

# Licensing Deal Structure: Key License Terms



**Brown Forum for Enterprise**

*January 18, 2007*

*Presented by:*

**Liza S. Vertinsky, Esq.**

**Wolf Greenfield**

600 Atlantic Avenue

Boston, Massachusetts 02210-2206

617.646.8000 | 617.646.8646 *fax*

[www.wolfgreenfield.com](http://www.wolfgreenfield.com)

# Keep Your Objectives In Mind

2

- **To achieve business objectives using licensing...**
  - **Focus from start on coordination of licensing strategy with business goals**
  - **Address both current and projected future needs**
  - **Clarity, fairness, and ability to address unexpected events are key**
  - **Establishing right deal dynamics and deal team (on both sides) critical for success**

# Licensing Deal – Key Elements

3

- **Why: Clarify objectives**
- **What: Understand license and potential uses**
- **Who: Select right licensee**
- **How: Consider deal structures and license scope**
- **How Much: Determine how you get paid**
- **And Tomorrow: Ability to respond in future**

# What Are You Licensing?

4

- **Four basic types of intellectual property**
  - **Patents (right to exclude)**
  - **Trademarks (use or lose)**
  - **Copyright (only expression of idea)**
  - **Trade Secrets (must protect secrecy)**
- **Must also examine broader picture of intangible assets available, needed, and implicated in license (e.g. know how)**

# IP Viewed Broadly

5

- **Consider all intangibles that confer comparative advantages on licensee, such as**
  - **Design patents/trade dress**
  - **Know how**
  - **Confidential information**
  - **Restrictions on right to compete**
  - **Access to proprietary tools or equipment**
  - **Domain names**
  - **Customer and supplier relationships**
  - **Databases**
  - **Right of first refusal over new developments**

# Who is Licensee?

6

- **How to search for licensees**
- **Aligning incentives and objectives**
- **Include affiliates**
- **Possible change of control down the road**
- **Concern about viability where licensee is start up (it may start up, but can it stay up?)**

# How: Explore Alternatives

7

- **Sale/assignment of rights**
- **License (exclusive/non-exclusive)**
- **Joint ventures**
- **Covenants (e.g., covenant not to sue)**
- **Options (option to license on reasonable terms)**
- **Other agreements to take or not take certain actions**
- **Training, information sharing**
- **Co-branding, co-promoting, reselling**



# How: Questions to Ask When Determining Scope of License

9

- **Why each party wants to license**
- **How is technology going to be used?**
- **What mechanisms are there for adding IP and getting IP back?**
- **What improvements are likely to be developed and by whom?**
- **What rights should be retained?**
- **How do you get paid?**

# How: License Grant

10

- **Choice should be informed by business objective and should be reflected in deal's price**
  - **Exclusive or non-exclusive**
  - **Field of use**
  - **Territory**
  - **Right to sublicense**

# How: Sublicensing

11

- **Restrictions on sublicensing**
- **Approval rights over sublicensing**
- **Requirements imposed on sublicense agreements**

# How Much: Royalties

12

- **What should royalties be based on? (gross revenues, net sales, money received or billed)**
- **Pay royalties on know-how?**
- **Combination products (e.g. kits)**
- **Caps on royalty rate as additional IP is added**
- **Cap on total royalties/buy-outs**
- **Stacking/third party rights**
- **Non-royalty revenue**

# Sublicensing

13

- **Pass-through royalty or percentage received by Licensee?**
- **Sliding scale for percentage of sublicensing revenue**
  - **The more Licensee adds to technology, the lower share for Licensor**
- **Pass-through vs. value added licensing**

# Diligence and Milestones

14

- **“Reasonable Commercial Efforts” to develop**
  - What are those?
- **Financing to support business plan**
- **Appropriate milestones**
- **Minimum sales or royalties**
- **Exploit all parts of the licensed IP?**

# Term and Termination

- **What term makes sense?**
- **Termination events**
- **Survival of sublicenses**
- **Opportunity for renegotiation**
- **Bankruptcy**

# Infringement

16

- **Right to sue infringers**
- **Sharing of proceeds**
- **Right to control settlements**

# Improvements

17

- **Joint inventors/co-authors/co-creators**
- **Licensor improvements (added to license?)**
- **Licensee improvements (grant-backs?)**
- **How to define improvements versus new technologies?**

# Provisions Focused on Communication of Information

18

- **Audit rights**
- **Notice**
- **Reporting**
- **Limited license scope with options to increase or decrease scope**

# Dispute Resolution

19

- **Mediation (escalating process)**
- **Arbitration versus going to court**
- **Importance of clarity in original deal terms to support original understandings**
- **Expect renegotiation**

# Miscellaneous Other Terms

20

- **Risk sharing terms such as indemnification and insurance**
- **Standard legal terms governing interpretation of contract terms and ability to amend**
- **No two deals are same**

# Licensing Deal Structure: Key License Terms



**Brown Forum for Enterprise**

*January 18, 2007*

*Presented by:*

**Liza S. Vertinsky, Esq.**

**Wolf Greenfield**

600 Atlantic Avenue

Boston, Massachusetts 02210-2206

617.646.8000 | 617.646.8646 *fax*

[www.wolfgreenfield.com](http://www.wolfgreenfield.com)