

SOME ASPECTS REGARDING FACTORS TO BE CONSIDERED WHEN DISCUSSING A LICENSING AGREEMENT

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Abstract: *Paper presents some aspects regarding intellectual property strategy, checklist of items to be considered in a licensing agreement, revenue distribution, gross and net income, general principles of income sharing, material made available for use by the R&D Institution, treatment of licenses for non-commercial research and teaching within a university or R&D Institution, and inventor, Law 83/2014 – Service invention in Romania.*

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1. Introduction

Intellectual property policy should bring harmony to the conflicting interests of all the stakeholders in the generation and commercialization of a patent. Universities and R&D institutions should be dedicated to teaching and research, and to the dissemination of all new knowledge generated.

The basic goal of an intellectual property policy should therefore be:

- to provide for the intellectual property generated at the institution;
- to promote the progress of science and technology;
- to ensure that discoveries, inventions and creations generated by staff and students are utilized in ways most likely to benefit the public.

2. Checklist of items to be considered in a licensing agreement

Universities and R&D institutions prepare a checklist of items that need to be considered when discussing a licensing agreement [6]:

- particulars of the parties: names of parties; clarifying the licensee: if it is a division of a large company, if registered, addresses of the main parties;
- definition of territory; scope and patents to be licensed;
- obligations of the parties;
- nature of agreement: agreement to grant a license; know-how agreement; assignment of rights; limitations on use by the licensee;
- nature of property: invention; design; know-how; copyright;
- property to be licensed or assigned or subject of the agreement;
- ownership of property: who is the owner of the property that is the subject of the agreement? who is the owner of the beneficial interest in the property that is the subject of agreement? what is the nature of the licensor's right in the property that is the subject of the agreement, including the right to grant licenses or other rights?
- if the licensor is the owner of the beneficial interest and is not the legal owner of the property that is the subject of the agreement, the instrument giving the licensor the right to grant a license or other right thereunder should be identified;

- it should be made clear what, if anything, will happen to future patents, designs, inventions, technical information or know-how, or improvements to any of them where: the licensor obtains rights in them; the licensee obtains rights in them.
- it is good to know the nature and extent of rights: is the party being granted: sole rights; non-exclusive rights? a combination of any of them for different purposes or different territories;
- nature of the rights granted: manufacture; use; sale; lease; territories in which rights are granted; identification of the nature of rights granted for different territories;
- is technical assistance to be given?
- in the absence of any patent or registered design, authority for the licensee to exercise rights granted in respect of property that is the subject of the agreement (this arises with know-how, technical aid, copyright, inventions or designs when industrial property protection has not been granted for some reason, for example where a patent application is still pending);
- has either party the right to assign the agreement or benefits?
- what is the position of subsidiaries of the licensee under the agreement?
- what is the right of the licensee to grant sublicenses in respect of licensed property?
- what is to be the form of the sublicense?
- what is the licensee's responsibility in relation to acts of the sub-licensee?
- what is the licensee's responsibility for the maintenance of confidentiality with respect to know-how?
- is the licensee to have the right to sub-contract the manufacture of articles derived from licensed property?
- payments and royalties: is a down payment required, and, if so, does it have to be set off against royalties or other receipts deriving from the agreement? what is the royalty rate to be paid in respect of the derived articles? is a certain minimum royalty payable? If not, does there have to be a right of denunciation of the agreement if a minimum payment is not made?
- are payments other than royalties to be made by the licensee to the licensor?
- specify the currency in which all payments are to be made, and the reference dates for exchange rates.
- does the licensee have to keep records of: the amount of derived articles dealt in? sales or other commercial dealings? receipts for commercial transactions involving the derived articles?
- what rights of inspection of records does the licensor have?
- what provision has to be made for the marking of articles covered by design patent protection?
- what provision has to be made for indemnification by the licensee where marking provisions are not complied?
- what provision has to be made for the protection of copyright?
- what has to be the starting date of the agreement?
- what is the duration of the agreement?
- what rights of denunciation does the licensor or the licensee have?
- provision for denunciation on breach of the agreement or on insolvency and change of management or control of the licensor or licensee;
- does the licensee retain any rights in the event of termination?

- provision for the licensee to respect the validity of industrial property rights covered by the agreement.
- exclusion of licensor's certification that the licensed property is valid;
- what happens if the property that is the subject of the agreement fails?
- provision for certificates of renewal of industrial property
- provision for the licensee to endeavor to create a market for and sell derived articles;
- provision for the licensee to take such action as may be necessary to avoid the grant of a compulsory license in respect of the industrial property;
- what happens in the event of infringement of the industrial property covered by the agreement?
- provision for the service of notices;
- list of licensed property;
- confidentiality.

3. Revenue distribution

3.1. Gross and Net Income

Gross income is funds obtained from the commercialization of technology under a license agreement. Gross income may include: license fees, milestone payments, minimum annual royalties, earned or running royalties; equity; equipment or reimbursement of patent expenses and fees [1].

Net income is gross income less non-reimbursed R&D institution expenses for patent prosecution and licensing expenses associated with a particular license agreement (e.g. travel made expressly to negotiate a particular license agreement) [2].

3.2. General Principles of Income Sharing

Where an invention made by an employee of an institution (using university resources) is patented and commercialized, the general principle is as shown below:

- 100% of the revenue goes to the institution until all out-of-pocket expenses associated with protection and exploitation of the patent or copyright have been reimbursed. Such expenses include fees associated with patent filing and copyright registration and any other continuing costs associated with licensing and other commercialization of the intellectual property;
- thereafter, the net income is shared between the inventor and the institution;
- the general trend is that the inventor's percentage share decreases whereas that of the institution increases as total net revenue increases. For example, one USA university gives the inventor 50% for the first \$100,000 of net revenue, 40% for the next \$300,000, 30% for the next \$600,000 and 25% for net income in excess of 100,000;
- each R&D institution will establish and review the thresholds, and revise them as necessary in the light of inflation and other economic factors in the country concerned.

Each institution should define the stakeholders with whom the institution's income may be shared. These may include the following: an inventor's research group, faculty, campus etc.; a patent fund; an operation of technology transfer; research fund; a scholarship fund and graduate education; a university.

In the absence of a written agreement to the contrary, groups of two or more creators will receive equal portions of the creator's share of net revenue. When the creators are located on different campuses, each campus will receive the same percentage of the total campus share of net revenue as the creators located on that campus receive of the total creator share of net

revenue.

Institutions may negotiate for equity interests in lieu of or in addition to monetary consideration under an agreement between the institution and an external entity relating to applicable intellectual property.

Each inventor decides on the distribution of his or her share of equity interests or the proceeds from their sale, resulting from the transfer or commercialization of applicable intellectual property, unless legal requirements or contractual agreements dictate otherwise.

A university or R&D institution may own equity interests. If and when monetary proceeds are generated by the sale of equity interests, those proceeds are distributed according to agreed policies for revenue distribution.

A university or R&D institution may require a portion of the equity interests to be set aside that is equal in value to the direct expenses incurred by the institution in obtaining protection for the intellectual property in question (unless those expenses have been covered as part of sharing the income).

The inventor does not have the right to specify the distribution of equity interests where distribution is impossible or impractical.

3.3. Other related issues

3.3.1. Material made available for use by the R&D institution

Material made available for use by a university or R&D institution is any invention, creation, innovation, discovery or improvement produced by a creator and enjoying intellectual property protection which the inventor voluntarily makes available for the institution's use without expectation of further compensation. In such a case the university or R&D institution retains a non-exclusive, royalty-free license to use such material, provided that significant contributions by the inventor are acknowledged. That license does not include the right to exploit the work outside the institution for profit.

3.3.2. Treatment of Licenses for non-commercial research and teaching within a university or R&D Institution

Many staff and students experience high costs and practical inconvenience in obtaining permission to use material covered by intellectual property protection for research and teaching. Inventors are therefore encouraged to approach publishers and other persons to whom inventors assign rights in their intellectual property and request a non-exclusive, royalty-free license for their own non-commercial research and teaching, including where possible the right of anyone within the R&D institution to use that intellectual property for non-commercial research and teaching. It is important to remember that, in some national laws, acts in connection with non-commercial research and teaching are excluded from the scope of the exclusive rights conferred by intellectual property titles.

3.3.3. Treatment of Assignment or Licensing of Relevant Intellectual Property by the Inventor

Universities or R&D institutions may, at their sole discretion, permit the creator or creators to assign or license intellectual property. The institution may not unreasonably withhold its consent to assignment or licensing, and may not withhold it at all unless intending to seek protection itself. Such assignments or licenses are subject to the following provisions, unless the institution waves them in writing:

- normally an institution would wish to retain for itself a royalty-free license to use the intellectual property for non-commercial research and teaching on its premises;
- institutions receive a share of all proceeds generated by commercialization of the intellectual property after the inventor has recovered documented out-of-pocket costs for obtaining legal protection. The institution's share is negotiated on a case-by-case basis.

3.3.4. Confidentiality, Publication and Theses

There are some recommendations like: universities agree to sponsors seeing the publication prior to its issue, and having the right to delay it for a specified period not exceeding 6-12 months; the sponsor be able allowed, in exceptional circumstances to negotiate a longer delay period with a university, but only on submission of a compelling case and with the agreement of the research staff involved; a university should not, under any circumstances, allow the sponsor the right to delay publication for an unrestricted period of time; universities consider whether their rules on theses should provide for the student assigning all copyright to the institution, and whether they provide adequately for the institution to meet its obligation to exploit the results of research undertaken by postgraduate students and research fellows; in exceptional cases, and only where it is agreed that there will be no delay in the submission or assessment of a thesis, a university may agree, with the full consent of the student and subject to annual review, to public access to a thesis being restricted for a specified, limited period (e.g. not more than 6-12 months), to enable the student and/or the university to benefit commercially from the results of a sponsored research project [5].

3.3.5 Ownership of Equipment

Equipment purchased under a company-funded research contract or donated by the collaborating company has tended to remain the property of the university on completion of the contract. It is therefore recommended that there should be a clause in all contracts defining the ownership of equipment during the project completion.

3.3.6. Professional and Product Liability

There are some recommendations like:

- the matter of which party should bear the liability for work performed in relation to particular projects be addressed in all contracts. In particular, the terms should be such that the university is absolved from liability, within the limits of the law and universities should not be expected to give indemnities;
- within those permitted limits, the contract should state that the university is not to be held responsible for any consequences of any inaccuracies or omissions (unless resulting from negligence), and that no liability attaches to it for the effects of any product or process that may be produced or adopted by the sponsor, notwithstanding that the formulation of the product or process may be based on the findings of the projects;
- contracts entered into with parties in other countries should whenever possible be subject to national laws of countries where the institutions are located, and should also be made subject to the jurisdiction of those countries' courts, unless an acceptable arbitration clause is included;

- universities investigate the degree to which they may be exposed to liability as a result of private consultancy work undertaken by members of their staff, and they are advised to take steps to eliminate the risks by adopting positive methods of control.

4. Law 83/2014 – Service invention in Romania

Service Inventions are inventions that meet the following conditions [7]:

- resulted from the performance of the inventor's job duties, expressly entrusted to the individual labour contract and in the job sheet, or other binding acts for the inventor, which provide for an inventive mission;
- during the individual labour contract, as well as for a period of maximum 2 years after its termination, as the case may be, by knowing or using the employer's experience by using the material resources of the employer as a result of the training and training professional gains acquired by the employee inventor by the care and at the expense of the employer or by using information derived from the employer's activity or made available by the employer.

Therefore, the authors and owners were clearly established: the inventors and the employing institution. The employed inventor receives recognition of the invention, and the employer is the owner of the invention. A contract is concluded between the two partners, which establishes the percentages that each party pays after using the patented invention. The percentage may not be less than 30%. But in the case of a quick recovery, with the recovery of the investment in advantageous conditions, the percentages can reach 20% of the employer and 80% of the inventor, as an incentive.

5. Conclusions

It can be appreciated that the establishment of a firm's strategy is part of its survival in the market. A competitive strategy is the result of managerial work, noting that management must be competitive, tailored to the current high capacity to change, to launch a number of projects, a broad portfolio that can always be applied according to customer requirements.

"Dreams and desires are not objectives, only after they have been put on paper"

(Anonymous)

Obviously not be neglected risk, but the risk control leads to profit.

Any strategy adopted is better than its absence, noting that management involved has inherent error correction capability.

"At all times the best thing you can do is to do something.

The worst thing is to do nothing "(Roosevelt)

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