



Post Transaction Management & Execution

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Top 10 Oxymorons

- | | | | |
|----|-------------------------|---|-----------------|
| 10 | Government Organization | 5 | Virtual Reality |
| 9 | Pretty Ugly | 4 | Work Party |
| 8 | Head Butt | 3 | Jumbo Shrimp |
| 7 | Working Vacation | 2 | Healthy Tan |
| 6 | Tax Return | 1 | Microsoft Works |

Source: www.oxymoronlist.com

Post Transaction Management

What is post transaction management?

- a. Cashing the royalty checks as they come in
- b. Phoning your licensee once a year
- c. Opening and reading your royalty report
- d. Proactively working to maximize the value of your technology

Post Transaction Management begins before the license is signed...

- Need to include the proper protections in your agreement
 - Diligence provisions
 - Audit clause
 - Reporting requirements
 - Sublicensing requirements
 - Provisions for dealing with unlicensed third-party infringers

Typical Diligence Provisions

- Annual minimums
 - Escalating
 - Rights when not paid
- Milestone payments
- Performance milestone dates
 - Take-back rights
 - Conversion to non-exclusive

Audit Clause

- Designate who can audit the license
 - Should be “you or your representative”
- Cost of an audit
 - Borne by licensee if underpayment is greater than 5%
- Limitations on how far back in time a license can be audited
 - Should be unlimited, subject to applicable statute of limitations
 - Consider expanding statute of limitations if you can get it
- Interest obligations

Reporting Requirements

| | |
|--------------|--|
| • Timelines | Quarterly or Biannually |
| • Forecasts | Update on current forecast and annual updated five year forecast |
| • Details | Market projections, expected units, pricing, market share, competition |
| • Commentary | Variance between current actual and previous projections |

Dealing with Infringers

- Who has primary right to pursue infringers
 - Exclusive versus non-exclusive
- Sharing of litigation costs and rewards
- Licensor must be able to pursue if licensee does not



Now the license is signed...

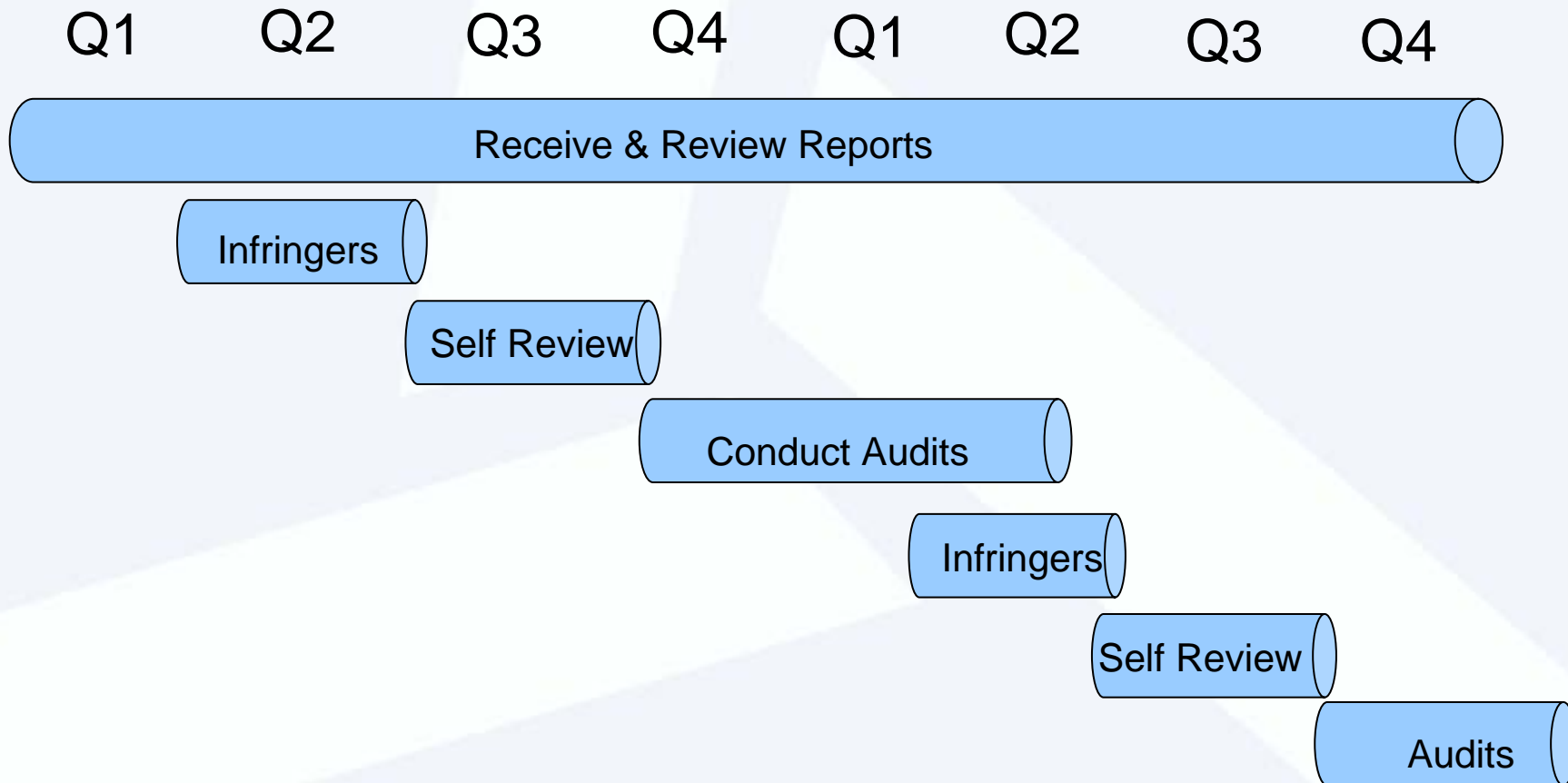
The transaction is complete, now you can relax

- Do you have a culture of compliance?
- Are the proper controls in place?
 - Ongoing compliance process
 - New product introductions
 - Appropriate data being collected and reviewed
 - Human focus on the information
 - Willingness to ask licensees for additional information
- The transaction is over but your rights aren't
 - Auditing
 - Infringers

Culture of Compliance

- Every institution has a duty to ensure that licensees are complying with the terms of the license
 - “Financial” vs. “For the common good”
- Create a specialized position – Compliance Manager
- Read the reports
- Verify information on an ongoing basis
- Licensee Self Assessment Form
- License Compliance Committee
- Ongoing Audit Program

Annual process



License Management

- Database
 - Homegrown vs. Outsource
- Active Human Management
 - Responsibility of the licensing executive or centralized
- Ensure that your license is being enforced as written

Self Assessment Form

- Completed by each licensee on an annual basis
- Verifies that proper controls are in place on the licensee side
- Completed form can be scored
- Resulting red flags trigger actions ranging from a phone call to a field audit

What sort of things should you check?

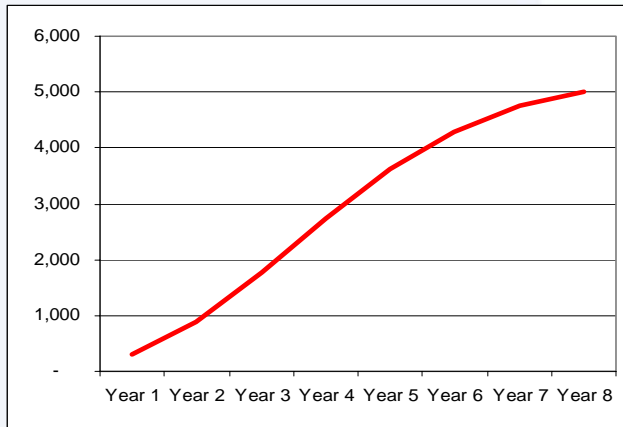
- Timeliness of Returns
- Type of report – detailed vs. summary
- Does the return meet your expectation?
 - Forecasts, Market Information, Published Financial Data, etc
- How straightforward is the royalty calculation?
 - Combination products
 - Royalty allocations
 - Royalty anti-stacking clauses
- What is your inventor saying?
- Have they been paying only Minimums? If so, how long?

We also check other items in our self-review

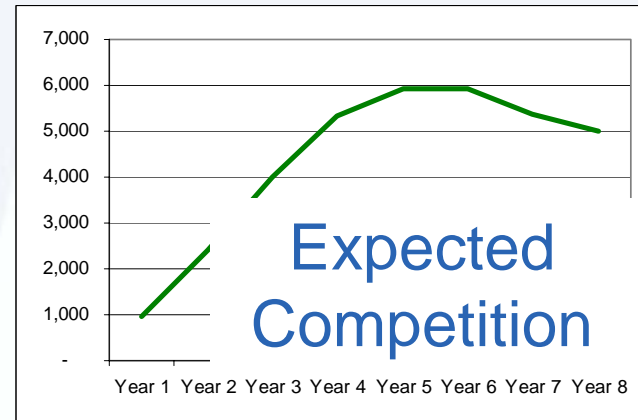
- Process/Personnel
- Systems/Controls
- Sales Breakdown: Foreign, Related Parties
- New Product introductions and plans
- Type Specific Issues
 - Agriculture
 - Equity/Startup
 - Sub-licensees

How do you know if sales look reasonable

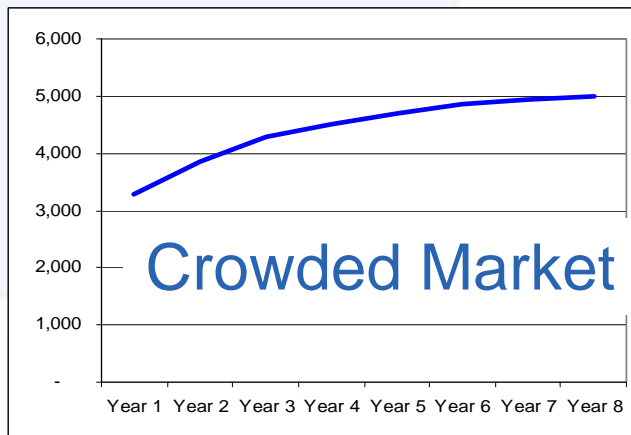
Normal Growth



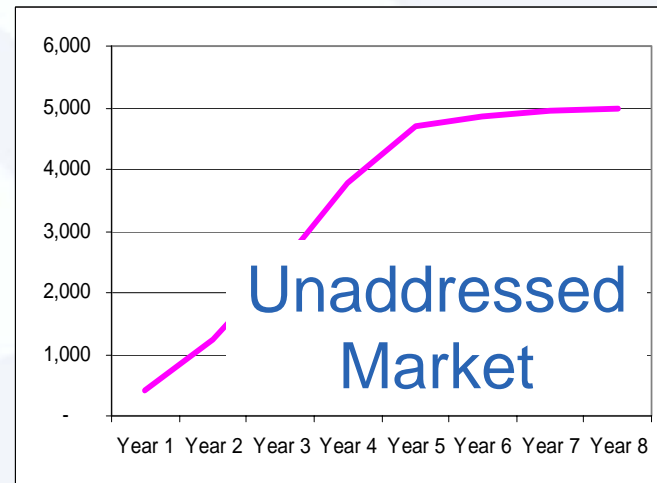
Introduction with Rapid Competition



Slow Growth



Quick Plateau





What do you do if red flags appear?

- Nothing
- Write letters
- Place phone calls
- Hire auditors

Why should you audit?

- Typically one out of five royalty bearing licenses is underpaid
 - Poor internal controls
 - Failure to pay on new products as they are introduced
 - Ambiguous language in the license, particularly around “Licensed Product Definition”
 - Calculation errors
- A well run audit will
 - Uncover underpayments
 - Send a message of seriousness to other licensees
 - Provide you with peace of mind

Auditing Options

- Who can help you?
 - Do it yourself (not recommended)
 - Large Accounting Firms
 - Specialty Royalty Auditing Groups
- Engagement Structures
 - Fee for service
 - Contingency
 - Hybrid

What should you look for in an auditor

- Experience beyond traditional financial audits
 - A royalty audit is much more of a forensic audit
 - Most major underpayments are not due to calculation errors
- Thorough understanding of licenses and Intellectual Property
 - Access to skilled legal and patent professional is critical
- Ability to understand different technology areas
- Specific experience conducting royalty audits
- Outstanding communication skills

Handling infringers

- Infringer search
 - Unlicensed marketed products
 - Products currently in development
- Sources of data
 - Internet
 - *Patent searches*
 - *Company web pages*
 - Traditional
 - *Company Marketing Materials*

Approaching Infringers

- Start friendly
 - Inform them of the existence of your IP
 - Provide them with the opportunity to take a license
- Be willing to escalate
 - More threatening letters/conversations
 - Legal Action
- Consider partnering with a group that is experienced in dealing with infringers

Summary

- Regardless of your organization's mission, you have a responsibility to someone to ensure that the license is being enforced
- Post transaction management begins before the deal is signed
- Put a process in place that covers the key post transaction efforts
- Routine licensee self-reviews, audits and infringer checks will help to ensure that your license is being correctly enforced

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Appendix

Questions from our self review

Licensee Information

- Name
- Company Name
- Phone Number
- E-mail
- Date
- Technology Licensor

Accounting Process

- Who is/are responsible for royalty calculations and payments?
 - Name, Title, Phone, E-mail
- Is there a tickler file or docketing system to ensure timely payments?
- Does this person have a copy of the license agreement and are they familiar with all license terms?
- Have detailed royalty reports been sent documenting payments?
- Were the calculations and payments correct for the above review period?
- Were there any sales returns during the year?
- Were there any donations or samples of licensed products during the year?
- Were there any deductions from sales? (discounts, writeoffs)
- Were there any changes in the amounts reported in the previous periods as a result of an internal or external audit?

Information systems

- Are the underlying reports for royalty calculations the same as the ones used in the previous year?
- Were there any changes in the control systems that would effect the royalty calculation?
- Does the current status report show all product lines where the technology is used?
- Was there a change in the information system that has an effect on the royalty calculation?

Foreign & Related Party Sales

- Do royalty payments include all products manufactured and/or sold worldwide?
- Did the person/s responsible for royalty calculations receive the appropriate information from foreign locations to allow proper reporting?
- Please provide a list of all related parties?
- Did the person/s responsible for royalty calculations receive the appropriate information from related parties to allow proper reporting?

New Products

- Who has the responsibility to review new products for possible use of the licensed technology?
 - Name, Title, Phone, E-mail
- How often are such reviews performed?
- Are these reviews documented?
- When was the last such review?
- List all current products using the technology.

Other License Obligations

- Have all other obligations listed below been fulfilled?
 - License fees
 - Patent cost reimbursement
 - Maintenance fees
 - Minimum royalties
 - Due-diligence/status reports
- Have there been any significant events in the company during the above review period?
- Were any agreements or contracts made during the review period for the sale or use of the concerned products/technology?

First Time License Agreement

- Describe the process of recording and verifying royalties for licensed products
- Describe the process of sale of the licensed products.
- What is the basis for pricing the licensed products?
- Are sales of licensed products identified and recorded under separate account titles?
- At what point are royalties accrued?
- List all sub-licensees including contact information, sublicense agreements and details of amounts received from such agreements
- Who has the responsibility to review new products for possible use of the licensed technology?
- How often are such reviews performed?
- Are these reviews documented?

Agriculture Licenses

- Specify the area (in acres) and location of the farmlands used for the licensed products
- Specify the quantify seeds/stems purchased from/provided by the licensor/third party
- Specify the quantity of seeds/stems planted or budded
- Specify the number of saleable plants as a percentage of the seeds/stems planted

License with Equity

- Were any changes to the shareholding made during the review period?
- Were annual reports and/or management outlook on the performance of the company provided to the licensor?

License to a start up company

- Is there a business plan and has it been provided?
- Were there significant changes to the business plan during the period?
- Were commitments towards raising capital met as specified in the initial discussions/business plan or meeting marketing targets?
- Were the financial statements for the above period audited?
- If yes, were the financial statements along with the audit report provided to the licensor?
- Are there any contingent liabilities/other liabilities not disclosed in the financial statements?

Agreement with sub-licenses

- Were there any new sublicenses during the current period?
- Were copies of all new sub-license agreements provided?
- Were copies of all royalty reports relating to all sub-license agreements provided?
- Were there any transfers of licensed products to/from the sub-licensor?
- Provide a list of payments received from all sub-licensors?