



Hutchison Law Group



Licensing & Partnerships

Ken Maready
Hutchison Law Group

Pediatric Medical Device Conference
Winston-Salem, NC | November 19, 2010



Basic Flavors

- Straight License
 - Patent License
 - Technology License
- Marketing Agreement
- Distribution Agreement
- Joint Venture Agreement
- Co-Promotion Agreement





-Key Technology

- Patent
- University License
- Cutting Edge Expertise in Specific Area
- Access to Key Faculty

- Money
- Distribution Channel / Sales
- Manufacturing
- Regulatory
- Complementary Technology
- Product Development Expertise
- Market Recognition



Some Basic License Terms

- **Scope of Technology**
 - Patent? Know-how? Copyright? Future developments?
- **Scope of License**
 - Only certain Fields? Only certain Territories?
- **Duration of License**
 - Life of Patent? What if Patent doesn't issue or is invalid?
- **Exclusive or Nonexclusive?**
- **Upfront Payments?**
- **Milestone Payments**
- **Royalties**
 - Rate
 - Graduated, Declining, Minimums, Caps?
 - Decrease for certain conditions?
 - Anti-Stacking Provisions?
- **Minimum Payments?**
- **Allocation of Liability**
- **Who can enforce?**



Should you have a Letter of Intent?

Absolutely.

- Collaboration Deals are complex with many moving parts
- Terms *never* gets better for Small Co between LOI and closing (so get it in writing early)
- Don't agree to no-shop, except with payment and/or penalties
- Attract other bidders for technology if possible



Do you want to draft the documents?

Yes.

- It is better to control the drafting

but

- If BigCo wants SmallCo's attorneys to draft, could be a signal that BigCo not serious yet
- If BigCo attorneys are just going to revise key provisions to follow BigCo standard provisions, then waste of money
- May want to start from BigCo template documents



Due Diligence

- Will be uncomfortable for SmallCo
- BigCo will review your in-licenses
 - May result in 3-party negotiation (“standby license”)
- BigCo will review your IP ownership & confidentiality agreements with Founders
- If BigCo is taking significant equity, due diligence will be broader
- Ask for timetable, and stay on top of process
- Time typically not on your side



Royalty Rates

- Look at comparable transactions & royalty surveys
- Net Present Value (discounted cash flow) analysis often used
- 25% / 5% Rules of Thumb
- Some key factors:
 - How much cost will BigCo have to expend to get technology to market?
 - Are other technologies involved in the final product?
 - How strong are the patents?
 - License terms (exclusive? comprehensive?)
 - How likely is success/failure?



Royalty Rates (cont'd)

- Typically a %age of net revenues from product, but may be a \$-per-unit
- Sometimes based on Profits, but can be tricky
 - What is overhead?
 - More auditing and reporting required
 - Ongoing auditing can be expensive for SmallCo
- Anti-Stacking Provisions
 - SmallCo will want control over other in-licenses
 - Try to get a floor (i.e., not reduced below 3%)
 - May not apply to research tools (as opposed to products)



Equity Arrangements

- Don't just give BigCo same rights as your most recent investors
- Veto rights are a problem
 - BigCo's interests often diverge from rest of your stockholders
 - Should not be able to block sale of company, financing, etc.
- Board and Observation Rights can be problematic
 - Negotiate exclusions for sensitive discussions



FDA Approval Process

- Who controls? (probably BigCo)
- Who takes risk if FDA requires different path? (depends on terms)
- SmallCo will want right to pull back the license if BigCo doesn't diligently pursue FDA approval (or fails to win)
- But minimum royalties may alleviate this issue



Rights of BigCo to Sublicense Your Technology to Others

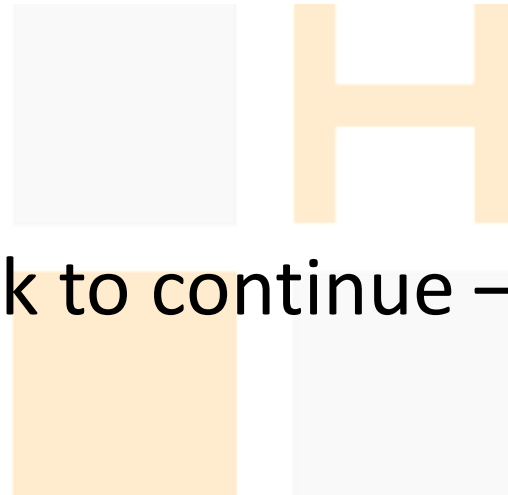
- Require that certain provisions be included in all sublicenses (meet minimums, commercialize, etc.)
- Royalty on sublicensing revenue will be different (often much higher)
- Require BigCo to send you copies of all sublicenses
- SmallCo will want to provide that sublicenses do not survive termination of main license
 - This can be a difficult point of negotiation



Decisionmaking (Collaborations)

How to Address Deadlock

- “Report up”
- Tie-breaking vote (one party can decide)
- Mediation
- Arbitration
- Allow Deadlock to continue – favors BigCo



Who should own IP developed during course of project?

- Foreground Technology
- Joint ownership is not optimal
- May be easy to define what should belong to SmallCo and what to BigCo by subject area
- Will often include cross-licenses for new technology with various limitations
- How to unwind (if JV)



Should You Grant BigCo Rights to Future Developments?

- Right of First Refusal is very bad for SmallCo
 - Right of First Offer or Negotiation is better, as long as you have limited time periods
- Any of these will decrease value of your company to acquirors
- Make sure they sunset



@hutchlaw  @kenmaready

Thank you.

Ken Maready
kmaready@hutchlaw.com