

An Overview: Licensing Agreements in Intellectual Property

Basic Agreement Provisions & Royalty Structures.



CIO Legal Zoom Day -25Mar21

Genna S. Hibbs and Hibbs Law, LLC



- ▶ Intellectual Property Boutique firm. Founded 1Jan2013.
- ▶ Bar Admissions: Illinois, N.D. ILL, & USPTO
- ▶ Small business and individual needs: Patents, Trademarks, Copyrights, Unfair Competition, Trade Secrets, Infringement enforcement/litigation, licensing, entity formation, regulatory compliance, and business transactions.
- ▶ Field of Art: Genna's Background in Biotechnology, Genetics, small business and government. Associate attorney (Gouthami) background in Chemistry and Business.
- ▶ Substantial dedication (20-30% target) to *pro bono* legal services: low-income health center, consolidated school district prevention program, PATENT HUB low-income inventors, public education.
- ▶ Hobby farm outside of Woodstock, IL: 3 acres, spouse, BABY!, dogs, cats, chickens, and snow-bird dad.





LEGAL DISCLAIMER

Nothing in this presentation is meant to imply or suggest that an attorney-client relationship is created through this presentation or related communications. After a private initial client meeting, a signed letter of engagement would be the official step to create that relationship with Hibbs Law, LLC,

Legal analysis is largely fact-based, and involves a full examination of all details and factors. General rules presented or particular questions are posed as hypotheticals, and should not be relied on as legal advice. The most common answer to a 'simple' legal question is: "It depends."



Congratulations!

- ▶ Passion—about your concept
- ▶ Tenacity—to take those steps
- ▶ Strength—to keep going
- ▶ Courage—to believe in yourself
- ▶ Heart—to value yourself



What might the process look like:

With trade-secrets: loose it and lose it!

- ▶ Patent Pending/ Unpublished: Ideally, NDA in place before providing real info about how the invention works and what the application contains.
- ▶ Patent secured: unless secret gov't patent, they can look up the number and evaluate. But then would still want to have NDA for serious discussions to protect marketing plans and confidential information generally.
- ▶ Trademark registered: depends on the conversation. Are you discussing their TM use, marketing together, or your inner workings and market plans? Could = TS, may need an NDA.

What might the process look like:

The royalties, payment structure, types of use, geographic/ market territory all (should be) discussed up front.

Expectation: term sheet covers main provisions.

Reviewing License Agreement is reviewing/ verifying terms and balancing the boilerplate.

- ▶ Initial meeting eventually leads to general discussion of terms
 - ▶ Have an idea of what terms you are looking for, and what your level of flexibility might be.
 - ▶ Have an idea of your investment cost/value, and the strength of your IP.
 - ▶ Have a checklist of topics you need to discuss (want to make all your points the first time, consistently = easier to work with).
- ▶ Term Sheet/ Letter of Intent (gen'ly non-binding): the big items!
 - ▶ Be clear on the scope and plans for the IP license/use/ownership/termination!
 - ▶ This is what they are getting approved in their org, don't want to re-do.
- ▶ Reviewing Contracts (now the boilerplate!) ...

Road Map



Expected Provisions and Red Flags

Royalty Structure Options



Expected Provisions and Red Flags



PART ONE

Where does the IP fall?

- Non-Exclusive License
 - Exclusive License
 - Assignment—buy out
 - Assignment—residuals
- ▶ Find the provisions dealing specifically with Intellectual Property/ patent/ etc.
 - ▶ Should say L/ee **recognizes your Patent's or TM's validity, or agrees not to challenge validity.**
 - ▶ ALSO look for 'assets' and 'property' ...do they include your IP? ...silently or expressly (like in definitions)? OR ...is the IP covered in separate provisions?
 - ▶ PATENT assignments/ ownership: look either for a percentage or for “**rights in the entirety**”.
 - ▶ Look for geographical area, territory, field of use, or regions on licenses. Even 'exclusive' licenses should have boundaries, just not overlapping markets.
 - ▶ Look for specific definitions and descriptions of your IP, list P #. Include the technology of your patent as it's own separate thing (includes the trade secrets). Avoid being open to work-arounds and vagueness, which putting the BoP on you!
 - ▶ Who owns **improvements**?

Beware of the Combination Punch! <<Especially in term definitions>>



EXAMPLE:
Article 31 lists disclosure requirements,
Article 5 lists failure to follow Art 31 as a breach,
Article 27 says breaches from Art 5 result in very unfair damages



Time-Related Factors:

Term of your license:

- Length of license (and renewal means),
- Rate changes (are you rewarded for success?),
- Notice requirements to make adjustments or terminate, and
- Termination provisions, where does the data and stuff end up?

- You should always be given time to review documents and consult legal counsel!



Special Requirement for Trademarks:



Control over the **quality** of the use AND products/services!

Abandonment of your mark can occur if you license your mark but have no control over how they use it (consumer protection policy), called, **NAKED LICENSING**. NEVER give a trademark license without control provisions!

Quality Control = often approval of new marketing uses

- ❖ Can be generally or periodic
- ❖ Can be more invasive and frequent
- ❖ QC of products/services
- ❖ Option must be there

Goodwill: L/ee's use/goodwill 'inures' /flows to you.

Duties, Waivers, and Indemnities—especially too many and one-sided!

Duties → requirement for action, or requirement for standard of care that creates a relationship with the other party (like fiduciary duty).

Waivers → a party waiving rights to justice/retribution when there might otherwise be a cause of action/ harm. Some waiver is standard, but too much is problematic.

+ **general rule** + you cannot legally waive intentional torts (fraud, willful/wanton actions) in Illinois (and many other states).

Indemnities → a party will vouch for and cover the costs/damages/defense of the other party if they are liable for performing under the contract. Common to indemnify, rep/warranty that your IP doesn't infringe and you have the right to license.

One Sided:

- Adding the other party = could balance out the obligation/risk, rather than a total re-write.
- Removing a discrete portion that is particularly heavy-handed.
- Adding GF/ reasonableness duties to market/sell



NO Good Faith or Reasonable commercial effort requirements by licensee (CRE)



But only applicable
if you retain
ownership.



Termination: only for limited causes or at your discretion?

Renewal periods?

It's reasonable for a licensee to want to limit arbitrary termination if they are making significant investment, but within reason.

What happens with the IP, technology, stuff, materials, data, etc.

What about Co-Licensing or Overlapping Non-Exclusive?





Royalty Structure Options

PART TWO

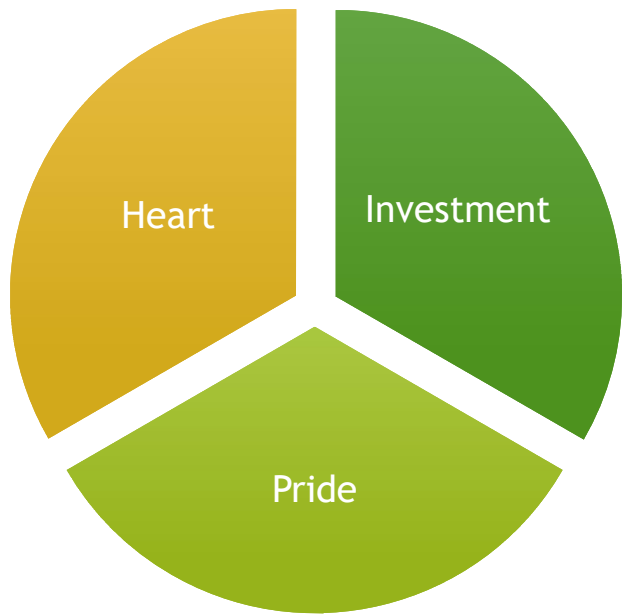


TOP SECRET



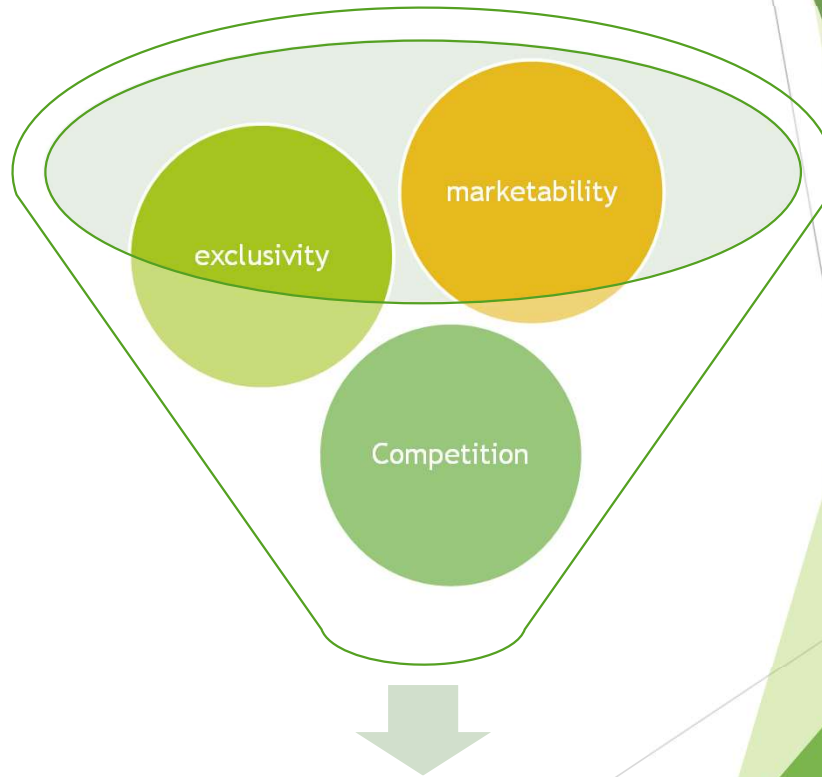
What can influence royalty structure? aka “Valuation”

- ▶ What is the Licensee’s investment to bring your invention ‘to market’?
 - ▶ Will they help you secure international rights or expand patents in a family?
 - ▶ How many hoops? Are they building out the final product or just acting as a licensed distributor?
 - ▶ Are you bringing compliance/ permits with you?
- ▶ Potential market and ROI
- ▶ Strength or weakness of the IP rights (especially TM)
- ▶ Which rights are they looking at? Future rights?
- ▶ Length and market desired?
- ▶ Available alternatives?
- ▶ Cost of invalidating your IP?



You, the rightsholder!

Cold, corporate machine (?)



License

The Property Rights Bundles!



Patent

- to manufacture,
- to use,
- to sell,
- to offer for sale,
- to import a patented product, or
- to perform a patented method.



Copyright

- to reproduce,
- to distribute,
- to display,
- to perform, or
- to create derivative works.
- And specific rights for certain art.



Trademark

- exclusive right to sell or market under that mark within a geographic territory,
- to use in commerce, or
- to identify source of origin

General Royalty Structures

Gross Sales %:

Fixed Royalty: most common, no extra incentives

Decreasing %: as more sales made, % goes down

Net Profit %: what is deducted?? ← **the big fight!**

Per action: units made or sold (health and auto)

Modifiers:

Residuals after IP expiration? 'accrue during term, but paid over time'.

Minimum payment?

Initial lump sum, milestone post, or termination pay out?



Patents

Patent Pending and Good Business Plan = 1%

Patent Issued = 1-2%

Pharma/Biotech with good indication pre-clinical
data = 2-3%



Trademarks

All over the place, VERY fact dependent.

Go through Valuation Analysis.

IRS experts' review of many TM royalties found between 0.1% and 15%



Copyrights

Copyright Office provides industry guidelines on royalty amounts for different types of licenses. Available online.

to reproduce,
to distribute,
to display,
to perform, or
to create derivative works.
And specific rights for certain art.

QUESTIONS?

CHICAGO INVENTORS
ORGANIZATION

312.850.4710

www.chicago-inventors.org



gh@hibbslaw.com; office@hibbslaw.com