

Ten things you should know about **LICENSES** on Industrial and Intellectual Property



1.- What is technology transfer?

Technology transfer is the proceeding used by the developer of a technology to make it available to a third party, a business partner, to be used by that entity.

A technology transfer is executed by signing the corresponding agreements where:

- .- the owner of the technology grants a third party, its business partner, the right to use it.
- .- the owner of the technology receives a financial compensation for the granting of such rights and
- .- the rights and obligations to govern the legal relationship between the parties are established.



2.- What is a license agreement and which are its main features?

The concept: a license agreement is an instrument allowing the owner of the technology or the rights, known as licensor, authorizes the licensee to use them in exchange for a financial compensation for the use of the granted rights.

Characteristics:

- The main characteristic of a license agreement is that the ownership of the technology is not transferred and belongs to the licensor.
- This kind of agreement is governed by the principle of freedom of form. However, it is recommended to execute it in writing for probative purposes.
- The license agreement sets forth the parties' reciprocal rights and obligations



3.- Are there different types of licenses?

The following types of licenses can be granted according to the powers given to the licensee:

- **1.- Exclusive license:** the licensee is granted full powers, so the owner of the technology cannot award licenses or use the technology on its own.
- **2.- Single license:** both the licensor and the licensee have powers to use the results, although the owner of the technology is not allowed to grant licenses to others.
- **3.- Non-exclusive license:** the owner of the technology keeps the right to use it and is allowed to grant all the licenses it deems fit.

As stated in article 75 of Patents Law 11/86, the license will be considered to be **non-exclusive** unless otherwise stated in the contract. The licensor will therefore be entitled to grant licenses to third parties and even use the technology.



4. What items can be included in a license agreement?

The subject matter of the license must be clearly defined, and it may be the patent application, the patent once it is granted or information not subject to a patent such as trade secrets and confidential information.

According to **article 76 of Patents Law**, the licensor has the obligation to provide the licensee with the licensed item as well as any technical knowledge which may be necessary for the correct use of the invention.

As a general rule, license agreements do not only grant the licensee rights on the technology developed when the contract is signed, but also on inventions to be developed afterwards.

Notwithstanding this, the scope of the improvements is usually limited. This means that if the new improvement can be subject to an individual patent and fulfils the formal requirements it is considered to be more than an improvement and is therefore out of the scope of the license contract.



5.- Can a license be limited to specific application fields?

Licenses can be limited to specific fields according to the application area of the technology. Field delimitation allows the licensor to:

- Grant an exclusive license to licensee A in field of application X
- Grant an exclusive license to licensee B in field of application Y
- Grant a third exclusive license to licensee C in field of application Z

Therefore, **the licensor can hold the right to use the invention in certain fields of application and grant licenses for the other application fields, thus obtaining the maximum possible profit from the marketing of the technology.**



6.- What is the geographical scope and validity period of the licenses?

- Licenses are usually granted for **the whole territory** where the technology is protected.

Nevertheless, with a view to making the most of the exploitation of the technology, the owner may grant exclusive licenses in different territories to several licensees, each of which will hold the maximum right of operation in each of those territories.

- Regarding the **validity period of a license**, it is customary to grant the maximum period, which is usually the same as the life of the patent.



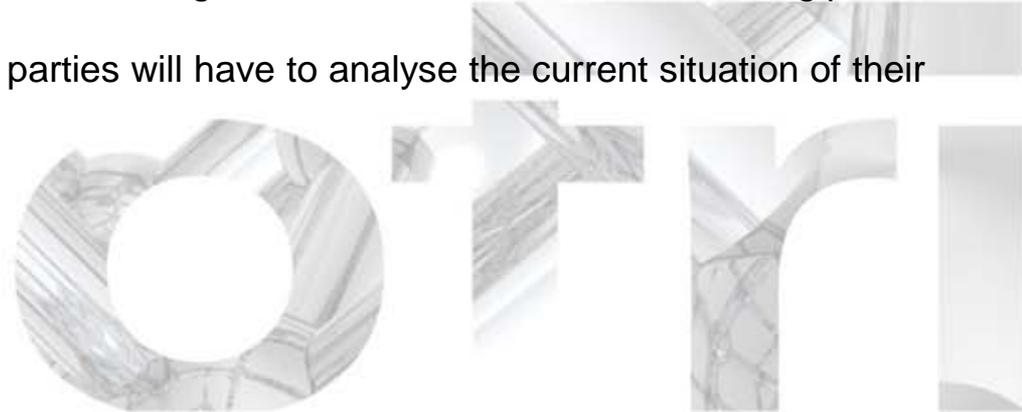
7.- How are royalty fees calculated?

Several methods can be used to assess the technology, although it is important to remember that all of them are subjective and inexact.

Some of these methods are:

- **Cost analysis method:** the investment made for the development and protection of the technology is calculated. However, the market price is not set according to the cost of the technology but to its value.
- **25% rule method:** using this empirical formula the licensor obtains 25% of the profits. The main difficulty of this method is to determine which are the profits generated by the technology.
- **Comparison with similar situations method:** it consists on obtaining information on the royalty fees obtained in similar transactions. Nonetheless, it is very difficult to find licenses which are similar at all levels.
- **Net present value analysis:** a simulation of the cash flows (income minus expenses) generated when the technology is licensed is carried out, calculating the total of the results at the starting point.

Besides using the assessment methods, the parties will have to analyse the current situation of their companies.



8.- How is the payment of royalty fees scheduled?

The following parameters can be followed when establishing the royalty fees:

- **Down Payment:** global payment made at the signature of the license agreement, independent from its use, plus a yearly royalty fee.
- **Yearly royalty fees:** payment linked to a percentage on the sales volume.
- **Minimum yearly royalty fees:** the aim is to encourage the licensor to enter the market and attain a minimum sales threshold, sanctioning those who fail to do so. According to this criterion, if royalty fees exceed the minimum amount there is no obligation to pay an additional sum.
- **Royalty fees corresponding to income received by the licensor from the granting of sub licenses.**
- **Royalty fees for the accomplishment of development stages:** figure amounts that the licensee pays to the licensor when certain stages in the development of the product or the technology are reached. These royalty fees are widely used whenever the licensed good is going to be developed as a pharmaceutical product.



9.- How is software licensed?

When it comes to software licenses, it is essential to distinguish:

➤ **Privative Software:** in this kind of software, there are limitations to its use, modification or redistribution by the final user. Moreover, its source code is not available or access to it is restricted by a license.

A license is the legal instrument that allows a user to utilize the software, for otherwise all rights are reserved to its author.

➤ **Free software:** these kinds of programs allow for the following modifications:

- ❖ use of the program with any purpose
- ❖ study of how the program works and adaptation to each user's needs
- ❖ distribution of copies
- ❖ improving of the program and publication of the improvements.

The following are some of the licenses used for free software:

GPL is the most widely used license (70%), where authors retain the copyright and authorize its redistribution and modification as long as subsequent versions are licensed by means of a GPL license.

Affero GPL is essentially a GPL license, but it adds the obligation to distribute the software if it is executed to offer services through a computers network.

BSD license, where the author keeps the copyright protection only for purposes of warranty waiver and to request authorship acknowledgement in works arising from the licensed one, at the same time allowing for free redistribution and modification even if these works have an owner. It is a very permissive type of license.

10. What are creative commons ?

Creative commons licenses are halfway between absolute reservation of copyright and public domain licenses. They are applied to artistic works, documents, music etc., but NEVER to software.

These licenses are normally used to govern the exploitation of works on the Internet, although they can be used in any other medium.

Creative commons are based on **attributes** and grant the author the right to use those considered fit. Such attributes are:



Acknowledgement — the credit of the work must be acknowledged in the way indicated by the author or the licensor (but not in a way that suggests they provide their support or approve of the use made of the work)



Non-commerciality — The work cannot be used for commercial purposes.



No derivative works — The work cannot be altered or transformed, and no derivative works can be created from it.



Sharing under the same license — If this work is altered or transformed or if a derivative work is created from it, that new work will only be distributed under a license identical to this one.

Conclusions

- By means of a license agreement, the owner of a technology authorizes a third party to use it in exchange for a financial compensation.
- The license agreement must clearly limit the purpose of the license, its scope, the type of license established according to the powers granted to the licensee, its term and the territory where it is applicable.
- There are several methods for the calculation of the royalty fees, all of them inexact. The practical needs of the licensing company and the licensee must be the most relevant items to take into account.
- If the author does not grant a license on the software, all rights are reserved. However, if the software is free there are several licenses granting different powers to the licensee.
- Creative commons are licenses applied to works, and they are based upon attributes that the author can combine to describe the powers granted to a third party.

OTRI will provide you with the support you need along all the stages of the process, from the negotiation of the contract to its signature.

