

Licensing and Other Commercializing Strategies

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Morning – scope of “other commercialization strategies”, license and other agreement analysis as a unitary document, analysis of significant provisions

Afternoon – complete analysis, attachment examples, and uses, practical applications



Typical Commercialization Strategies

- Out-license to existing Company
- License to Faculty to create a Company (Start-Up)
- “Dedicate to Public” by publication or gift to non-profit entity
- Assign (sell) to existing Company



Out-license to existing Company

- Most common ~70%
- Quickest way to market once licensed
- Allows faculty to keep innovating and be rewarded with royalty
- Requires marketing, publicizing, showcasing
 - Use faculty contacts and networks
 - Investigate new markets



License to Faculty Start-Up

- Often a good place for early stage technology to be developed until the company is acquired.
- Realistic diligence requirements in license to “save professors from themselves”
- TTO may help Faculty Start-Up by in-licensing additional required technology to enhance or build the portfolio.
- Separate non-profit “Start-Up” Group
 - Incorporate business
 - Mentor and coach
 - Set up finance
 - Hire CEO



Dedicate to Public

- Common with computer scientists for software to gain credibility and experience.
- Scientists upload to GitHub or other software warehouse and watch or support the code.
- If the technology is accepted by others, could be a public relations win for faculty and university.



Assign (Sell) to Existing Company

- Typically for significant amount (e.g., more than USD \$ 1 Million).
- May lose ability to control diligence or development
- Negative: Many universities TTOs prefer steady stream of revenue than lump sum



Negotiations

- Start with Term sheet to align with major terms
- Set expectations on both sides with regard to deadline and turnaround time
- Tech Manager often has discretion on business terms, diligence terms.
- Tech Manager has less discretion on Idemnifications, Representations and Warrenties, Insurance, Legal



Term Sheets

Identify key terms for any specific agreement

Key terms will differ among agreement

Some similarities

- money

- time

- confidentiality

- “gist” of the transaction

Non-binding



Term Sheets

- Licensing fee of \$1,000.
- Royalty rate of 1.5% on Net Sales of Licensed Product until \$1MM of Net Sales, 2% of Net Sales thereafter.
- Payment for past and future patent expenses of Licensed Product.
- Payment schedule for past reimbursement -- predicated upon receiving clarification on past expenses, but initially proposed as:
 - \$9,000 due upon signing (Q2 2019)
 - Q4 2019 – 10%
 - Q2 2020 – 30%
 - Q4 2020 – remaining balance
- Future payment due within 60 days



Term Sheets (continued)

- Field: All fields
- Territory: Worldwide, except where prohibited by U.S. law
- Milestone payment for First Commercial Sale: \$ 5,000
- Milestones:
 - Q2 2019 Enter sponsored research agreement with IU for research and development of the basic science surrounding the technology.
 - Q4 2019 Formalize performance constraints for a first market application product based on customer development efforts and feedback with a matching parametric model.
 - Q2 2020 Theoretical simulation developed for performance constraints and proposed market application to optimize design and simulate expected results.
 - Q4 2020 Mechanical simulation developed replacing theoretical simulation.
 - Q4 2020 Physical prototype representative of first product to market based upon optimizations with associated marketing material for discussions with industry.
 - Q4 2021 Letters of Intent from customer worth \$1M in sales for commercial product, or investment of the same to scale product development, manufacturing, and sales of the developed product.
 - Q4 2023 First Commercial Sale and \$200,000 in Net Sales



Term Sheets (continued)

- Extension fee for Diligence Milestone
- \$3,000 for the first year, \$6,000 for the second year, \$9,000 for the third year, \$15,000/year thereafter. The year following the fourth extension fee, both parties will work in good faith to agree on commercially reasonable terms for further extension.
- Maintenance Milestone payments: 2021 through First Commercial Sale: \$1,000. First Commercial sale and thereafter: \$4,000.
- Annual Development plan to be written by XXX outlining yearly R&D and sales.
- Product liability insurance to be carried by XXX.



Term Sheets (conclusion)

- Sublicensing Revenue payable to University based upon total investment into XXX for the purposes of commercializing the technology from commercial, corporate, venture, private, and/or governmental sources:
 - starting at 70%
 - 50% after \$1MM
 - 30% after \$2.5MM
 - 10% after \$5MM
- Other standard licensing terms and conditions consistent with university tech transfer license agreements.



Initiating a License

- Occurs when non-binding Term Sheet accepted
- Prepare license outline, send first draft
- Receive marked-up draft, review
- Schedule a teleconference to initiate negotiations.
- In teleconference, evaluate points of distinction
 - First approach: discuss easy changes first to achieve better consensus
 - Second approach: discuss difficult changes first to allow “think” time and identify challenges early.



Sample Strategies in Negotiations

- “Chocolate Cake” philosophy
- Stairstep royalty strategy for “poor company”
 - “I’ve run the numbers and we can’t make a profit if royalty is 4% or greater” A: Lets see numbers
 - Q: “Why are you charging a licensing fee?”
 - A: Marketplace
- To close, collect final sticking points and make the deal



Model License Exercise

Overview

Key Terms

Best Practices

