Drafting and Negotiating a Patent License Agreement in France
10 pitfalls to avoid

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When drafting or negotiating a patent license agreement, a number of pitfalls should be avoided or at least have their effects reduced. Failing that, the rights and interests of the represented company might be affected or altered. Whether you are the patent licensor or the patent licensee, you will find hereinafter 10 main points that should be kept in mind to reduce or remove the major risks incurring upon drafting and negotiating such patent license agreement.

1. **What is the subject matter of the license?** Although it may appear obvious, the concepts of patent, biological material and know-how are often not distinguished. However each creation/protection results in specific legal rules as well as in a specific remuneration method. After identifying the good protection you should apply for, you should precise the patent type, the registration location and number, etc. You should also indicate any and all of its extensions, continuations, divisions or additions together with any and all additional protection certificates. As regards the biological material, you should cover any and all replication thereof and indicate the registration number and date. Failing that, you may have paid for a license which does not give you the expected protection. Or, on the contrary, as a licensor, you might have granted more rights than you wanted to. At the same time, you should also verify if the license is exclusive or non exclusive.

2. **Specify the license scope.** Firstly, you have to determine the scope of the license, which means if the license is applicable to all fields or to specific fields (agriculture, pharmaceutical industry, etc.). Secondly, you should also point out the purpose of the license (for example, experimentation, clinical trials, manufacturing, production, marketing, exportation, importation…).

3. **Who benefits from the license?** Firstly, it would be better to determine the beneficiary of the license (a sole company of the group, some of the group’s companies or the whole group…). Then, this indication allows to determine, for example in the case of a whole group, the shareholding percentage required to be entitled to such license. For any further precision, you can also refer to the French Commercial Code defining the concept of company control (Articles L.233-1, L.233-2 and L.233-3).

4. **Which territories are concerned?** In general, the scope of the territory is set forth in the license. Indeed, it will be better to determine precisely which European countries are concerned by the license, by providing a list thereof.
5. **Which term?** The license term is generally the same as the protection period granted by the patent, including any extension. Mentions such as “for an indefinite term” should be avoided, because of its contradiction/infringement with a French legal provision prohibiting perpetual agreements.

6. **At what cost?** How much is it? The remuneration methods may differ and be cumulative: lump sum (one single payment or payment spread out depending on the milestones), fees, etc.. As regards the fees, you may provide for separate remunerations. Indeed, these remunerations are depending on whether the exploitation is direct or indirect (sublicensee) exploitation, or the purpose of the exploitation (therapeutic or diagnostic), or the progress (pre-clinical stage, stage I, stage II, II or IV). In the calculation of the fees, you should clearly define “net revenue”. Moreover, you should indicate if the amounts are exclusive of taxes invoiced or even received, if deduction of reductions or discounts, credits granted for the products that have been returned or refused, transportation charges, insurance costs or expenses related to samples provided free of charge, purchase, sales, import or value added taxes. Furthermore, the licensor should set a cap on the deductions or specify that the amounts paid by the licensee may not be refunded.

7. **Contribution to patent costs.** The licensor may bear the patent costs, such as filing, registration or renewal costs. If the licensor prefers sharing the cost with the licensee, the licensee should limit its contribution both in its amount and in its duration. Consequently, the licensee may link the payment of such amounts to the performance of a capital increase or conclusion of a first agreement.

8. **Sublicense.** The licensee may have an interest in sublicensing the patents, particularly in the field of biotechnologies. Indeed, in this field, many partnerships are developed entailing direct licensing to be replaced by sublicensing. But if the licensor wants to hold a right of scrutiny upon the sublicensee and therefore upon the terms of the sublicense agreement, the licensee may include some provisions. For example, it may be added that the licensor may not refuse its approval without due cause, any failure in replying within a month shall be deemed acceptance thereof so as to avoid any blocking inaction. The licensor may also wish to have access to the sublicensee’s accounting as regards the exploitation of the sublicensed patents.

9. **Anti-stacking.** The anti-stacking clause enables the licensee to limit the amount of fees owed to the licensor, in the event that the licensee has to pay third parties a fee in consideration of other technologies’ licenses. This clause will entail to avoid any infringement, or to have access to a patented third technology required for the exploitation of the licensed products. Moreover, the licensor’s interest is to set a cap on the reduction, for example by indicating accurately the fees due to the licensor (provided that such fees may not be less
than half of the fees which the licensee should have paid in the absence of a license to third technologies).

10. Performance Obligations/duties. Firstly, the licensor should indicate that the licensee is responsible for carrying out development works on the patent promptly and efficiently so as to allow a professional and effective exploitation regarding both quality and quantity. Then, the licensor may also wish to include a termination clause in the license agreement if a given event did not occur: sales objectives not met, no fund raising by the licensee... Finally, the licensee may benefit from a reduction in the fees if it proves to have been prompt in implementing the licensed technology.

Such recommendations must be precised and completed with the assistance of your counsel upon drafting and negotiating the patent license agreement. Some other aspects should not be disregarded, such as the intellectual property clause, due to its importance and the numerous issues that it raises (scope, warranty, improvements, co-ownership, etc.).

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