

# ANATOMY OF INTELLECTUAL PROPERTY LICENSE AND OPTION AGREEMENTS

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# IP LICENSE & OPTION AGREEMENTS

## Presentation:

- I. Subject Matter of Agreements
- II. Transaction Timeline
- III. License Agreements
- IV. Option Agreements
- V. Additional Thoughts

# SUBJECT MATTER OF IP LICENSE & OPTION AGREEMENTS

Intellectual Property – 4 Primary Categories:

- Patents
- Copyrighted materials (including software)
- Trademarks
- Trade secrets

# PATENTS & COPYRIGHT

“Congress shall have power... to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.

U.S. Constitution, Art. 1, Sec. 8

## U.S. STATUTES – PATENTS 35 U.S. CODE §154

Every patent shall contain a short title of the invention and a grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process...."

# U.S. STATUTES – COPYRIGHT 17 U.S. CODE §106

...the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- to reproduce the copyrighted work

- to prepare derivative works

- to distribute copies

- to perform the copyrighted work publicly;

- to display the copyrighted work publicly

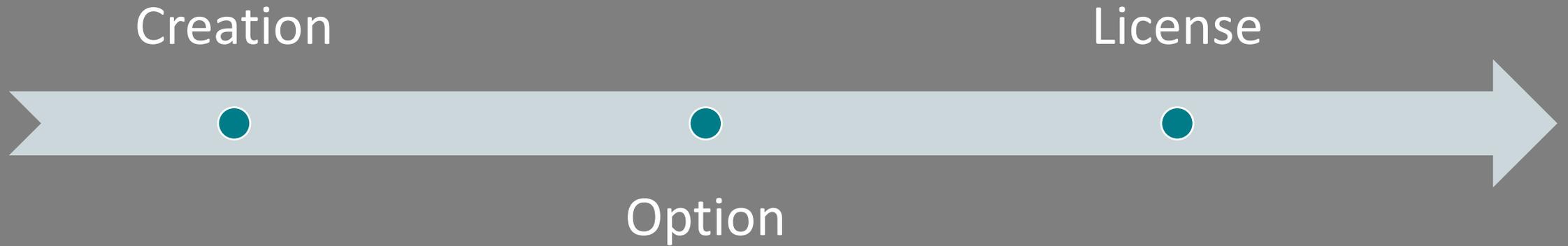
# OWNERSHIP RIGHTS

- Patents – The right to prevent others from practicing the invention
- Copyrighted materials – The exclusive right to use the copyrighted work

# OWNERSHIP RIGHTS MAY BE USED, ASSIGNED OR LICENSED

- Owner may itself use the invention or copyrighted material
- Owner may assign and transfer of ownership rights in invention or copyrighted material
- Owner may give others permission to practice or use the invention or copyrighted material in the form of a license

## II. COMMON TRANSACTIONAL TIMELINE



### III. THE LICENSE AGREEMENT

- Even though the patent and copyright laws are federal laws, a license agreement is a contract governed by state law
- “State law governs contractual obligations and transfers of property rights, including those relating to patents”  
Regents of the University of New Mexico v. Knight, 321 F3d 1111,1118 (Fed Cir 2003)
- A license agreement sets out the rights, powers, duties, and responsibilities with respect to the subject matter (i.e. patent) as between the owner as licensor and the other party as licensee

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Identification of Parties
- Identification of Licensed Property
- Grant of License and Enumeration of Rights
- Consideration for License
- Administrative Obligations
- Patent Prosecution and Protection Provisions
- Warrantys and Representations
- Indemnification Provisions
- Term of Agreement

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Identification of Parties

  - The owner of the intellectual property – the licensor

  - The party obtaining permission to use – the licensee

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

## ➤ Identification of Licensed Property

UNM Rainforest Innovations Ref No. 20XX-XXX:  
[INVENTION TITLE] developed by [INVENTOR NAME]. U.S.  
National Application No. XX/XXX,XXX filed on \_\_\_\_\_,  
2020

UNM Rainforest Innovations Ref No. 20XX-XXX:  
[INVENTION TITLE] developed by [INVENTOR NAME]. U.S.  
Patent No. XX,XXX,XXX issued on \_\_\_\_\_, 2021

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Grant of License and Enumeration of Rights
  - Granting clause describes the scope and extent of rights granted to licensee
  - Exclusive vs. nonexclusive
  - Field of use licenses
  - Territorial use license

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Exclusive vs. Nonexclusive
  - An exclusive license is a promise by the licensor not to itself practice the IP, not to enforce the licensor's patent or copyright rights against the licensee, and not to grant any further licenses
  - A nonexclusive license is a promise by the licensor not to enforce the licensor's patent or copyright rights against the licensee

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Exclusive vs. Nonexclusive (continued)
  - An exclusive license generally allows the licensee to sublicense rights to others. A nonexclusive license generally does not.

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Exclusive vs. Nonexclusive (continued)
  - Exclusive license often reserves some rights to the licensor and others:
    - UNM Rainforest Innovations reserves rights for the University of New Mexico to use the IP for internal research, development, and education
    - If the IP was developed with federal funding, government rights under the Bayh Dole Regulations are reserved

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Field of Use Licenses
  - Divides rights among different markets or applications
  - Allows the granting of multiple exclusive licenses to non-competing licensees
  - Ex: Licensing of novel battery technology to multiple manufacturers, i.e., consumer goods, automobile manufacturers, space applications

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Geographically Limited Licenses
  - Divides rights among different geographic jurisdictions
  - Allows the granting of multiple exclusive licenses to non-competing licensees in different jurisdictions
  - Ex: Licensing of exclusive rights in the U.S., Europe, and Asia to different licensees

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Consideration for License
  - Upfront Fee – an amount payable to licensor at signing of license agreement
  - License Maintenance Fees/Minimum Annual Royalties - payable annually to keep the license agreement in force
  - Royalties on Product Sales – a percentage of the licensee's gross income from products covered by the license

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Consideration for License (continued)
  - Royalties on Revenue from Sublicensing – a percentage of revenue of licensee from sublicensing the IP to others
  - Milestone Payments – an amount payable to licensor upon the achievement of defined events.
  - Ex: payment of a set amount to licensor upon licensee obtaining FDA approval for marketing of products covered by the license

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Consideration for License (continued)
  - Change-in Control Payment – payment of a set amount to licensor in the event that licensee is acquired or goes public
  - Equity – If licensee is a start-up or small company, licensor may receive a small equity position in licensee
  - Reimbursement of costs incurred by licensor for obtaining and maintaining patent or copyright protection

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Administrative Obligations
  - License agreement will impose obligations on licensee for:
    - Timing of payments due licensor
    - Reporting on product sales and sublicensing activities
    - Maintaining financial records related to the license agreement and allowing licensor to audit records

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Patent Prosecution & Protection Provisions
  - Licensor will retain responsibility for and control over prosecution of patent applications, with licensee having ability to provide input and suggestions
  - In an exclusive license, the licensee will generally have the first right to pursue infringers of the IP, with the licensor having the right to do so if the licensee does not

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Warrantys and Representations
  - The parties will generally promise that they have the power to enter into the license agreement
  - The licensor will generally disclaim all other warrantys, such as that the IP is valid or enforceable, that other IP rights are not needed to exploit the licensed IP, and that the IP will meet the needs of the licensee

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Indemnification Provisions
  - The licensee will indemnify the licensor for any claims arising out of the use or exploitation of the IP by the licensee
  - The combination of the disclaimer of warranties and the indemnification provisions generally puts all business risks related to the commercialization of the IP on the licensee.

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Term of License Agreement
  - The term is negotiable, but cannot exceed the life of the IP for patents and copyrights
  - Normally, will continue for the patent's term (20 years from filing date) or copyright term (could be more than 120 years)
  - Licensor can terminate upon default by licensee
  - Licensee can terminate on written notice of a specified number of days

# MAJOR ELEMENTS OF A LICENSE AGREEMENT

- Other Provisions

- As in any contract, license agreements will include:

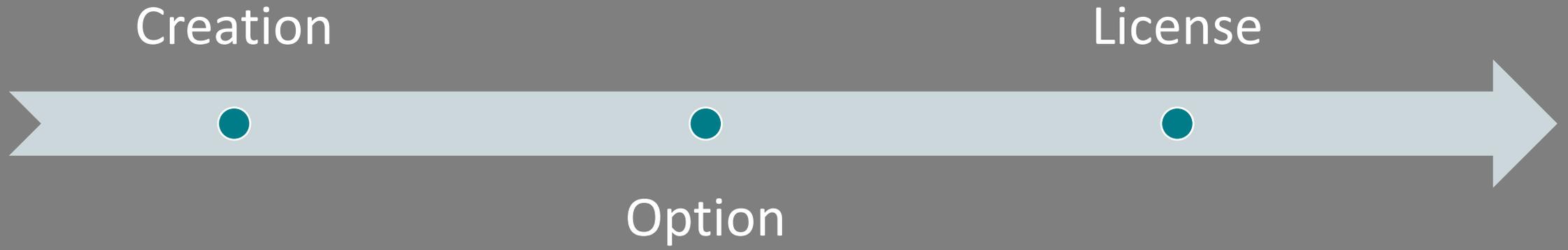
- Definitions of defined terms

- Provisions about assignment by licensee

- Governing law, jurisdiction, and dispute resolution provisions

- Other “boilerplate” provisions

# IV. OPTION AGREEMENTS



## IV. OPTION AGREEMENTS

- Option Agreements are used when a prospective licensee is not ready to commit to a license agreement
- Prospective licensee may need time to evaluate the IP or the market
- An option agreement is a promise by the IP owner not to license the IP to others for a specified period of time
- The person holding the option (the “optionee”), can exercise the option any time before the specified option expiration date

## IV. OPTION AGREEMENTS (continued)

An Option Agreement may include:

- An agreed upon term sheet describing the general terms of a license agreement
- An actual agreed upon form of license agreement
- An agreement to negotiate in good faith the terms of a license agreement upon exercise of the option
- The optionee pays consideration to the IP owner for the option, generally in the form of a flat fee and reimbursement of IP expenses incurred during the term of the option.

## IV. OPTION AGREEMENTS (continued)

- If the Option Agreement expires without being exercised by the optionee, the optionee has no further rights and the IP owner has no further obligations under the option agreement. The IP owner is free to seek other licensees or optionees. If the optionee exercises its option, the parties proceed to the negotiation of a license agreement

## IV. Additional Thoughts

- Like any contract, license agreements are the subject of negotiation
- UNM Rainforest Innovations has developed standard templates that address the major elements of license agreements and option agreements
- The standard templates are generally acceptable to prospective licensees and optionees. Some licensees focus more on certain aspects such as sublicense rights or rights to participate in patent prosecution. Different things are important to different prospective licensees
- UNM Rainforest Innovations is usually able to work out acceptable language with prospective licensees and optionees

# CONTACT INFORMATION

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