

COST Targeted Network TN1302 BESTPRAC

IPR CLAUSES IN LICENCE AGREEMENTS

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Short introduction



REPUBLIC OF SLOVENIA
**MINISTRY OF EDUCATION,
SCIENCE AND SPORT**



EUROPEAN UNION
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DEVELOPMENT FUND
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General remarks

- Licenses are long-term relationships, that (should) have strategic and not only lucrative goals
- An active participation of inventors in the identification of potential licensees is very important
- When seeking potential licensees – conclude confidentiality agreements!
- Clear, unambiguous language
- IP agreements, including licence contracts, can never be a „one size fits all“ – case by case structuring!
- Be patient

Benefits:

- Financial gain
- Resources to support your research activities
- Penetration of markets that would otherwise remain out of reach



Summary of mutual benefits of licensing

Benefits to licensee	Benefits to licensor
Savings on R&D investment	Creates new revenue streams by realizing the full potential of the technology
Eliminates risks associated with in-house R&D	Expands customer awareness
Reduces time to market	Helps overcome the challenge of establishing the technology in foreign countries and lowers costs and risks
Ensures that products are leading edge	Provides savings on distribution and marketing expenses
Adds new product lines to a portfolio	Provides a means of avoiding litigation
Strategic partnerships can be formed	

Source: United Nations Economic Commission for Europe, Intellectual Property Commercialization: Policy Options and Practical Instruments, 2011

Intention

- What is the subject of licence - differ between background and the subject matter
- Why are you willing to licence your product
- To what extent are you licencing (geographical scope, restriction to certain fields of technology, limited in time, sub-licensing ...)
- Who is your licensee
- Specific circumstances must always be considered and many of complex issues are not dealt in a template

Subject matter

- Define your IP(R): invention, patent, biological material, software, know-how, copyrightable material
- Don't forget to include the accompanying IP (know-how)
- Define key terms and abbreviations
- Geographical scope (territorial restrictions) and limitation to (a) certain field(s) of use
- In case you are transferring unprotected knowledge or technology:
 - Who is leading the protection? Depends on the (un)exclusivity of the licence
 - Who will bear the costs? Initial (applications) and maintenance costs (fees), patent attorneys

Ownership

- Obviously, the owner stays the same
- However, depending on **the type of licence** the ownership can be more or less limited (**exclusive – sole – non-exclusive licence**)
- This decision will normally depend on the degree of freedom IP owner wants to offer and the rights of use it wants to retain, but also:
 - The business goals of the licensor
 - The products/services to be licensed
 - The target market conditions
 - The capabilities of the licensee
- **Reservation of rights** – on the side of the licensor: typically for non-commercial purposes (research, teaching purposes); depending on the geographical scope and field of use, determined within the scope of the licence granted

Example clause

Reservation of rights

As the licence granted is non-exclusive, the Licensee acknowledges and agrees that this Agreement places no restriction on the Licensor's activities with respect to the Licensed Software. Without limiting the scope of the preceding sentence, the Licensor reserves for itself the irrevocable, worldwide, and royalty-free right to use the whole or any part of the Licensed Software for any and all purposes, whether commercial or non-commercial in any Field. For the avoidance of doubt, and without limitation, such purposes shall include the purposes of research, teaching and publication.

Price

- Lump-sum payments or recurring royalties (on products and services sold or on sub-licenses) or a combination of the two
- Up-front cash payments?
- Each licensing agreement is unique and the royalty rate depends on the particular and very distinct factors being negotiated
- Minimum royalty clause – in cases there are no revenues generated
- Performance milestone payments – payments from the licensee that are contingent upon some technical or market milestone being achieved
- Recurring royalties: single rate or tiered (progressive) rates; frequency and time of payments
- If there is a right to sub-licence: any kind of non-royalty sub-licence payments?
- Define who bears the deductions (tax, delivery expenses, etc.)

Warranties and indemnities

- The extent of any warranties to be given by the licensor as to the condition of the IP (any third party's rights, dominating third party patents, is the IP valid and enforceable etc.)
- Should either party give any indemnities (e. g. licensee against product liability claims, licensor against third party claims arising out of a breach of warranty)

Further developments and amendments

- Clearly address the treatment of future improvements (are future rights included?)
- Common practice: **mirror rights** (each party retains ownership but grants rights on its improvements to the other)

Confidentiality and publications

- Typically: know-how licences

Example clause:

Confidentiality

*The contracting parties shall undertake to maintain secrecy concerning any information made available to them in connection with this contract that is considered to be confidential or any information that under other circumstances is obviously identifiable as a contracting party's business or company secrets for *** years and – unless required in order to fulfil the purpose of the contract – neither to record nor to pass on or use this information. They shall ensure, by making suitable contractual arrangements with the employees who work for them and other third parties, that the latter also refrain from their own exploitation or unauthorised recording of such business or company secrets for *** years.*

Sub-licensing

- In general, the exclusive licences should grant the licensee the right to grant sub-licences
- In cases the right to sub-licence is granted, define also:
 - Is the licensee free to choose the sub-licensee(s)? Does the licensor have the right to approve sub-licensee(s)?
 - Does the licensor have right to audit sub-licensee(s)?
 - Is the content of a sub-licence agreement pre-determined or free?
 - Does the sub-licence's validity depend on the licence agreement's validity?

Restrictions & References

- Is the licensee allowed to use the licensor's name, trademark, logo etc. in any advertising, promotional or sales materials? Does it need a prior consent obtained from the licensor? The same rules normally apply to licensee's affiliates and sub-licensees
- Ethical conduct, public order etc.
- When, where and in what manner are the parties allowed to use each other's names or a specific project as **a reference**

Example clause:

Should one party wish to mention the other party in disclosures or publications, the parties must first agree to such actions.

Example clause

Other intellectual property rights

The Licensee will not use (a) the name of the Licensor or his trademarks, (b) the name or trademarks of any organization related to the Licensor, or (c) the name of any member, employee, student or volunteer of the Licensor without the prior written consent of the Licensor, except to state that the Application was developed using the Licensed Software. Without the explicit written consent of the Licensor and notwithstanding the statutory limitations of rights, the User may not use or exploit these names and signs in any way, especially for commercial purposes or in a manner which implies that the Licensee and the Licensor are in any way commercially linked or that the Licensee acts on behalf of the Licensor. This prohibition includes, but is not limited to, use in press releases, advertising, marketing materials, other promotional materials, presentations, case studies, reports, websites, application or software interfaces, and other electronic media.

Dispute resolution clause

- Governing law
- How will the disputed be settled should they arise (court system, ADR mechanisms)

Example clause:

The two contracting parties will try to resolve all disputes arising from this contract in a peaceful manner. If no agreement can be reached in a peaceful manner, the court in Ljubljana is competent for the settlement of disputes arising from this contract.

Sources

- The European IPR Helpdesk: Your Guide to IP Commercialisation
- KTI: Practical Guide on Licence Agreements
- United Nations Economic Commission for Europe, Intellectual Property Commercialization: Policy Options and Practical Instruments

**Thank you for your attention
and have the BEST remaining
time in Belgrade!**