

What terms and conditions may affect royalties and licensee/licensor expectations?

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AGENDA

First idea: definitions


Example 1: External circumstances: a. regulatory change / b. embargo

Example 2: Immature technology: yearly fees and uncertainty

Example 3: No grant

Disclaimer

- My personal experience, in no case Danone views on content
- Life science perspective, please enrich with your industry experience
- Non exhaustive list
- No FRAND, interoperability [limited experience on Medical Devices]



First idea: definitions

Definitions

- Net Sales, deductions, products, geographies, valid patents....
- What is the content of each definition?
- What are the main timelines for the technology / final product?
- Is your organization able to support agreement terms and conditions [Finance department?]

"NET SALES"

- shall mean the gross amount billed by COMPANY and its AFFILIATES and SUBLICENSEES for LICENSED PRODUCTS and LICENSED PROCESSES, less the following:
 - (i) Customary trade, quantity, or cash discounts to the extent actually allowed and taken;
 - (ii) Amounts repaid or credited by reason of billing errors, rejection or return, and the amounts of charge back payments, allowances, reimbursements or rebates granted to wholesalers, managed care organizations or federal, state and local governments, their agencies, purchasers and reimbursers;
 - (iii) To the extent separately stated on purchase orders, invoices, or other documents of sale, any taxes, tariffs, customs, duties, compulsory payments or other governmental charges levied on the production, sale, transportation, delivery, or use of a LICENSED PRODUCT or LICENSED PROCESS which is paid by or on behalf of COMPANY; and
 - (iv) Freight, postage, duties, outbound transportation costs prepaid or allowed and costs of insurance in transit.

NET SALES shall not include LICENSED PRODUCT supplied free for use in clinical trials or samples given free of charge. Notwithstanding the foregoing, NET SALES shall not include sales among COMPANY, its AFFILIATES and SUBLICENSEES for resale, provided that such resale shall be included within NET SALES.

No deductions shall be made for commissions paid to individuals whether they are with independent sales agencies or regularly employed by COMPANY and on its payroll, or for cost of collections.

NET SALES shall occur on the date of billing for a LICENSED PRODUCT or LICENSED PROCESS. If a LICENSED PRODUCT or a LICENSED PROCESS is distributed at a discounted price that is substantially lower than the customary price charged by COMPANY, or distributed for non-cash consideration (whether or not at a discount), NET SALES shall be calculated based on the customary price of the LICENSED PRODUCT or LICENSED PROCESS charged to an independent third party during the prior month, or, in the absence of such sales, on the fair market value of the LICENSED PRODUCT or LICENSED PROCESS. Non-monetary consideration shall not be accepted by COMPANY, any AFFILIATE, or any SUBLICENSEE for any LICENSED PRODUCTS or LICENSED PROCESSES without the prior written consent of LICENSOR which shall be timely given and not unreasonably withheld.

"LICENSED PRODUCT"

- shall mean any product or part thereof that:
 - (i) absent the license granted hereunder, would infringe one or more VALID CLAIMS of the PATENT RIGHTS in any country where LICENSEE and/or any AFFILIATE would sell, or offer for sale, such LICENSED PRODUCT to non AFFILIATE third parties; or
 - (ii) is manufactured by using a LICENSED PROCESS in any country or that, when used, practices a LICENSED PROCESS

"PATENT RIGHTS"

shall mean:

The granted United States and international patents based on the list in Appendix A;

(a) The United States and international patent applications and/or provisional applications listed on Appendix A;


(b) Any patent applications resulting from the provisional applications listed on Appendix A, and any divisionals, continuations, continuation-in-part applications, and continued prosecution applications (and their relevant international equivalents) of the patent applications listed on Appendix A and of such patent applications that result from the provisional applications listed on Appendix A, to the extent the claims are directed to subject matter specifically described in the patent applications listed on Appendix A;

(c) Any patents resulting from patent applications, provisional applications, reissues, reexaminations, or extensions (and their relevant international equivalents) of the patents described in (a), (b), and (c) above; and

(d) International (non-United States) patents, patent applications and provisional applications based on the list in Appendix A, filed after the EFFECTIVE DATE and the relevant international equivalents to divisionals, continuations, continuation-in-part applications and continued prosecution applications of the patents and patent applications to the extent the claims are directed to subject matter specifically described in the patents or patent applications referred to in (a), (b), (c), and (d) above.

“VALID CLAIM”

- shall mean a claim that is granted and in force in a country of the TERRITORY

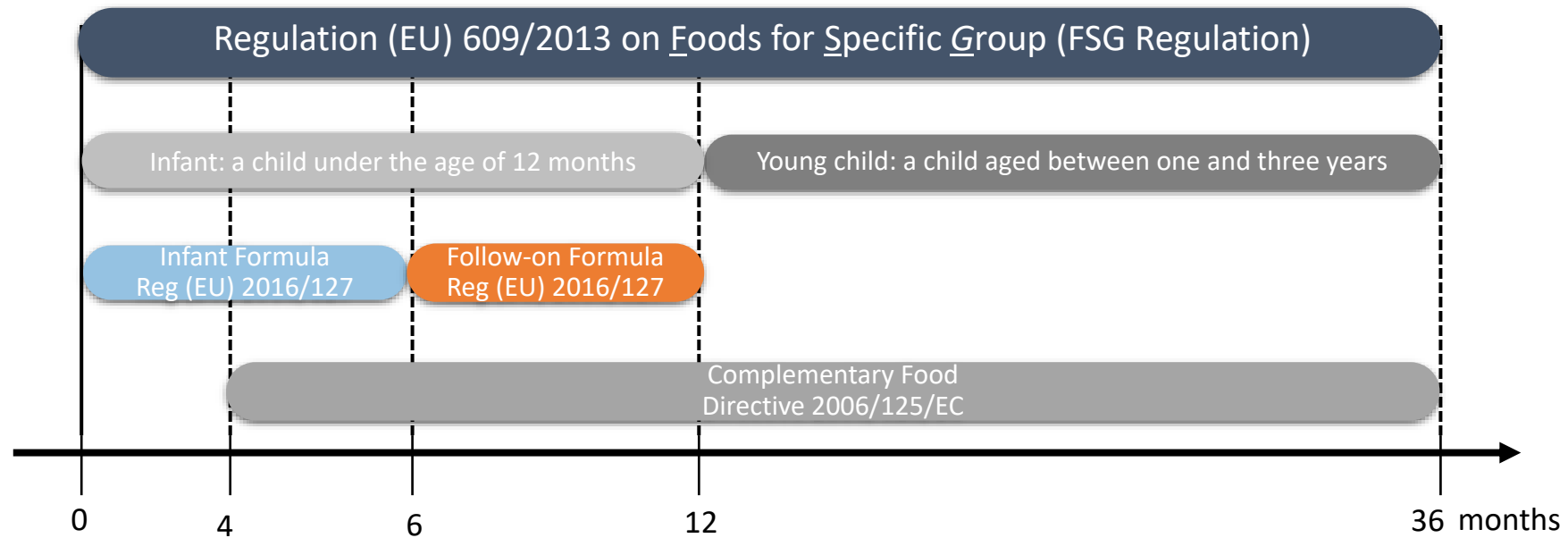


Example 1: External circumstances:

a. regulatory change / b. embargo

a. YCF example

- Massive change in regulatory landscape : no specific nutritional requirements based upon EC vision that normal diet could achieve sufficient nutritional income. “The use of milk-based “growing-up” formula does not bring additional value to a balanced diet in meeting the nutritional requirements of young children in the European Union”, EFSA has said [October 2013].
- Impact on final product market : for consumers / FBO
- New round of negotiations with licensors



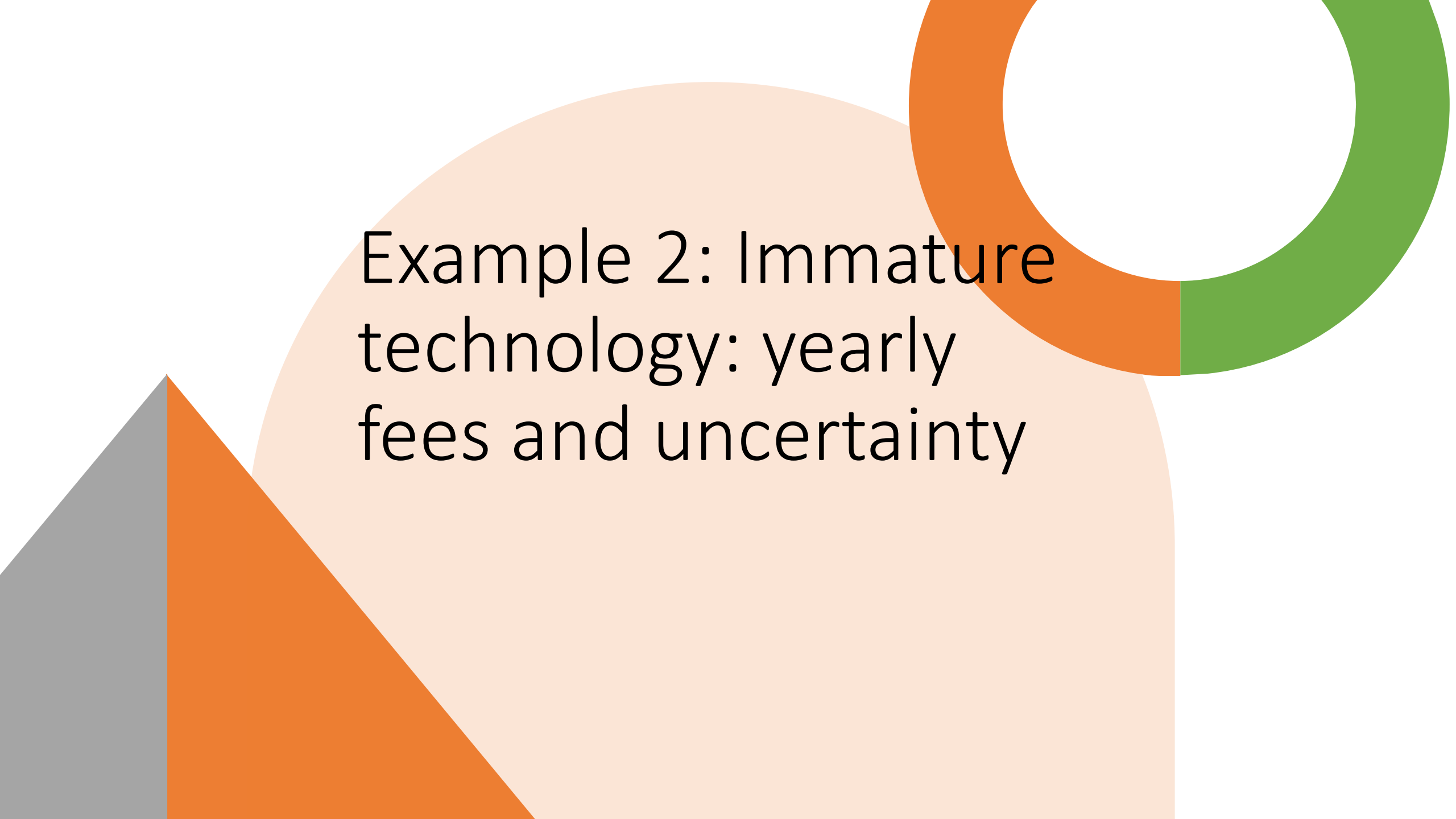
- Excluded from the scope of the FSG Regulation since 20 July 2016.
- Governed by the EU horizontal law.

Infant Formula	For use by infants during the first months of life and satisfying by itself the nutritional requirements of such infants until the introduction of appropriate complementary feeding.
Follow-on Formula	For use by infants when appropriate complementary feeding is introduced , and which constitutes the principal liquid element in a progressively diversified diet of such infants.
Complementary Food	To fulfill the particular requirements of infants in good health while they are being weaned , and of young children in good health as a supplement to their diet and/or for their progressive adaptation to ordinary food, excluding milk-based drinks and similar products intended for young children.

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b. Iran Embargo

- How to apply? Shall we stop business?
- Implication for license agreements where business is run in Iran?



Example 2: Immature
technology: yearly
fees and uncertainty

Developments

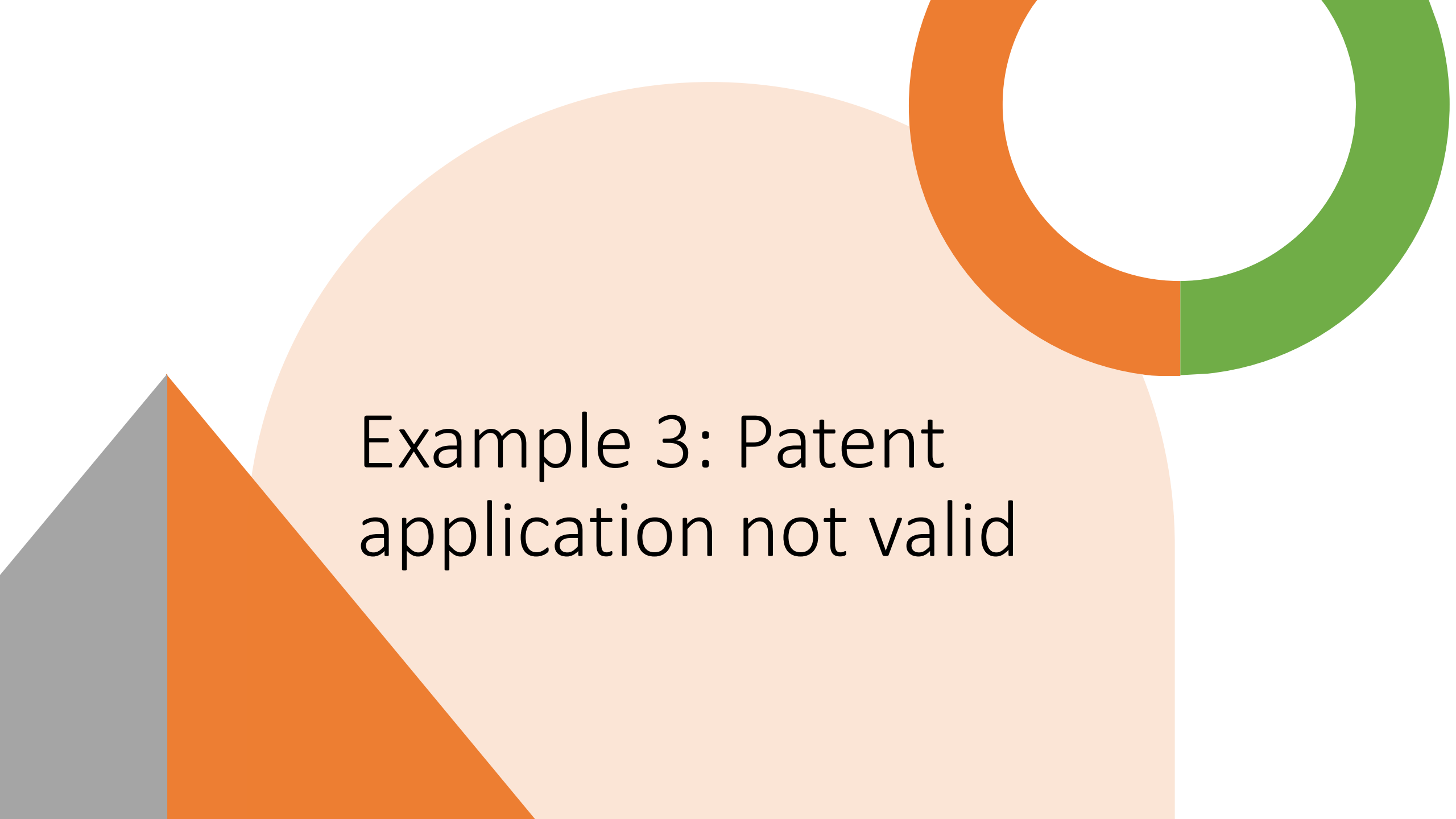
- Licensing an early stage technology [valid in particular for Tech Transfer in Academia]:
- License fees / milestones payments / reports on use / question of exclusivity
- Royalties' percentage determination : scheme, need for external support in determining

LICENSED SOFTWARE

- Software means the application specific software and any and all of the software and rights on or to computer software programs or software components as set out in Exhibit A, in both source and object code form, including if applicable all modules, applications, routines and sub routines thereof and all source and other preparatory materials relating thereto, functional specifications and programming specifications, ideas, principles, algorithms, flow charts, logic, logic diagrams, orthographic representations, file structures, coding sheets, coding and including if available relevant manuals or other documentation and computer generated works and any other written, pictorial or graphic materials regarding the software components as set out in Exhibit A.
- Licensors hereby grant Licensee an exclusive, non-transferable, worldwide license under Licensors' IPR in the Software to use and copy the Software and to make Derivative Works of the Software, all of the foregoing only for the purposes of developing and commercializing Products and Services in the Field.
- Intellectual Property Rights” or “IPR” means any and all intellectual property rights, whether registered or not, including any applications therefore, such as, without limitation, patents (including any divisional, divisions in part, continuation and re-issuance) copyrights, copyrights in software, database rights, design rights, semiconductor products, topographies, industrial designs, utility models and other similar or equivalent forms of protection, recognized under any applicable law in any country worldwide.

Early stage technology

- Approach: valuation: compare cost based with adjusted 25% rule
- What about improvements? (see SW definition)
- Contractual set-up:
 - License agreement on existing technology (equity + royalties)
 - Further development: collaboration agreement
 - Phased approach
 - Assignment next investment round



Example 3: Patent
application not valid

No grant

- License agreement on patent application + know-how
- Many efforts to keep patent application alive (in different countries at request of licensee)
- Discussion on royalty rates. Allowed to still ask royalties?
- Contract terms:
 - Minimum royalty agreed. If not reached for year 2: discuss on how to proceed. If no solution, exclusive becomes non-exclusive.
 - Nothing mentioned in case of no grant
 - BE law (but first good faith discussion)
- Different ruling under different jurisdictions

Questions, additions,
experiences?
THANK YOU

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