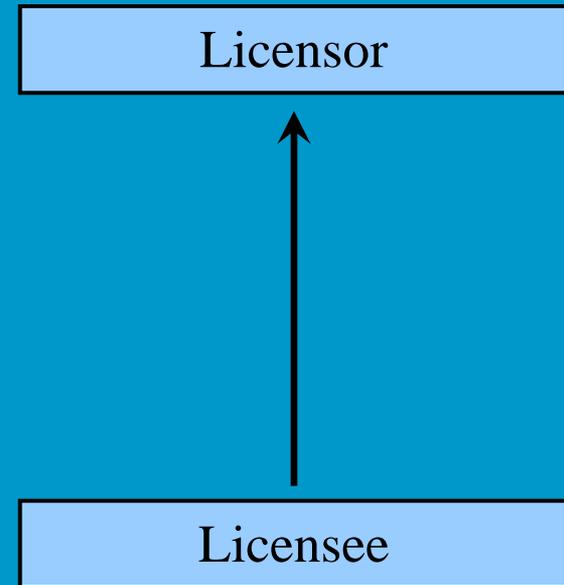
# Students

- Two issues:
- Publication by students: handled in the same way as publication by an inventor
- Examination of student thesis
  - Cannot impede examination of thesis and award of degree
  - Examiners bound by obligations of
    - confidentiality and
    - non use
  - Thesis embargoed
    - not deposited into library until patent has been published



# Release

- Licensee releases licensor from any liability in connection with commercialisation
  - ie, Licensee cannot sue Licensor if “it does not work”
- Licensor cannot assess this, nor make warranties about it at the time of the grant of the license, when more R&D still has to be done
- These are matters for the Licensee’s own commercial assessment





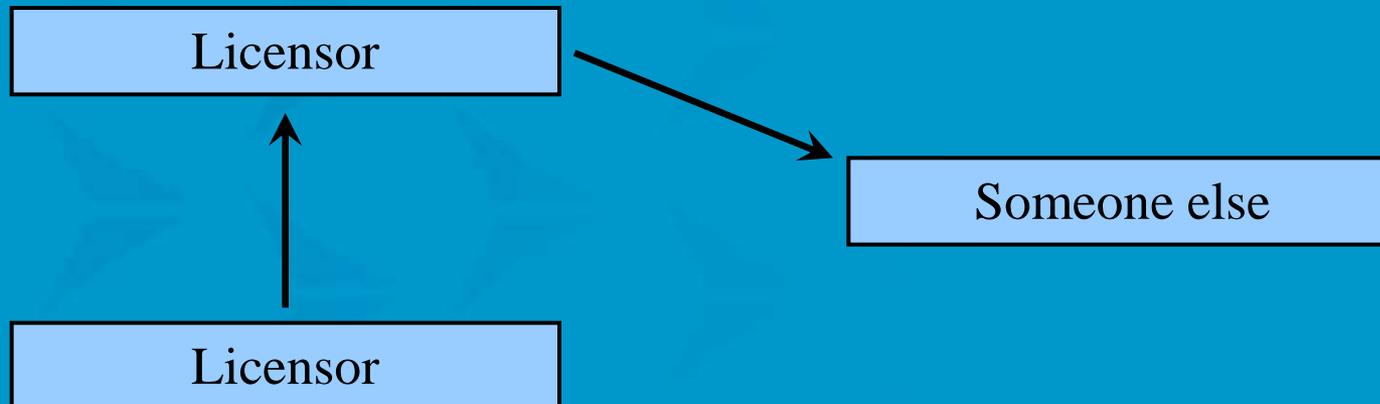
# Limitation of Liability

- Release does not always work
- Legal principles may limit their operation
- Therefore a limitation of liability
- Financial limit on what Licensee can sue Licensor for
- May be expressed as
  - A stated amount
  - A limit equal to the aggregate of all monies paid under the license
- Exceptions not subject to a limitation of liability:
  - Breach of confidentiality
  - Breach of warranties



# Indemnity

- Indemnity against product liability claims
- Release is “Licensee cannot sue Licensor”
- Indemnity is “Licensee will pay damages if someone sues Licensor”
- Indemnity usual in relation to product liability claims
- Hard to envisage a Licensor being liable when it is not the manufacturer / seller
- In the US, some law that suggests that an owner of a patent may have a liability





# Product liability insurance

- Not enough to rely on an indemnity from a licensee
  - Licensor needs to ensure that licensee has the capacity to meet product liability claims
- Usual covenant that Licensee takes out and maintains product liability insurance
  - Reputable insurance company
  - Minimum amount of insurance cover
- Some licensees self insure:
  - pharmaceutical companies / multinationals
  - US established product liability claims fund
- Therefore little point in requiring a large pharma to self insure
- Biotech company must insure.



# Are performance obligations necessary?

- Why would a licensee not perform?
- Has gone to the trouble of seeking and negotiating the license
- Not in the licensee's interests to be idle, nor to underperform
- In the licensee's interests to maximise the financial returns from the commercialisation of the technology
- Interests of the licensor and the licensee are aligned
- Both wish to maximise financial return
- That being so, are performance obligations really necessary ?



# Are performance obligations necessary?

- Postulate:
- License granted of technology that is not fully developed
- Licensor licenses to partner with a licensee that has the capability to complete R&D, and to take to market
  - Engineering product at prototype stage
  - IT Product: patents & theoretical code but no application code
  - Biotech product in late pre-clinical stage, with years of clinical development still to go
- Licensee has finite resources
- Resources sufficient for top 3 projects – this one ranks fourth
- Licensee makes a prudent commercial decision to defer R&D
- The technology remains idle, perhaps forever
- Licensor obtains no financial returns



# Are performance obligations necessary?

- Postulate:
- License is granted to a national licensee
- National licensee has no capability of servicing a global market
- National licensee must go out and secure global partners
  - To complete R&D
  - To travel regulatory / clinical pathway
  - To enter the global market place
- National licensee's global network uninterested
- National licensee fails to establish global partners
- Technology remains idle, perhaps forever
- Licensor obtains no financial returns



# Are performance obligations necessary?

- Postulate:
- At the time of the license the licensee has best of intentions to commercialise to the maximum extent
- Afterwards
  - Licensee develops its own competing product
  - Licenses in a superior competing product
  - Licenses in an inferior but less expensive competing product
- Licensor's technology remains idle, perhaps forever
- Licensor obtains no financial returns



# Are performance obligations necessary?

- In each case
  - Technology is idle
  - Licensor obtains no financial returns
  - Technology is trapped with the non performing licensee
  
- Licensor needs a mechanism to achieve:
  - Termination of license
  - Reversion of rights back to the licensor
  - Licensor free to go out and find another licensee that can perform and maximise the financial returns back to the Licensor



# “Best endeavours” obligations

- Licensee to Licensor:
- “I’ll agree to use my best endeavors to commercialise”
- May once have been a sufficient obligation
- “Best endeavors” obligations were once onerous obligations:
- Required “leave no stone unturned”:
- “Best endeavors means what it says - it does not mean second best endeavors”



## “Best endeavours” obligations

- But best endeavors obligations have been watered down
- It requires what “could reasonably be expected... having regard to the circumstances”
- commercial and financial considerations can be taken into account to weigh up the reasonableness of the obligation
- These commercial considerations may operate to relieve a Licensee from the obligation to perform



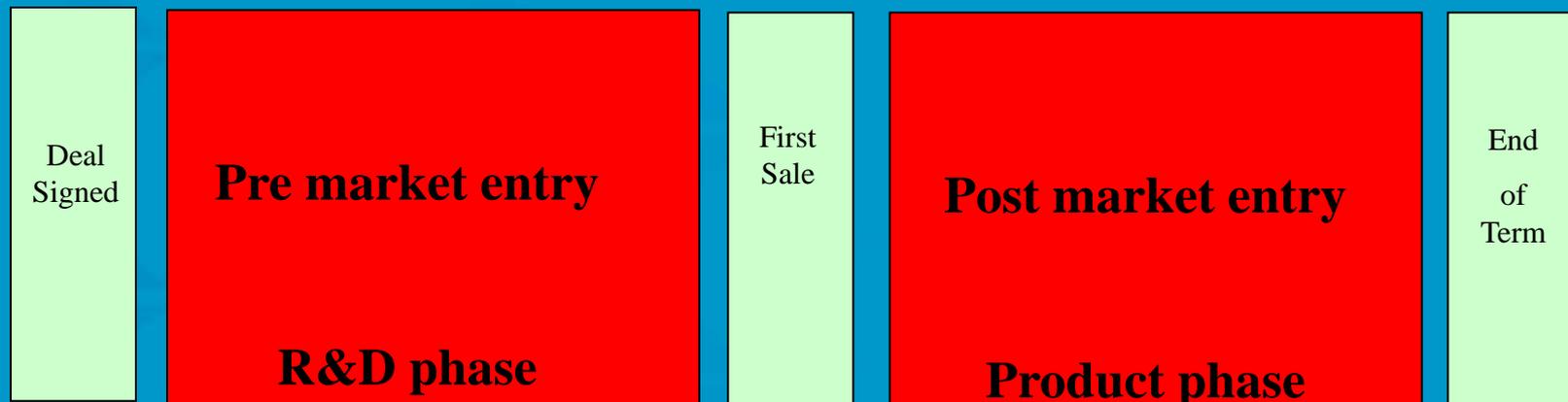
# “Best endeavours” obligations

- Best endeavours obligations:
  - Vague
  - Uncertainty of whether the obligation would be found to be breached
  - Not a basis upon which to terminate
    - It may take years to sort the issue out
    - In the meantime the technology
      - is not is not earning a financial return
      - may become superceded
  - Not necessarily a basis to confidently seek damages
- Reasonable endeavours - a lower standard, and not a better option



# Better approach to performance obligations

- A better approach to performance obligations is
  - to negotiate precise performance provisions
  - to provide for the consequences of non compliance
- Two phases to consider performance obligations:





## Performance obligations - R&D phase

- Licensor wants to know that the Licensee
  - Will continue R & D (if applicable)
  - Will complete R & D (if applicable)
  - Will expeditiously start and travel the regulatory pathway (if applicable)
  - Not “shelve” the IP
- Commercialisation Milestones
  - Milestones that a Licensee must achieve along the R&D and regulatory pathway
  - Not achieve milestone – license is ultimately terminated



## Performance obligations - R&D phase

- Commercialisation Milestones: engineering example:
  - If more research is needed to bring product to a market ready state, the completion of that research
  - Produce a prototype
  - Conduct a trial
  - Complete construction of pilot plant
  - Complete construction of production plant
  - Obtain any regulatory approval
  - Employ a person with particular expertise
  - Grant a sub license to a partner in key market
  - First sale anywhere in the world



## Performance obligations - R&D phase

- Commercialisation Milestones: Biotech example:
  - If following completion of research, more research is needed to bring products to a market ready state, the completion of that research
  - Completion of animal studies
  - Completion of collection of data for lodging IND in USA
  - Commencement of Phase 1 Clinical Studies
  - Commencement of Phase 2 Clinical Studies
  - Commencement of Phase 3 Clinical Studies
  - Filing of NDA with FDA in USA
  - Approval of NDA with FDA in USA
  - First sale anywhere in the world



## Performance obligations - R&D phase

- If these pre market entry milestones are not achieved
  - There may never be market entry and sales
  - Licensor may never receive royalties
- There needs to be mechanisms for
  - Termination
  - Reversion of rights to licensor
- So that
  - Licensor can find another licensee
  - Licensor can earn financial returns from a Licensee capable of achieving these pre market entry commercialisation milestones



## Performance obligations - R&D phase

- Ultimately, failure to achieve these milestones must lead to termination and reversion
- But a sudden termination, given the uncertainties of traveling the R&D and regulatory path is draconian
- Many models that allow flexibility, but ultimately with termination
- For example:
  - Dates by which milestones must be achieved
  - Mechanisms for extension of time – discretionary and mandatory
  - Termination if not achieved in any extended time



## Performance obligations - R&D phase

- Negotiating commercialisation milestones of this type with a licensee is perhaps the hardest part of a license negotiation
- In some respects harder than negotiating financial terms
- Licensee makes a speculative investment
- Does not wish that speculative investment at risk by the failure to comply with a timeline for the achievement of commercialisation milestones
- This is why there needs to be
  - flexibility in timeframes for the achievement of milestones
  - mechanisms for extensions of due dates



## Performance obligations – Product phase

- Performance obligations do not cease after market entry
- After first sale, Licensor wants to ensure that there is the maximum possible penetration of the market
  
- Achieved by minimum sales
  
- If minimum sales not achieved:
  - License may convert to non exclusive
    - Allowing licensor to find another non-exclusive licensee
  - License may be terminated
    - Rights revert to licensor
    - Again, allowing the licensor to find another licensee



## Performance obligations – Product phase

<b>Territory</b>	<b>Period</b>	<b>Target, in units</b>
<b>USA &amp; Canada</b>	<b>Year 1</b>	<b>1.0m</b>
	<b>Year 2</b>	<b>1.25m</b>
	<b>Each following year</b>	<b>1.5m</b>
<b>European Union</b>	<b>Year 1</b>	<b>1.5m</b>
	<b>Year 2</b>	<b>1.75m</b>
	<b>Each following year</b>	<b>2.0m</b>
<b>China &amp; South East Asia</b>	<b>Year 1</b>	<b>0.75m</b>
	<b>Year 2</b>	<b>1.0m</b>
	<b>Each following year</b>	<b>1.25m</b>



## Performance obligations – Product phase

- Might consider:
  - Broad geographical markets, region by region
  - Smaller geographical markets, country by country
  - Flat minimum sales in each period
  - Ramped up sales as marketing is ramped up, followed by flat minimum sales
  - Minimum targets holiday in initial period after market entry, followed by ramping up, and then flat sales
  - Reassessment of minimum sales if a competing product enters the marketplace



# Warranties

## What are warranties ?

- Warranties are statements made by a licensor
- Akin to a guarantee
- A licensee warrants something to be true, that is, the licensor guarantees something to be true
  
- If the statement is untrue, the licensee can:
  - Sue for damages
  - Terminate the agreement and sue for damages
- Therefore important that warranties that are made, are made accurately
- Important consequences follow from the breach of a warranty
  
- As a rule, a licensor will want to make the minimal warranties sought



# Managing Contractual Risk

## Warranties about ownership of IP

### Patent

- Not uncommon for a licensor to warrant that the licensor
  - owns the IP being licensed, (or has a license to it)
- Should such a warranty be unqualified ?
- Consider:
  - Patent application filed
  - License granted in PCT stage
  - Licensor warrants that it owns the IP in that patent application
  - Later, it is discovered that another person has an earlier priority date
  - That other person owns the IP in that patent application, not the licensor
- An absolute warranty about ownership would therefore be breached
- Such a warranty about ownership:
  - should not be unqualified
  - should be expressed to be made to the best of the licensor's actual knowledge



# Managing Contractual Risk

## Warranties about ownership of IP

### Copyright

- Can an unqualified warranty be made that copyright is owned ?
- Or, should it be made on a best of actual knowledge basis ?
  
- Copyright is not knowledge, so the risks in relation to patents are absent
- Copyright protects the actual material form
- You cannot “accidentally” “copy and paste” the material form
- Unlikely, if not impossible that the same material form is independently created (except perhaps a photograph)
- Unqualified warranty that copyright is owned can therefore be given
- It does not need the “best of actual knowledge” qualification



# Managing Contractual Risk

## Warranties about ownership of IP

### Copyright

- Caution:
- IP is broadly defined to include copyright works, inventions, confidential information, etc
- Only IP expected to arise from a consulting or research agreement is software, or a report
  
- Can the warranty be given without qualification ?
  
- Consider the IP that may arise:
  - Copyright in computer program
  - Business method patent (algorithym in program, methodology in report)
- Can warranty be given unqualified about IP as defined ?
- No it can't
  - Separate warranties have to be give:
    - About Copyright – without qualification
    - About inventions – with qualification



# Managing Contractual Risk

## Warranties about infringement

- Not uncommon for warranties to be sought that IP does not infringe another person's IP rights
- Should such a warranty be unqualified ?
  - Use of an improvement patent held by the licensor infringes an earlier patent
  - Or, exploitation of licensor's patent encumbered by another person's blocking patent
  - Neither situation may be known to the licensor
  - Licensor cannot undertake a complete search to be able to ensure accuracy
  - Patent applications may be filed with an earlier priority date, but may not be published for years afterwards
- Such a warranty:
  - should not be unqualified
  - should be expressed to be made to the best of the licensor's actual knowledge
- Unless the relevant IP is copyright – in that case, the warranty can be unqualified



# Warranties:

## Warranties about unencumbered rights

- Not uncommon for a licensor to be expected to warrant that:
  - No notice has been received of any claim asserting infringement
  - No notice has been received opposing the grant of a patent, or challenging its validity
  - No license has previously been granted
  - No option to license or right of first refusal has been granted
  
- If any of the above are incorrect, warranties are made subject to disclosures
  
- Should such a warranty be unqualified ?
  - All these are matters within the control of a licensor
  - Licensor should be able to make the warranties sought without any qualifications



# Warranties:

## Warranties about patents

- Common warranties about patents:
  - That named persons are the only inventors
  - No inventor has been omitted from being named in the patent application
  - That no person is named as an inventor who is not an inventor
  - That named inventors are employees of the licensor and made the invention in the course of employment
  - All patent maintenance, continuation and renewal fees have been paid
  - Patents licensed have not been revoked
  - Patent applications have been made properly
  - No failure to take a required step in the patent application process
  
- Should such a warranty be unqualified ?
  - All these are matters within the control of a licensor
  - Licensor should be able to make the warranties sought without any qualifications



# Expiration and termination

- Expiration is where the term of a license ends
- Term of x years
  - Licensed rights end on the expiration of x years
  - Any further exercise of rights would infringe the IP
- Term until the expiration of a patent
  - Licensed rights end upon the expiration of the patent
- Termination occurs unilaterally, one party terminating in response to a termination event taking place
- The termination event may also give rise to a right to damages.



# Termination

- Non sudden termination, with an opportunity to remedy a breach
  - 14 days in breach
  - Notice to remedy requiring remedy within 30 days
  - If still in breach – can terminate
- Types of breaches that may give rise to that mechanism
  - Failure to pay a royalty
  - Failure to provide a report
  - Failure to take out product liability insurance
  - Failure to meet a performance obligation



# Termination

- Sudden termination, without any opportunity to remedy the breach
  
- For Event of Default
  - Where the breach is serious:
    - Granting a sub-license without consent
    - Assigning without consent
    - Commercialising outside the Field
    - Commercialising outside the Territory
  
- For Insolvency,
  - winding up,
  - bankruptcy, etc



# Consequences of termination

- Cease using licensed rights
- Return all confidential information
- Sometimes, continue sale of products in stock until exhausted, or an agreed period, such as 6 months
- Destroy biological materials licensed
  
- Clauses that survive, and continue to operate notwithstanding termination
  - Confidentiality
  - Insurance
  - Release from claims
  - Indemnity against third party product liability claims.