

Licensing for Fun and Profit

How to Make Money from an Invention

Bill Parker

CEO/Director of Research

Diffraction LTD

Waitsfield, Vermont 05673

Tel: 802-496-6640 x222

Fax: 802-496-6644

Email: bparker@DiffractionLTD.com

Overview

- We will look at licenses as a route to commercialization of an invention.
- I'm not an attorney – but have some real world experience with inventing and licenses.
- I do NOT recommend writing your own licenses.
- Use the information in this presentation as a way to “get smarter” about licensing.
- Many good books on licenses to consult too.

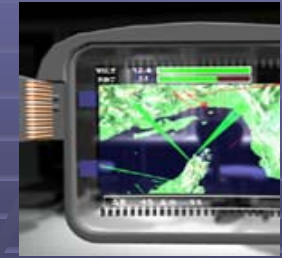


Bill Parker “inventor”

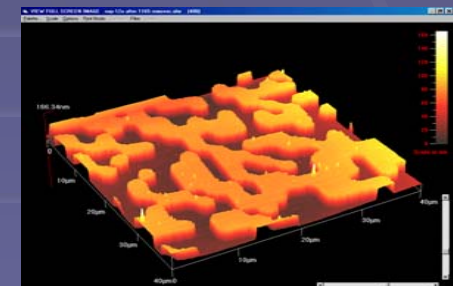
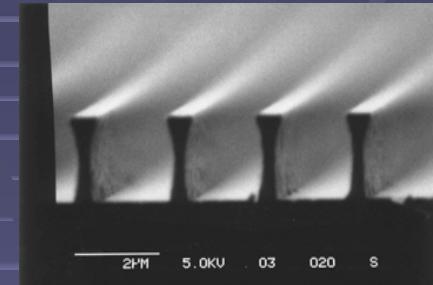


- Started inventing in 1963.
- Invented through high school and college.
- Paid consultant during early (dumb) years – no revenue from inventions, just a pay check.
- First big invention was the “lightning ball”
- Did not patent first use – public display blocked it.
- Had to re-invent in order to get patents.
- Licensed products generate revenue that supports further inventions.

Recent Innovations and Inventions:



- Holographic photomasks for 2D/3D ablation patterning
- Aerogel based Holographic optical storage media
- Precision fabrication processes for advanced optics
- Plasma panels for signage and lighting
- Switchable optical elements and dynamic optical elements
- Planar switched waveguide approach for flat panel displays
- High precision measurement technique using photon tunneling
- Nanoimprint replication process for biochips and electro-optics
- Nanofabricated materials for optics and biomed applications
- Holographic eye positioning device for biometric systems
- Miniature aerogel gas chromatograph for rapid gas analysis
- Heat powered eye safe laser for military applications
- Counter terrorism technologies



Why Invent and Patent?

- Challenge/Fun
- Prestige
- Commercial strategy

Why License?

- One answer: **Money**

The License

- Transfer the effective control of an invention in order to involve others with its commercialization.
- Similar to a lease on real property.
- Not the same as a sale or assignment.
- Many forms for a license.

Parts to a License Agreement

- Sections of the Contract
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Definitions

- **Sections**
 - **Definitions – what you are going to base the license on**
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Definitions

- **The Technology (product, process, concept etc.)**
 - The invention, improvements, formulas, processes, technical information and know-how currently known to and controlled by Licensor which pertain to the Thing (defined well) and the manufacture of the same.
- **Field of Use**
 - Use of the Thing for what purpose, what market, what geographic area, what price, and what not to be used/sold for.
- **Patent Rights, Copyrights**
 - Status, CIP's or not, foreign or not
- **Licensed Product**
 - Define specific linkage between the Product and the Field of Use
- **Other: Sale, Customer, Net Proceeds of Sale, Affiliate**

License Grant

- **Sections**
 - **Definitions**
 - **License Grant – the deal, what you are “selling or buying”**
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

License Grant

- LICENSOR hereby grants the LICENSEE..
 - A license under the Technology and the Patent Rights to make, have made, use, promote, advertise and sell or otherwise dispose of Licensed Products
 - Exclusivity or not, relationships to patents, geographic limits, price ranges, etc.
 - Transferability or not – Provisions for transfer
 - Other commercial rights retained by Licensor

Transfer of Technology

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology – getting underway
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Transfer of Technology

- Upon execution of this Agreement.....
 - Put the invention in the hands of the Licensee
 - Samples, prototypes, drawings, know-how
 - Everything needed to make this a success but not so much that you have nothing left if it all falls over.
 - Amount of time by inventor for free and rate to be paid for extra time/effort, expenses
 - Make it clear this is NOT a sale of the Thing, just a means to accomplish the objective

Royalties and Payment

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment – the good part for the licensor
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase – a sweetener and a back stop
 - Legalese – why you pay \$250 an hour

Royalties and Payment

- Specific of the royalties amounts and how they are affected.
- Percentage of sale price or dollar amounts per unit.
 - Overseas sales or sales outside of patents
 - Royalty caps or rate changes
 - Bonus royalties, returns, refunds (not)
- Responsibility for sub-license royalties

Record Keeping

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports - keeping licensee honest
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Record Keeping

- Correct and Separate account of the amounts of Licensed Products sold...
 - Amount of time the records are kept
- Reports on sales – number sold for how much, basis for royalty calculation, pending orders, PAYMENT check
 - Yearly statement of account and Audit
 - What if an audit shows an underpayment?

Performance Minimum

- **Sections**
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - **Performance Minimum - expectations to be met or deal changes**
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Performance Minimum

- Establish a minimum that makes sense for the license to stay in effect.
- Establish the performance period
- Dollars or numbers or both
- Changes over time – up or down
- If less than agreed to minimum...Oops
 - Cash supplement for “off” years

Confidentiality

- **Sections**
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - **Confidentiality – a built-in NDA for current and future developments**
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Confidentiality

- Places limits on the use of knowledge “Confidential Information” (or CI) that is imparted during the license.
- Separation between licensed material and anything related but not subject to license.
- Who has access to CI.
- How CI is protected, and/or returned

Warranties and Indemnity

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties – caution and prudence
 - Indemnity – if things go bad
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Warranties and Indemnity

- Statements that confirm the deal is valid and not setting up anyone for a problem.
- Licensor will not go after any customers or users for infringement.
- Licensee is not acting for a 3rd party.
- Licensee holds the Licensor harmless and will be insured to protect the licensor.

Abatement of Infringement

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement – if things go really bad
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Abatement of Infringement

- Establish rights and responsibilities to act on an infringement by another party.
- Who pays, who collects.
- Cooperation and cost sharing.

Term and Termination

- **Sections**
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - **Term and Termination – if there is no way back**
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Term and Termination

- **Term of the Agreement**
 - Who and how to extend
 - Automatic extensions
- **Defaults**
 - What is a default
 - Notification, time sequence
 - Remedies

Use of Name

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name – protecting the future
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Use of Name

- Specific details of name use
 - When it or cannot be used
 - Cost for use
- Consider the future value of the name of the inventor and product
- Define follow-on measures for marketing advantages

Patent and Copyrights

- **Sections**
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - **Patents and Copyrights – using patents to establish royalty rates**
 - Right to Purchase
 - Legalese

Patent and Copyrights

- Patent and Copyright notices on products.
 - Preserves licensors future rights.
- Who owns future related inventions and patents.
 - Falls to “Field of Use” definition.
 - Joint invention ownership defined!!
- Royalties on future inventions covered.

Right to Purchase

- Sections
 - Definitions
 - License Grant
 - Transfer of Technology
 - Royalties and Payment
 - Record Keeping, Payment, Reports
 - Performance Minimum
 - Confidentiality
 - Warranties
 - Indemnity
 - Abatement of Infringement
 - Term and Termination
 - Use of Name
 - Patents and Copyrights
 - Right to Purchase
 - Legalese

Right to Purchase

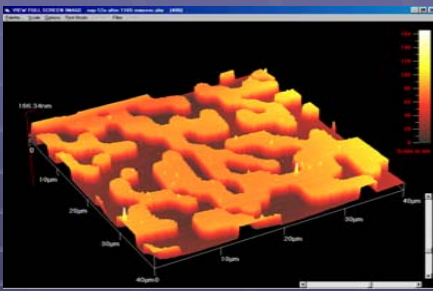
- Maintain a last hook – just in case...
- Establish a price and maximum number of units available
- Why not a few freebies?

Legalese

- Use a lawyer.
- Do as much thinking and research as you can stand.
- Being creative is OK.
- Stay cool.
- Be smart.

That's All Folks

Good Luck!!



Diffraction's History: “Applied Think Tank”

- Idea Generation - Rapid Application
- Problem definition and “outside the box” solutions
- Advanced technology and tools
- Creative use of unusual/exotic materials or processes to solve challenging problems
- Diverse expertise, well equipped facilities
- Quick “turn around” capability
- Teaming & government subcontracts