

Topic 10

Exploiting Intellectual Property Assets: Overview of Licensing, Franchising and Merchandizing

Training of Trainer's Program, Teheran

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AGENDA

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- Patent licensing
 - Context
 - Meaning
 - Reasons for licensing
 - Preparing for licensing
 - License deal making
 - License vs Option
 - Structure of a licence
 - Managing licence agreements
 - Terminating a license agreement
- Trademark licensing

CONTEXT

Exploiting Intellectual Property Assets:

Is it only about using your own IP ?

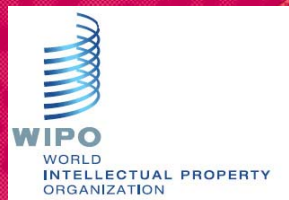
Which assets ?

Your company's ?

A third party's assets ?

Ownership, Rights to use

Using, vs Licensing OUT, vs Licensing IN



CONTEXT

Companies do not always have products to commercialize. Sometimes they could develop them, but don't want to invest in infrastructure for development and production.

Licensing technologies from third parties can be an attractive alternative.



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MEANING

- Licence
 - Where an IP owner (licensor) gives another party (licensee) **permission** to use that IP while the owner continues to retain the ownership of that right.
- Licence agreement
 - **Contract** with terms such as: scope, territory, period of time, exclusivity, etc. defining the rights and obligations of the parties.

MEANING

- Types of licensing:
 - Licening-in, licensing-out, cross-licensing.
- Licence vs assignment.

REASONS FOR LICENSING

- As part of business relationship: manufacturing sub-contracting, strategic alliances, research and development.
- Non-core business IP licensing.
- Core business IP licensing: no products. Product is the IP/ license.
- Cross licensing: when dependences exist between competitor's products, IP and expertise.

REASONS FOR LICENSING

- Patent pools: several patent holders licence their IP to one or several manufacturers. Can be used positively and negatively.
- Complying with standards: in this case licenses are non-exclusive and often free-of-charge.

PREPARING TO LICENSE

- Perform a Due Diligence
 - Usually a mutual process between business partners.
 - Goal: minimize business risks.
 - Types of DD: IP, business, technology
- IP Due Diligence. Check:
 - All inventors have assigned their rights to the assignee ? If not are they willing to do it ?

PREPARING TO LICENSE

- IP Due Diligence (cont'd)
 - Validity and adequacy of the patent claims.
 - National/ regional prosecution: done properly ?
Annuities paid ?
 - Freedom to operate: are third parties claiming rights over the patents in question ?
 - Impact of Government rights on patents (for academic/ government owned patents): non exclusive fully paid up licence, march in rights, right to patent in other countries, etc (USA).
http://www.waybetterpatents.com/government_interest.html

PREPARING TO LICENSE

- IP Due Diligence (cont'd)
 - Is the patent fully enabling or must other licences be taken.
- Sources of information for Due Diligence:
 - Public information about publicly traded companies.
 - Market databases.
 - Trade publications.
 - Technology Opportunities (academic)
 - Patent databases.
 - Scientific publications.

LICENSE DEAL MAKING

- Find a win-win deal structure between licensor and licensee: **many parameters available** (see structure of a licence agreement)
- Potential exchange of confidential information: may want to sign an NDA.
- Intermediary agreement: Memorandum Of Understanding (MOU) or LOI: Letter of Intent.

LICENCE VS OPTION

- Sometimes licensee is not ready to take a licence and needs **time to evaluate** the technology.
- **Option:** exclusive right to negotiate a license
 - Represents an opportunity cost for licensor -> monetize.
 - Time limited, field limited, geography limited.
 - Allows discussions/ negotiations to take place under a contract.

STRUCTURE OF A LICENSE AGREEMENT

- **The Parties:** licensor and licensee.
- **Preamble:** purpose, nature of the IP, characteristics of the parties (**Whereas Licensor...**, **Whereas Licensee...**).
- **Definitions:** minimum: licensed patents, licensed products (using the licensed patents), territory, and field.



STRUCTURE OF A LICENSE AGREEMENT

(After the preamble)

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and conditions herein contained the Parties hereto have agreed and do hereby agree that **Licensor** transfers to **Licensee** rights on the Technology **under the following terms and conditions:**



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STRUCTURE OF A LICENCE AGREEMENT

- **Grant:**
 - Subject matter: IP rights (patents, copyrights, designs) and technology rights (know-how, processes, formulas, etc).
 - Extent and scope: field of use, exclusivity.
 - Right to grant sub-licences ?
 - Retained rights:
 - No assignment of licence agreement.
 - Rights outside of the field of use.
 - Right to practise internally (universities in particular, for research and education).

STRUCTURE OF A LICENSE AGREEMENT

- **Consideration:** financial and other terms and conditions

Royalties	Taxes (who pays them ?)
Upfront payments (lump sum)	Sales/ royalty reporting
Milestone payments (lump sums)	Infringement (who does what, who benefits ?)
Equity (founder's equity, later funding equity)	Royalty stacking
Payment terms (30/ 60 days from receipt of invoice, etc)	

STRUCTURE OF A LICENSE AGREEMENT

- Royalties: **on sales** of products, not on profit.
- Technical assistance.
- Improvements.
- Most favored licensee (non-exclusive licensing): most attractive conditions granted to a licensee apply to all others.
- Infringement.
 - Third party infringing licensor IP
 - Licensor IP infringing third party IP

STRUCTURE OF A LICENSE AGREEMENT

- **Publications:**
 - for academic licensors mainly.
- **Confidentiality:**
 - to protect mutual confidential information, and new patentable developments.
- **Product liability**
 - To limit liability with regard to injury or damage to property or person with the use of the licensed technology: «indemnify and hold harmless against third party claims». Exception: gross negligence of licensor.

STRUCTURE OF A LICENSE AGREEMENT

- **Warranties:** licensor will try to limit them as much as possible
 - Warranty: fitness for a particular purpose.
 - Warranty that IP/ patents do not infringe third party rights.
- Licensor and licensee **obligations:**
 - Licensor: assistance obligation.
 - Licensee: performance obligation.

STRUCTURE OF A LICENSE AGREEMENT

- **Termination:** conditions for termination, compliance with licence conditions, bankruptcy, etc.
- **Force majeure:** circumstances beyond the control of a party.
- **Dispute resolution:** applicable law, jurisdiction; Alternative dispute resolution, ARD: mediation, arbitration (not necessarily only litigation).

MANAGING LICENCE AGREEMENTS

A license agreements is a **continuous** relationship between two parties aiming at **mutually rewarding** outcome.

1. Technical assistance.
2. Tangible items: machinery, manuals, product specifications. Describe well to avoid unmet expectations.

MANAGING LICENCE AGREEMENTS

3. Reporting: royalty statements, other deliverables like financial statements, business progress description, etc.

4. Auditing

- Costs borne by licensor except if discrepancy greater than x%.

TERMINATING A LICENSE AGREEMENT

- **Two cases:**
 - **At the end of the licence duration.**
 - **Before the end of the licence duration.**
- In both cases, usually: licensee is given the right to sell all licensed products and to complete licensed products in the process of manufacture provided royalty payments are made.

TERMINATING A LICENSE AGREEMENT

- Clear statements should be made in the licence agreement to make sure:
 - That the licence is effectively terminated.
 - That sub-licences are also terminated.
 - That all confidential information is returned to licensor.
 - That remaining payments are made.

TRADEMARK LICENSING

Trademark licensing was considered impossible at a time because a trademark was to **indicate** a **source**. A product stemming (under license) from a source other than the owner would amount to a false or deceptive representation of the consumer as to the true source of the products involved.



TRADEMARK LICENSING

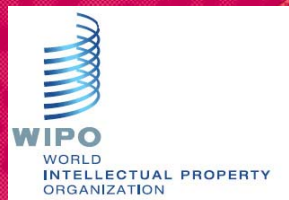
However trademark licensing became acceptable where the licensor (the owner) remained in control of the **nature** and **quality** of the goods sold in association with the trademark.

Quality control is the essence of trademark Licensing.



WAYS OF LICENSING TRADEMARKS

- **Franchising:** particular business model, IP bundle, training, mentoring.
- **Merchandising:** trademarks, designs, art work. License to make consumer goods using such (mugs, towels, caps, clothes, etc).
- **Brand extension:** let another company use a trademark to launch a product under this trademark (ex: Dodge trucks with Monaco Coaches for «Dodge» labelled trailers).



WAYS OF LICENSING TRADEMARKS

- Co-branding:
 - Southwest Airlines and SeaWorld



SeaWorld - Southwest

As the official airline of SeaWorld, Southwest Airlines (LUV) has three Shamu planes in its fleet. Passengers are occasionally visited by penguins before take-off.

WAYS OF LICENSING TRADEMARKS

- **Component or ingredient branding:**
 - A producer (owner) may license the right to use the trademark of one of its ingredients. Facilitate product recognition and purchase. Example PC computer with Intel chip inside.



WAYS OF LICENSING TRADEMARKS

- Standards & norms:
 - Products complying with certain standards: manufacturer can licence the trademark of the certifying entity (revenues from certifying).



WIPO MADRID
The International Trademark System

WORLD INTELLECTUAL PROPERTY ORGANIZATION

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2.	624052	ECOCERT	FR	25.08.1994



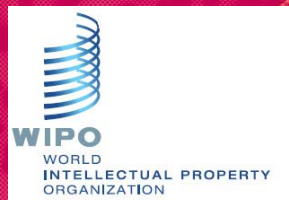
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BENEFITS OF USING TRADEMARKS

- Additional revenue stream.
- Territorial expansion.
- Benefiting from another company's manufacturing, distribution, sales or marketing capacity (in-licensing).
- Discontinued marks (in-licensing).
- Strategic partnerships.



BENEFITS OF USING TRADEMARKS

- Turn infringer into licensee.
- Increased consumer recognition and advertising (branding).



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PREPARING TO LICENSE A TRADEMARK

- Due diligence:
 - About your licensee/ licensor.
 - About the trademark (geography, scope/Nice classification).
- Exploring mutual business interests
 - Business plans should be used on both sides.



STRUCTURE OF A TRADEMARK LICENSE AGREEMENT

- Similar to a patent licence agreement.
 - Emphasis on **exclusivity/ non-exclusivity**.
 - Precise de definition of the **grant conditions** (how the trademark can/ should be used).
 - Use control/ **monitoring clauses**.
 - Business models potentially more complex than with patents.

TAKE AWAY QUESTION

Your prospect (future licensee) is not ready to negotiate a licence and would like to have some time to evaluate the technology. At the same time your prospect wants to have exclusivity on this negotiation.

What contract can you offer to your prospect ?





THANK YOU
FOR YOUR
ATTENTION



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