

**NACET**

presents

**"Licensing 101"**

*Lunch & Learn*  
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Poskanzer & Associates, LLC  
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NORTHERN ARIZONA  
CENTER FOR  
**Emerging  
Technologies**

**Three Topics:**

**Doing your homework (market value)**  
**Licensing types & terms**  
**Negotiating**

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**Doing your homework:**  
**Assessing Your Technology**

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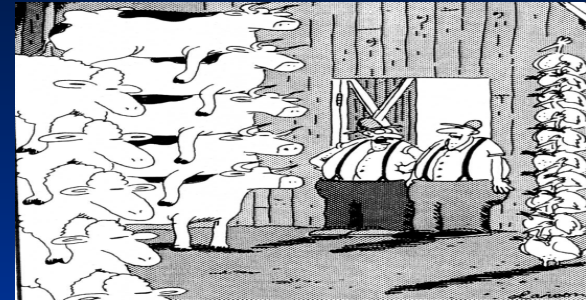


**Is There a Market?**



## Why Important: Examples

- **Topical Pain Medication for Post-herpetic neuralgia:**
  - Supposed market very large
  - BUT: new vaccine caused the market to virtually disappear
- **New Shock head for Lithotripsy**
  - Market had disintegrated due to new, safer procedures



'It's the only way to go, Frank. Why, my life's changed, ever since I discovered *Stackable Livestock*.®'

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## Determining the Market

Market size  
Competition  
Competing technologies  
Who are the players?  
Who are the buyers?  
What are the unmet needs?



## Feasibility of Commercialization

State of the technology  
Technical hurdles  
Capital required  
Window of Opportunity  
SWOT Analysis  
Projected market share & revenues  
Interested investors?



## Competitive Landscape

- Competition:
  - number of competitors
  - who dominates (also how much of the market major competitors control)
  - how they operate
- Competitive products or services available:
  - Manufacturer / supplier
  - Relevance or similarity
  - Characteristics / strengths / weaknesses
  - Market shares?
  - Which are dominant & why?
  - Understand & be familiar

Competition is **always** lurking out there!

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## Market Assessment

- Market size
  - Number of people
  - Rate of buying
  - Number of cases per year
  - Indirect factors
- Growth rate
- Market phase
  - Emerging
  - Growth
  - mature
  - declining
- Basis for estimate
- Basis for competition
  - Technical performance
  - Price
  - Value
- Use market studies & research

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## Market Size Can be Elusive

Can anyone determine the market for human growth hormone?

Why not?

Emerging market:

Too many unanticipated applications.

1998 US market was projected at \$366 Million

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## Market Studies & Information Sources

- **Frost & Sullivan:**
  - [www.frost.com](http://www.frost.com)
  - Subscription required
  - Individual studies can be purchased
  - Excellent source of market information in a broad variety of industries
- **Use Google!**
- **Hoovers**
  - [www.hoovers.com](http://www.hoovers.com)
  - Subscription required
  - Yields names of companies in any field
- **Zoominfo**
  - [www.zoominfo.com](http://www.zoominfo.com)
  - Subscription required
  - Yields contact information within companies in any field

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## Establishing the Value Proposition

- Identify end-users
- Identify potential licensees
- Validation:
  - FDA approval
  - UL approval
  - EPA approval
  - Focus group testing
- What is the secret sauce it offers that meets end-user needs?
- How can licensee capitalize on competitive advantages?

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## Strategic Partnerships / Licensing

- Usually bigger company / major player
- Provides needed capital for commercialization
- Pilot testing (engineering technologies)
- Clinical development (healthcare technologies)
- Marketing & distribution
- Partners will take IP rights (licensing)
- May conflict with investor interests
- Partners may be competitors (neutralizes competition)
- Reduces needed capital
- Also reduces projected revenue

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## Strategic Partnerships

- Similar to a license in that IP rights are conveyed
- Sets forth negotiated division of IP ownership and IP rights
- Establishes responsibilities & rights of both parties
- Due-diligence & achievement milestones are critical
- Investment by larger partner will impact royalties & license revenue of smaller partner where IP originated.

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## Licenses

- Conveys rights to use intellectual property
- Types of licenses
  - Exclusive
  - Non-exclusive
  - Territory limitations
  - Field of use limitation



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## Exclusive Licensing

- **Only one licensee (with limitations)**
  - Can be limited by territory
  - Can be limited by field of use
  - Can be limited by term
  - Due-diligence obligations
  - License –issue fees
  - License maintenance fees
  - Royalties
  - Minimums
  - IP enforcement rights or obligations
  - Indemnification & insurance

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## Non-Exclusive Licensing

- **Can license all takers**
  - Precludes exclusive licensing
  - Can be limited by territory
  - Can be limited by field of use
  - Can be limited by term
  - License –issue fees – **NOT!**
  - License maintenance fees
  - Royalties
  - Minimums
  - IP enforcement rights or obligations – **NOT!**
  - Indemnification & insurance

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## Field of Use

- **Licensing within a defined application**
  - Customarily used in exclusive licenses
  - Must be explicitly defined
  - Must not overlap with other exclusive licenses
  - Useful when licensing exclusively to a company engaged in certain business sector only

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## Due-Diligence

- **Obligations of Licensee**
  - Customarily used in exclusive licenses
  - Sometimes used in non-exclusive licensing
  - Prevents licensee from shelving technology
  - Specific milestones to be achieved
  - Penalties for failure

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## Consideration

This is where Market size and value are important

- Earned Royalties
- Annual fees
- Paid-up license
- License – issue fee
- License maintenance fee
- Patent cost reimbursement



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## IP Enforcement

Exclusive Licensees Only

- Can obligate licensee to enforce patents
- Licensor will participate when asked
- Legal fees – infringement suits are expensive!



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## Insurance & Indemnification

Licensor should be protected!

- Licensee should carry product liability insurance naming licensor as insured
- Licensee should indemnify Licensor
- Often a sticking point in negotiations



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## How to Find the Right Partner or Licensee

- Your knowledge of the business is invaluable
- Talk to known experts
- Use of on-line information services
  - Google
  - US patent database (who holds patents in the area?)
  - Frost & Sullivan
  - Hoovers
  - PubMed
  - Medscape
  - Others



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## Marketing

- List of targets from research
- Prepare marketing "package"
  - Cover letter
  - One page non-confidential summary
  - Manifest of intellectual property
  - Journal articles
- Follow up phone calls
- Secrecy Agreements
- Teleconferences with subject matter experts
- Technology evaluation & due-diligence by interested targets
  - May take a few months
- Maintain close liaison
  - Be prepared to respond to problems & answer objections
- Be ready for negotiations



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## The Dog Eat Dog World of Intellectual Property & Licensing!



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## NEGOTIATING!



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## Big Picture

Why are we going into business together?

- Goals should complement company's
- There must be benefits for both parties
- Possible synergies
- Most likely a long term relationship
- Need consensus of terms and items

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## General Strategy

- Negotiation is usually not adversarial
- Generally not high pressure
- Know your Needs vs. Wants
- Know your partners Needs vs. Wants
- Deal With Decision Maker when possible
- Negotiate with Term Sheets first
  - legal clauses second

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## Do Your Homework What can be determined?

- Companies in the area
- Market phase
  - Emerging /growth / mature/ declining
- Market landscape
  - How competitive?
  - Who is who?
  - Who has what?
  - Best target may not be the biggest
- COGS / Prices / Volume
- Typical margins
- Typical royalties
- Suppliers / Customers

### Typical best guesses:

Why the company wants the license

New Product / Extension of current offerings / eliminate competition / Safety net / exploratory research

What the company values

Flexibility / time / \$ / innovation / market strength

Structure of other deals with company / others

Royalties / milestones / upfronts / timelines

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## First Communication

- Learn broad issues / goals
- Learn Deal Structure
- Speak in general terms
  - “Small upfronts, larger royalties”
- Speak in ranges if general terms are too general
- Volunteer to prepare first draft!

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## Strategies to Keep in Mind

- **Preparation**
  - Determine & prioritize possible issues
  - Determine your “BATNA” and improve on it
    - “Best Alternative To a Negotiated Agreement”
  - Access the other party’s BATNA (if you can)
- **Create Value (expand the pie)**
  - Build trust – share information
  - Add diagnostic questions
  - Negotiate issues simultaneously – not separately
  - Make multiple offers simultaneously – provide alternatives

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## Strategies to Keep in Mind

- **Claim resources (slice the pie)**
  - Don't reveal your BATNA
  - Open first if you are prepared
  - “Anchoring” - First price is the starting point from which all changes will be made
  - Re-anchor if other party opens
  - Watch magnitude of concessions
  - Recognize the “even split” ploy
- **Key psychological principles**
  - Capitalize on power of reciprocity
  - Seek verbal commitments
  - Fairness is relative

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## Draft the Term Sheet

- General structure of the deal
- Financial terms only
  - Complicated legal language will only cause confusion of issues and delay
- You want to set the agenda and control official document
- “Anchoring” - First price is the starting point from which all changes will be made
- Your interests will be down on paper
  - Once written harder to erase

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## Negotiate Using the Term Sheet

- Biggest most important details are generally resolved here.
- Generally done via email, depends on culture
- Keep control of the “official” document
- Generally good form to send “redline” in addition to the “clean” version
- Once consensus is reached get both parties to sign or at least initial the term sheet
- Volunteer to draft the legal agreement

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## Completing the Deal

- Trade issues or find middle ground
- Should be inquiring not adversarial
- Be a “principled” negotiator
  - Not Hard
  - Not Soft
  - Be honest
  - EARN RESPECT!
- Working toward agreement
  - “What is it going to take?”
- Remember that this is a long term commitment



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## Why We Live in Arizona!



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