

SUBLICENSE RIGHTS - A KEY ISSUE IN TECHNOLOGY LICENSING

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When negotiating licensing or collaboration deals involving universities and/or biotechnology, pharmaceutical and medical device companies, it is a good idea for the parties to lay out the terms related to sublicensing early in the contract negotiations. A sublicense is a grant by the original licensee to a third party (the sublicensee) under the patent or other technology rights granted to the original licensee by the licensor.

There are key issues to consider, such as whether a licensee will have the right to sublicense with or without the licensor's consent, how sublicense income will be shared, and whether any sublicense will survive a termination of the license agreement.

■ **Consent.** Licensees who are granted non-exclusive licenses generally do not receive the right to grant sublicenses, in part because the potential sublicensee can obtain a direct license from the licensor. In fact, it is generally held that a non-exclusive patent licensee cannot grant sublicenses unless it is expressly granted such right. However, exclusive licenses commonly include a right to sublicense, at least with the consent of the licensor.

From the licensor's perspective, it may want the right to approve any sublicensee in order to maintain some control over how the licensed technology is commercialized.

From the licensee's perspective, however, any limitation on its freedom to grant sublicenses will be viewed as burdensome. The licensee may not have the resources to fully commercialize itself products in all territories so

the ability to sublicense may be crucial. Particularly in the biomedical context, where the sublicense of the licensor's technology may be only one of many components of a complex partnering arrangement, the licensee will be reluctant to risk having the licensor "kill" the deal by refusing to consent to a sublicense.

This issue is often closely related to the question of whether the sublicense will survive a termination of the license (as discussed below).

■ **Sharing of Sublicense Income.** Nearly all sublicense provisions require the sharing of the income received by the licensee in consideration of the sublicense grant. There are many variations on how such amounts are computed.

The most common form is the sharing of the royalties a sublicensee pays to the licensee based on the sublicensee's use of the licensed technology. Generally, this sharing will either take the form of a pass-through royalty (essentially paid directly from the sublicensee to the licensor) or the licensor's entitlement to a flat percentage (e.g., 15 to 50 percent) of whatever royalty payments the licensee receives from the sublicensee.

Besides royalties, sublicensees may also be required to pay upfront license fees, milestone payments, and equity investments. Licensors will often insist on receiving a percentage of some of these other payments. Some licensors will agree to a reduced percentage if the licensee adds significant value to the technology before sublicensing.

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- *Survival.* It is generally held that a sublicense will automatically terminate upon termination of the license, unless there are specific provisions to the contrary. But many sublicensees feel strongly that if they have complied with the terms of the sublicense, their rights should survive termination of the license agreement, particularly if the sublicense forms the basis for a significant product development effort.

Licensors will often agree to “negotiate in good faith” with former sublicensees of terminated licenses, but this may not be satisfactory to many sublicensees; they will want assurance that the sublicense will survive. Some licensors will agree to permit the sublicense to survive if the sublicensee assumes the financial terms of the license itself (with appropriate adjustments if there are multiple sublicensees).

Some licensors will allow automatic survival of sublicenses, especially if they have expressly approved the sublicense. Typically these provisions provide for “automatic assumption” by the licensor of the sublicense or a covenant to enter into a direct license with the sublicensee on substantially the same terms as the sublicense.

Some licensors give the licensee the choice of two options: either get the licensor’s advance consent to sublicense, in which case the sublicense will survive intact; or grant the sublicense without consent, in which case the licensor is not bound to accept the sublicense.

Sublicensing issues highlight some fundamental tensions between licensors and licensees; careful consideration of these issues early in the negotiation process can be important to successfully negotiating a license that will satisfy the business needs of the parties.

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