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Transforming Ideas into Opportunities

Tech Start Up Licensing Issues

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Consideration and Issues to be Discussed.

- Consideration 1 – Determine Licensing Objectives of Both Parties.
- Consideration 2 – Evaluation of Licensee.
- Consideration 3 – Understand Patents and Rights to be Licensed.
- Consideration 4 – Scope of Rights Granted.
- Consideration 5 – Royalty and Payment Terms.
- Consideration 6 – Obligations for Commercialization.
- Consideration 7 – Patent Prosecution and Maintenance.
- Consideration 8 – Infringement and Enforcement.
- Consideration 9 – Managing Risks.
- Consideration 10 – Termination and Afterwards.



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Consideration 1 – Identify the Licensing Objectives

- For Institution.
 - Public benefit of technology.
 - Revue generation.
 - How does the licensed technology relate to other institution technologies.
 - Relationship to PI of the licensed technology.
 - Is the PI part of the start-up? Does the PI have a relationship with the start-up? Does the PI have their own plans of the technology?
 - Relationship to Licensee.
 - Is the Licensee a faculty member? Does the Licensee have connections to the institution or have connections locally or in the state?
- Inter-Institutional considerations.
 - Does the licensed technology have inter-institutional connections or obligations or target objectives.



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Consideration 1 – Identify the Licensing Objectives, cont.

- For Licensee.
 - Is core drive of start up to develop and commercialize new technology platforms based on the licensed technology?
 - Does the Licensee have a viable business without the licensed technology?
 - Is the licensed technology to improve functionality of current products, manufacturing processes or other methods?
 - How will this relate to the ultimate licensed product? Royalty structure? IP rights of the Licensee or third parties? Commercialization timeline?
 - Is the licensed technology to be used to expand the business of the start up?
 - Does the Licensee have other business considerations and developments outside the licensed technology? How will this effect commercialization timeline and decisions?



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Consideration 2 – Evaluate the Licensee

- Understand role and status of key individuals of the Licensee.
 - Who will undertake the business development roles? The scientific development roles?
- Financial status of Licensee and investors.
 - What are the fundraising plans and timelines of the Licensee? Who are the likely investors?
- Track record of key individuals.
 - Do they have current or past relationship with the institution? What kind of due diligence has the institution done? Look for public records and linked in history for past experiences and issues.



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Consideration 2 – Evaluate the Licensee, cont.

- Affiliate and subsidiaries of the Licensee.
 - Are there any affiliate or subsidiaries of the start up? What are their commercial goals of the affiliates or subsidiaries versus the Licensee? What issues could be created by this structure and does the license address these issues.
- Jurisdictional issues of Licensee.
 - Citizenship of the principals of the Licensee. Location of start up and affiliates. Are there foreign control, export control issues, or Bayh-Dole obligations that conflict with this?



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Consideration 2 – Evaluate the Licensee, cont.

- Stage of technology development and Licensee's ability to develop and commercialize.
 - Does the Licensee have the right personnel experience and funding to tackle these issues, and if not, what is their plan on addressing? How will the license agreement deal with these issues in the commercial milestones?
- Need for support, training, know-how and access to confidential information of the institution.
 - Will the Licensee need other resources from the institution to develop and commercialize the technology? Access to the PI? Updates and/or improvements? How does the agreement address this?



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Consideration 3 – Identify Patents and Rights to be Licensed

- Identify and assess patents, including scope of protection.
 - How does the scope of the patent rights align with the potential commercial products? Does the institution have other patents in the same or related field that are not being licensed or are license to others? What is the remaining terms on the patents? How will this effect the scope of what a Licensed Product or Service is?
- Confirm scope of other IP licensed.
 - Will know-how, copyrights or trademarks be licensed? How will this effect royalties and royalty terms? Confirm other institution interests in IP.



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Consideration 3 – Identify Patents and Rights to be Licensed, cont.

- Identify other third-party IP rights needed to commercialize the technology.
 - Does institution or Licensee have knowledge of other IP rights that are needed or helpful to commercialize the technology?
 - If patents aren't issued, have we identified prior art that is problematic to issuance of licensed patents? Do they identify potential freedom to operate barriers to Licensee?
 - Many early stage start ups have not looked at these issues and may be unaware of them.
- Identify Licensees current or planned IP that relate to the licensed technology.
 - What rights does the Licensee currently own related to the licensed technology, and what does it plan on developing? How will this effect institutions rights in fields of use outside of what is licensed to the Licensee?



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Consideration 3 – Identify Patents and Rights to be Licensed, cont.

- Identify prior, pending and threatened litigation.
 - Are their potential infringers to the licensed technology already? Does the Licensee have plans for licensing and enforcement?



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Consideration 4 – Draft Proper Scope of License Grant

- Scope of allowed activities.
 - Does the grant of rights align with the IP licensed and the planned activities of the Licensee?
- Territorial extent.
 - What are the territory commercialization plans of Licensee? If in stages, can the scope of territories be narrowed if commercialization timelines not met?
- Scope of any exclusivity.
 - Insufficient working? Public need?



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Consideration 4 – Draft Proper Scope of License Grant, cont.

- Field of Use.
 - Limited field of use to commercialization potential of Licensee.
 - Options for future fields of use. – ROFR.
 - Loss of fields of use for failure to commercialize.



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Consideration 4 – Draft Proper Scope of License Grant, cont.

- Sublicensing
 - None
 - Non-exclusive
 - Approval
 - Exclusive for subfields/territories.
 - Through multiple tiers.
 - Allowed for substantial partners – e.g., market capitalization of at least \$1 billion.
 - If providing an exclusive license where exclusivity can be lost, sublicensing should terminate with lost of exclusivity.
 - Copies of sublicenses.
 - Allowed redaction.
 - Sublicensing versus subcontracting.



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Consideration 4 – Draft Proper Scope of License Grant, cont.

- Improvements
 - Option to institution improvements.
 - Grant back to improvements.
 - Assignment or commercial license back from Licensee upon termination.



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Consideration 5 – Royalties and Payment Terms

- Royalty Structure
 - Patent Royalty
 - Copyright Royalty
 - Know-How Royalty
 - Set step down if hybrid license for patent expiration.
 - Understand Combination products.
- Developmental milestone payments.
- Intra-company and any sublicensee dispositions.
- Stacking
- Reach through licensing.
- Monitoring – records and audits.
- Equity



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Consideration 6 – Obligations for Commercialization

- Exclusive license.
- Define best efforts:
 - Minimum expenditures for development and/or marketing.
 - Timetable to achieve milestones.
 - Minimum periodic royalty payments.
- Understand their commercial development plan and make sure terms aligned with such plan.
 - With start-ups plans change, how does the license address this? Check in and evaluation periods, more than just reviewing development report.



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Consideration 7 – Patent Prosecution and Maintenance

- Structuring reimbursement of past patent expenses.
 - Up front, after commercialization, interest bearing balance?
- Obligation to maintain patents and continue prosecution of pending applications.
- Control over decisions that drive patent expenses.
- Nature and extent of Licensee's right to be involved in prosecution.



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Consideration 8 – Infringement and Enforcement

- Right to participate in enforcing the licensed patents.
 - Licensee with non-exclusive patent or exclusive license only in a field have no standing to sue.
- Settlement or damage awards allocation.
- Reduced or suspended royalty payments.



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Consideration 9 – Managing Risk

- Regardless of contractual provisions, understand risks and ability of Licensee to stand behind contractual provisions.
- Representations and warranties/Disclaimers of Liability/Limitations of Liability.
- Licensed technology infringes third party IP.
- Extent of any indemnity.
- Insurance requirements.
 - Start-ups often have little to no insurance coverage.
 - Consider expansive requirements as commercialization grows.



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Consideration 10 – Termination of Agreement and Afterward

- Term
- Royalty obligations.
- Effect of termination.
- Rights and obligations.
 - Sell-off rights and duration.
 - Destruction requirements.
 - Return of confidential information.
 - Bankruptcy
 - Sublicensee rights.
 - Grant back rights to Institution.
 - Provisions of agreement that survive.



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Questions?



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Jeff helps clients capitalize on crucial technology and IP assets through licensing and other strategic alliances. He has extensive experience drafting and negotiating a full range of patent, trademark, and software licensing agreements, joint development agreement, collaborative, and sponsored research agreements, and material and university technology transfer agreements.

Jeff also represents clients in a wide range of information technology transactions, including preparing and negotiating software development agreements, cloud service and hosting agreements, data sharing and licensing agreements, SaaS agreements, master services agreements, service provider agreements, and more.

