CREATIVE LICENSING

AUGUST 19, 1984

I. LICENSING UNIVERSITY INVENTIONS USUALLY MORE DIFFICULT THAN LICENSING INDUSTRIAL TECHNOLOGY

A. DON'T HAVE COMMERCIAL OR PRODUCTION KNOW-HOW

B. DON'T HAVE COST DATA

C. DON'T HAVE ACTUAL PRODUCTION RESULTS

D. USUALLY HAVE VERY LITTLE TECHNICAL KNOW-HOW OTHER THAN LABORATORY RESULTS

E. IF REQUIRES FDA OR OTHER GOVERNMENT APPROVAL BEFORE MARKETING, LICENSEE WILL HAVE TO SPEND MONEY AND TIME TO OBTAIN APPROVAL

II. THEREFORE, MAY HAVE TO BE MORE CREATIVE THAN USUAL TO LICENSE UNIVERSITY INVENTIONS

A. HAVE TO MARKET YOUR INVENTION AS IF IT WERE A PRODUCT

1. HAVE TO CONVINCE SOMEONE ELSE THAT HE WILL MAKE MONEY BY MAKING AND SELLING THE PRODUCT

2. LICENSEE MUST MAKE INVESTMENT

a. TO FINISH DEVELOPMENT OF PRODUCT
b. TO MAKE PRODUCT (TOOLS, MOLDS, ETC.)
c. TO SELL PRODUCT

B. LEARN AS MUCH ABOUT THE MARKET IN WHICH THE INVENTION IS TO BE USED AS POSSIBLE

1. GENERAL INFORMATION ON THE OTHER PARTY TO THE NEGOTIATION; ANNUAL FINANCIAL STATEMENTS; THEIR RESEARCH AND MANUFACTURING CAPACITIES IN THE FIELD; THEIR SALES CAPACITIES IN THE FIELD; THE GEOGRAPHY OF THEIR MARKET STRUCTURE.
2. FAMILIARITY WITH ALL THE VARIOUS ALTERNATIVE GOODS AND PROCESSES AND COMPARISON OF THEM AND THEIR COSTS WITH THE SUBJECT MATTER TO BE LICENSED.
3. THE STRUCTURE AND LIKELY PATTERNS OF CHANGE IN THE MARKET AND ITS PARTICIPANTS.
4. ALL PATENTS AND TRADEMARKS IN THE FIELD, THEIR OWNERS, THEIR VALUE, RELATED KNOW-HOW VALUES, EXPOSURES TO INFRINGEMENTS OF PATENTS OWNED BY OTHERS.
5. EVALUATION OF FURTHER TECHNICAL AND MARKET DEVELOPMENT TIME AND COSTS AND MANUFACTURING TECHNIQUES AND COSTS.
6. STATEMENT OF PAST LICENSES GRANTED AND SUMMARY OF THEIR TERMS AND CONDITIONS.
7. PROJECTED PROFIT MARGINS.

C. CONTACTING AND SELLING POTENTIAL LICENSEES

1. PERSONAL CONTACT AT HIGH LEVEL IS BEST

   A. MARKETING PEOPLE ARE BETTER TO CONTACT THAN TECHNICAL PEOPLE

2. OFTEN INITIAL MEETINGS WILL HAVE TO BE NON-CONFIDENTIAL

3. GET LICENSEE'S PEOPLE EMOTIONALLY INVOLVED, IF POSSIBLE

4. AFTER GETTING LICENSEE'S INTEREST, ASK FOR HIS ESTIMATES OF WHAT HE CAN DO WITH THE TECHNOLOGY IN THE MARKET

D. THE LICENSE AGREEMENT

1. GENERAL

NO FORM AGREEMENTS

WIDE ARRANGEMENT OF POSSIBLE BUSINESS DEALS

USE <u>LICENSING</u> EXPERT

(MUST BE ABLE TO APPRECIATE LONG-TERM PRACTICALITIES OF ARRANGEMENT)

MUST BE GOOD DEAL FOR BOTH SIDES

NEGOTIATION NOT CONTEST TO DETERMINE WHO IS SLICKEST LAWYER

LICENSING LIKE MARRIAGE

A. CAN'T TELL IF GOOD ARRANGEMENT UNTIL TOO LATE
B. NEED CONTINUING RELATIONSHIP

III. EXAMPLES OF LICENSING CONCEPTUAL TECHNOLOGY

A. EBNER

B. PAINT-BY-NUMBER

1. GENERAL MILLS

   A. BIGGEST COMPANY IN PAINT-BY-NUMBER FIELD
   B. WANTED A REASONABLY-PRICED PAINT-BY-NUMBER KIT MADE FROM A PICTURE SENT IN BY A CUSTOMER
   C. TRIED CHEAP ARTISTS BUT LOST MONEY ON GOOD VOLUME
   D. HAD NO TECHNICAL EXPERTISE IN ELECTRONICS, PHOTOGRAPHY, ETC.
   E. COULD MAKE AND MARKET KITS IF HAD EQUIPMENT TO MAKE PICTURE PORTION OF KITS

2. ITEK

   A. HAD TECHNICAL EXPERTISE IN ELECTRONICS, PHOTOGRAPHY, ETC.
   B. NO MARKETING ABILITY IN PAINT-BY-NUMBER FIELD
   C. HAD EMPLOYEE WHO WAS ELECTRONICS EXPERT AND AN ARTIST WHO CREATED CONCEPT ON HOW PROBLEM COULD BE SOLVED

3. AGREEMENT

   A. GENERAL MILLS GAVE ITEK SMALL CONTRACT FOR TECHNICAL FEASIBILITY STUDY
   B. ITEK GAVE GENERAL MILLS OPTION FOR EXCLUSIVE FIELD LICENSE UNDER TECHNOLOGY AND ANY PATENTS RESULTING FROM CONCEPTS AND LATER DEVELOPMENTS
   C. UPON EXERCISE OF OPTION, AFTER TECHNICAL FEASIBILITY STUDY COMPLETED, GENERAL MILLS REQUIRED TO MAKE INITIAL LICENSE PAYMENT TO ITEK.
   D. GENERAL MILLS COULD MAKE EQUIPMENT ITSELF OR HAVE ANOTHER COMPANY (INCLUDING ITEK) MAKE IT
   E. RUNNING ROYALTY - PERCENT OF SALES OF KITS
   F. ITEK GOT K TO MAKE EQUIPMENT
   G. DICOA, IF NECESSARY

IV. POSSIBLE GROUND RULES FOR LICENSING CONCEPTUAL TECHNOLOGY

A. INITIAL EVALUATION PERIOD COST TO LICENSEE SHOULD BE MINIMAL

B. AT END OF EVALUATION PERIOD, MAKE PAYMENT, PART OR ALL OF WHICH IS CREDITABLE AGAINST A PORTION, SUCH AS HALF, OF FUTURE ROYALTIES

C. INITIAL RUNNING ROYALTIES LOW, INCREASING WITH TIME OR VOLUME

D. MAY NEED EXCLUSIVE FOR LIMITED PERIOD

1. MINIMUM ROYALTIES TO MAINTAIN EXCLUSIVITY OR TO RETAIN LICENSE