

Licensing “to be developed” Technologies

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“To be developed” technologies

Normally includes:

- **Collaborative or contracted development**
- **One partner – entrepreneur, SME, university**
- **Other partner – larger corporate**
- **Technology not yet “engineered”**
- **Technology not “application specific”**
- **Not ready for market**

This can create partnering opportunity

General Characteristics

- **Licensing complements the R & D**
- **“Early Stage” licensing**
- **“Licensee” makes contribution**
- **Technical/Commercial success uncertain**
- **“Partner” selection critical**

Examples

- **New packaging product by entrepreneur requiring further development**
- **New automotive product by SME requiring specific application**
- **New process technology by large corporate requiring site specific development**

Types of Agreements

One or more of:

- **Option, right of first refusal**
- **Binding or not?**
- **Development (and research?)**
- **Consultancy**
- **Confidentiality**
- **Licensing**

Then put these together

Option, Right of first refusal

Option:

- provides an (exclusive ??) right to evaluate a technology for a short period of time prior to signing a licence (might be called “Evaluation Agreement”)

Right of first refusal:

- when “grantor” proposes to grant a licence, the “grantee” has a right of first refusal and must be offered a licence

Option approach more likely.

Option

- **Payment of option fee?**
- **Option fee into escrow?**
- **If option taken up, option fee credited against licence fee?**
- **If option not taken up, % of fee returned?**
- **Basis for not taking up option may influence % returned**
 - **Technology works – targets met**
 - **Technology doesn't work**

Binding of Not?

- **Simply an agreed list of clauses to be drafted?**
- **A record of what is agreed to date?**
- **Non binding, but converted within an agreed period**
- **Outline contract to serve as contractual mutual undertaking until definitive contract signed?**
- **“Skeleton” or detailed on clauses?**
- **Importance of stating what agreement is:**
 - **Binding or not binding?**

Terminology

- **Heads of Agreement**
- **Letter of Intent**
- **Memorandum of Understanding**
- **Proposed Basis of Agreement**
- **Term Sheet**

Different countries – different meanings

All need clarification on intention and legal status.

Development

- **Systematic activity combining basic or applied research to discover new solutions to overcoming problems and/or new applications**
- **Normally either Sponsored (Contracted) or Collaborative (Joint)**

Development Issues

- **Description/definition of “Project”**
- **Performance criteria to be met**
- **Payment Schedule**
 - **Based on milestones?**
- **Reporting, record keeping**
- **Duration – extensions?**
- **Disclosures, confidentiality**
- **IP ownership, rights of use**

All need to be addressed.

Consultancy Agreement

Professional services where a fee for service exists. In this case, a possible consulting arrangement between “proposed licensor” and “proposed licensee” to facilitate product/process development

- Inventor/entrepreneur**
- Professor**
- Key process engineer**

Confidentiality

- **put in place prior to disclosing information to potential licensee**
- **needs to embrace all phases:**
 - **Initial disclosure**
 - **Evaluation**
 - **Development**
 - **Licence**

Licence

- **Licensor authorises use by Licensee of its technology, IP**
- **a promise by the Licensor not to sue the Licensee**
- **Licence may vary:**
 - **Duration**
 - **Exclusivity**
 - **Scope**
 - **Field of Use**
 - **Territory**

The Challenge

- Putting all these together**

Underlying Basis

- **A has developed product/process**
- **B wishes to make and sell product/ use process**
- **B wishes to verify, further test/develop product/process before committing to licence**
- **If testing/development successful, A grants B a licence**
- **If testing/development successful, both A and B have “certainty”**

Licence Conversion – 1 **Product Development**

- **If the agreement is not terminated under clause x, A shall grant B an exclusive licence. Such licence shall be exclusive for a period of y years**
- **Such licence agreement to be finalised before date z.**
- **In this case, Clause x allows B to terminate under any conditions.**

Finance - 1

- **\$A on signing development agreement**
- **\$B on satisfactory completion of trials (in accordance with agreed parameters)**
- **\$C on signing the licence agreement (date z)**
- **\$D subsequent licence fees/royalties**

Licence Conversion – 2A

New Application

At any time during and within 60 days of completing the Program (as defined), B has the option to obtain a non – exclusive licence. Any such licence shall be on reasonable terms, monetary and otherwise, and which shall be at least as favourable as those granted to others.

Licence Conversion – 2B

New Application

- **If the agreement is not terminated under clause x, then B obtains a non – exclusive licence**
- **Such licence agreement is based upon the terms specified in Schedule A**
- **In this case, Clause x allows B to terminate within 60 days of completing Program (as defined) if the Goals (as defined) of the Program are not met.**

Finance – 2B

- **\$A on commencement of the Program**
- **\$B on completion of the Program**
- **\$C on commencement of the licence**
- **\$D subsequent licence fees/royalties**

Licence Conversion – 3

Process Adaptation

B has a licence to use the technology to:

- establish and commission its plant**
- operate its plant to produce products, and**
- after the Purchase Monies (see next slide) have been paid in full, a licence to manufacture and sell products**

Finance – 3

- **\$A on signing the Agreement**
- **\$B on production of the first (defined) product**
- **\$C on production of the second (defined) product**
- **\$D on a (defined) production rate for the first product**
- **\$E on a (defined) production rate for the second product**
- **Thereafter a fully paid up licence**

General Conclusions

- **Exclusivity or Non – exclusivity?**
- **Exclusivity for limited period?**
 - **Objectives of licensor, licensee**
- **Licensee's discretion to proceed?**
 - **Function of bargaining power**
- **Product vs Process**
 - **Influence on payment schedules**
- **Size of licensee, licensor**
 - **Competitors?**
- **Nature, objectives of licensee, licensor**
 - **Individual, SME, university, govt lab, corporate?**

Thank you for your attention!

Any Questions

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